DEPARTMENT OF FINANCE

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Transmitted via e-mail

August 24, 2015

Honorable Tani Cantil-Sakauye, Chief Justice
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94120-3688

Dear Chief Justice Cantil-Sakauye:

Final Report—Judicial Council of California's Fiscal Compliance Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal compliance audit of the revenues, expenditures, and fund balances under the administration, jurisdiction, or control of the Judicial Council of California (Council) staff for the period July 1, 2013 through June 30, 2014.

The enclosed report is for your information and use. The Council's response to the report observations is incorporated into this final report. The Council agreed with our observations and provided additional clarification related to fiscal control weaknesses A and C. We appreciate the Council's willingness to implement corrective actions. This report will be placed on our website.

A detailed Corrective Action Plan (CAP) addressing the fiscal control weaknesses and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all fiscal control weaknesses.

We appreciate the assistance and cooperation of the Council. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Martin Hoshino, Administrative Director, Judicial Council of California
Ms. Jody Patel, Chief of Staff, Judicial Council of California
Mr. Curt Soderlund, Chief Administrative Officer, Judicial Council of California
Mr. Zlatko Theodorovic, Chief Financial Officer and Director of Finance, Judicial Council of California
Ms. Pat Haggerty, Assistant Director, Finance Office, Judicial Council of California
Mr. John A. Judnick, Senior Manager, Audit Services Office, Judicial Council of California

Additional ccs

cc: Mr. Daniel Alvarez, Secretary of the Senate, Office of the Secretary of State
Mr. E. Dotson Wilson, Chief Clerk, California State Assembly, Office of the Chief Clerk
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
Ms. Amy Leach, Journal Clerk, California State Assembly, Office of the Chief Clerk

PERFORMANCE AUDIT

Judicial Council of California's Fiscal Compliance for the Fiscal Year July 1, 2013 through June 30, 2014

Earl Warren Building in San Francisco

Prepared By:
Office of State Audits and Evaluations
Department of Finance

150270067

May 2015

MEMBERS OF THE TEAM

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Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

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EXECUTIVE SUMMARY

In accordance with Government Code section 77206(i)(1), the Department of Finance, Office of State Audits and Evaluations (Finance), audited the Judicial Council of California (Council) staff's (formerly the Administrative Office of the Courts) compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff for the period July 1, 2013 through June 30, 2014.

Our audit objectives were to determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.
- Expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

RESULTS

The revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records, and maintained in accordance with fund accounting principles. However, while performing procedures related to our audit objectives, we identified the following fiscal control weaknesses. Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies. To improve operations, Council staff must develop a corrective action plan to address the observations and recommendations noted in this report.

- **Employee receivables and payables were not cleared timely,** increasing the risk that funds due to the Council will not be collected. Untimely payment of amounts due to employees could expose the Council to potential legal risks.
- **Vendor payment duties were not adequately segregated,** creating a risk that fraudulent payments could be issued to fictitious vendors.
- **Deposits were not always allocated timely,** limiting the availability of the funds for their specified purpose.
- **Reconciliations are not properly reviewed,** resulting in an increased risk of errors, omissions, or irregularities, which could reduce the integrity of financial information.
- **Some policies and procedures were not documented,** increasing the risk that documents or transactions may be processed improperly and creating key person dependency.

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The Judicial Council of California (Council), chaired by the Chief Justice, establishes policies and priorities for the statewide administration of justice in the California courts (Courts) to ensure the consistent, independent, impartial, and accessible administration of justice.[1]

Staff to the Council (formerly the Administrative Office of the Courts and referred to as Council staff throughout this report) implements Council policy and serves the Courts, justice partners, and the public, and provides access to justice through a variety of programs and services. Some of the programmatic and fiscal services provided by the Council staff include facilitating court construction, issuing and renewing court interpreter licenses, providing training and education services, accounting, auditing, budgeting, contracting, human resources services, procurement, and information technology services.[2] The Council staff's Administrative Division Finance Office, Accounting and Business Services Unit (ABSU), performs the accounting services for the Council, Council staff, Habeas Corpus Resource Center, Supreme Court, and Courts of Appeal.

SCOPE AND METHODOLOGY

In accordance with Government Code section 77206(i)(1), the Department of Finance, Office of State Audits and Evaluations (Finance), audited Council staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff for the period July 1, 2013 through June 30, 2014.

Our audit objectives were to determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.
- Expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

Our audit was limited to evaluating compliance of revenues, expenditures and fund balances for material and significant funds under the administration, jurisdiction, or control of Council staff. This includes programs and funds for which Council staff review, approve, and record accounting transactions. We considered funds with revenues or expenditures over four percent of the total revenues or expenditures, respectively, as material and significant.

[1] http://www.courts.ca.gov/home.htm
[2] http://www.courts.ca.gov/jcstaff.htm

While ABSU records accounting transactions for the Supreme Court, Courts of Appeal, and Habeas Corpus Resource Center, the review and approval authority for these transactions remains with those programs. Therefore, the revenues and expenditures related to those programs were determined not to be under the administration, jurisdiction, or control of Council staff and were excluded from the audit.

To avoid duplication of efforts, Finance did not audit revenues and expenditures audited by the Council staff's Audit Services Office, the State Controller's Office, or the California State Auditor. See Appendix A for programs and funds included in our audit. See Appendix B for the audit methodology and procedures performed.

Council staff management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and administrative requirements. In conducting our audit, we obtained an understanding of Council staff's internal controls, including any information systems controls, significant within the context of our audit objectives, and assessed whether those controls were properly designed and implemented. For the Oracle financial system, we determined that the data was sufficiently reliable for the purposes of conducting this audit. However, we identified fiscal control weaknesses which are discussed in the Results section of this report.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

RESULTS

The Judicial Council of California (Council) staff complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff. However, we identified fiscal control weaknesses as described in the Internal Control section below. Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies.

Revenues

The fiscal year 2013-14 revenues were received in accordance with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.

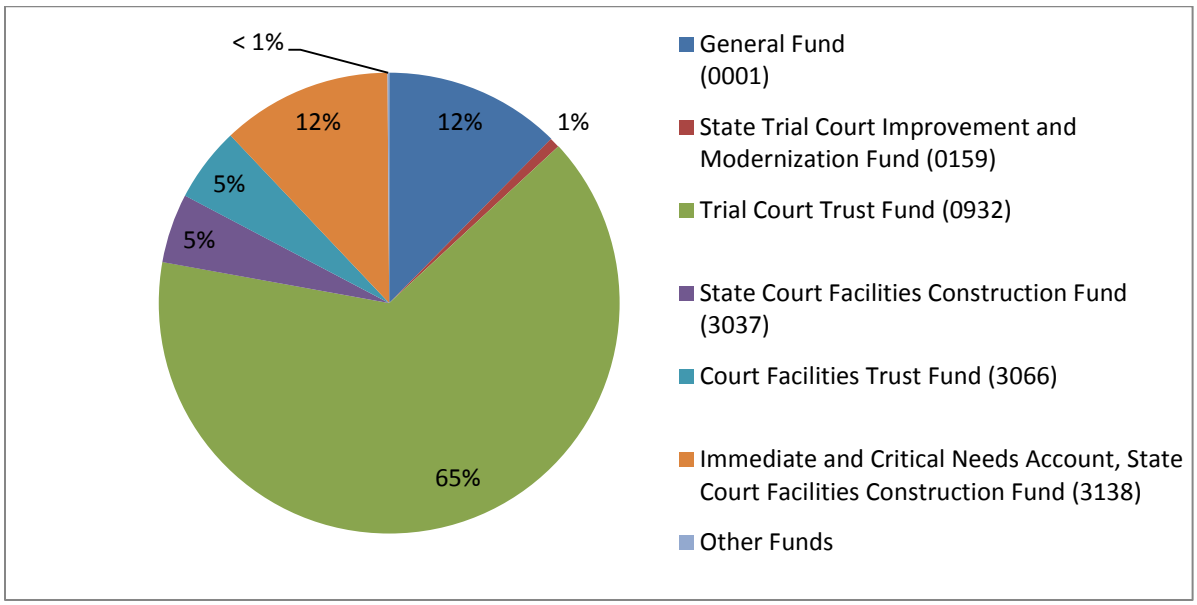
Of the 17 funds the Council staff administers, 11 funds received revenues during 2013-14. Table 1 displays the revenue reported by fund. Funds that were less than 1 percent of the total revenue were combined. As depicted in Figure 1, the Trial Court Trust Fund, General Fund, and Immediate and Critical Needs Account, State Court Facilities Construction Fund received 89 percent of total revenues.

Table 1: 2013-14 Revenues by Fund

Fund Number	Fund Name	Amount	Percent of Total Revenues
0932	Trial Court Trust Fund	$1,255,135,854	65
0001	General Fund	240,052,505	12
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	231,475,395	12
3066	Court Facilities Trust Fund	101,466,672	5
3037	State Court Facilities Construction Fund	94,301,155	5
0159	State Trial Court Improvement and Modernization Fund	14,069,851	1
	Other Funds[1]	2,300,360	<1
	Total Revenue	**$1,938,801,792**	**100**

[1] Other Funds include the Family Law Trust Fund (0587), Court Interpreters' Fund (0327), Judicial Branch Workers' Compensation Fund (9728), Special Deposit Fund (0942), and Mental Health Services Fund (3085).

Figure 1: 2013-14 Revenues by Fund



Revenues Received and Accounted for by the Council's Accounting and Business Services Unit

Revenues of $191 million, or 10 percent of total revenues, were collected and recorded by the Council staff's Administrative Division, Finance Office, Accounting and Business Services Unit (ABSU). These revenues represent transfers from other funds, court interpreter license fees, miscellaneous revenue, and donations. The Government Codes cited in the Department of Finance's (Finance) *Manual of State Funds* (*Manual of State Funds*) provides the authority for the collection of these revenues.

The two largest transactions consisted of a $200 million transfer from the State Court Facilities Construction Fund, Immediate and Critical Needs Account (Fund 3138) to the Council staff's General Fund and a $9 million General Fund prior year revenue adjustment. The transfer was supported by Finance Executive Orders, and the prior year adjustment was made in accordance with standard Legal/Budgetary accounting procedures and represents prior year accrued revenues.

Revenues Collected and Received from the Trial Courts, Counties, and Cities

The trial courts collected and remitted $1.75 billion, or 90 percent of the total revenues. These revenues consist of fees for services, licenses, other fees, fines, assessments, penalties, and interest as authorized by the Government Codes cited in the *Manual of State Funds*.

The State Controller's Office (SCO) processes the remittances and credits the revenues to the appropriate fund. Based on the SCO journal entry, ABSU records these transactions in the appropriate funds.

We confirmed that SCO performs court collection revenue audits in accordance with Government Code sections 68103 and 68104.[2] Specifically, SCO determines whether all collections due to the state are completely and accurately remitted to the State Treasurer. If funds are not remitted as required, SCO requires remittance of the funds and assesses penalties in accordance with Government Code sections 68085, 70353, and 70377.

In addition to the SCO audits, the Council staff's Audit Services Office performs trial court audits and internal audits that include the Capital Program Office and Real Estate & Facilities Management Office. These two offices have oversight of Facilities Trust Fund revenues, including court facility payments and property use revenue.

Expenditures

The 2013-14 expenditures were incurred pursuant to the authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and accurately recorded in the accounting records.

The Council staff recorded $4.1 billion in expenditures in 17 funds as portrayed in Table 2. Funds with less than 1 percent of the total expenditures were combined. The Trial Court Trust Fund, General Fund, and Public Buildings Construction Funds comprise 91 percent of the expenditures. See Figure 2.

Table 2: 2013-14 Expenditures by Fund

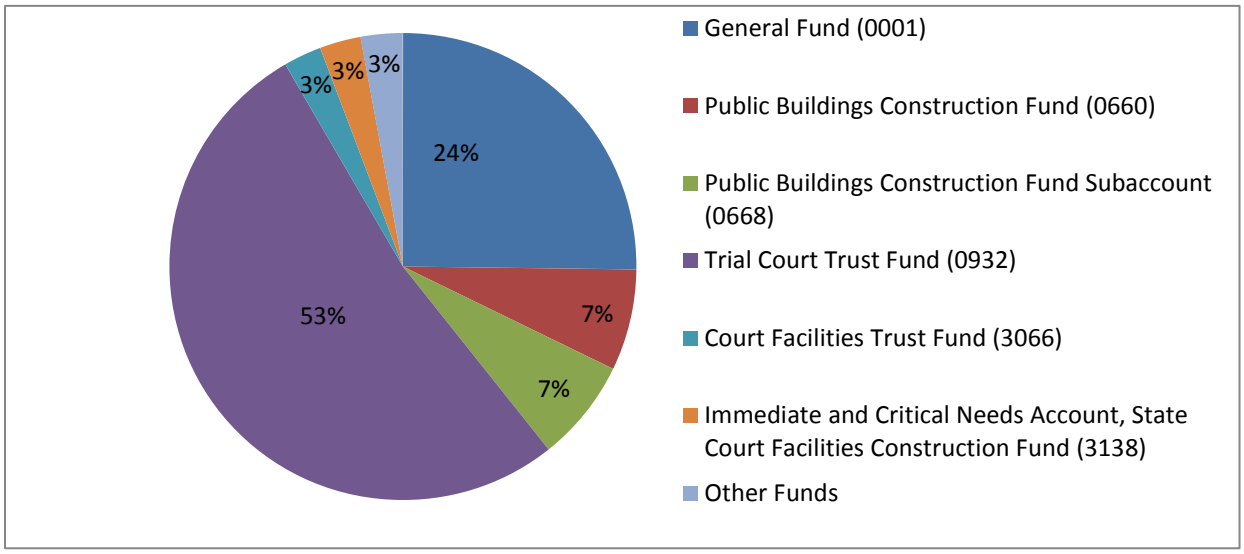
Fund Number	Fund Name	Amount[3]	Percent of Total Expenditures
0932	Trial Court Trust Fund	$2,164,222,277	53
0001	General Fund	993,119,815	24
0668	Public Buildings Construction Fund Subaccount	293,404,196	7
0660	Public Buildings Construction Fund	289,867,419	7
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	117,588,945	3
3066	Court Facilities Trust Fund	108,826,807	3
	Other Funds[4]	120,471,972	3
	Total Expenditures	**$4,087,501,431**	**100**

[2] SCO's court collection revenue audit reports are posted on SCO's website at http://www.sco.ca.gov/aud_court_revenues.html.

[3] Expenditures include accruals, but not encumbrances.

[4] Other Funds include the Motor Vehicle Account, State Transportation Fund (0044), State Trial Court Improvement and Modernization Fund (0159), Court Interpreters' Fund (0327), Family Law Trust Fund (0587), Federal Trust Fund (0890), Special Deposit Fund (0942), State Court Facilities Construction Fund (3037), Mental Health Services Fund (3085), State Community Corrections Performance Incentives Fund (8059), Judicial Branch Workers' Compensation Fund (9728), and Court Facilities Architecture Revolving Fund (9733).

Figure 2: 2013-14 Expenditures by Fund



We reviewed $752.6 million of the $4.1 billion (18 percent) in total expenditures. Expenditure transactions reviewed were selected from the six largest funds as presented in Table 2 and Figure 2. The types of transactions reviewed included personnel, utilities, rent, construction, grants, assigned judges, court appointed council, maintenance, and transfers.

The expenditure transactions reviewed complied with the applicable Government Codes displayed in the *Manual of State Funds*. Additionally, all the expenditures reviewed were supported by documentation such as timesheets and related personnel payment history reports, invoices, joint occupancy agreements, lease agreements, memoranda of understanding, contracts, grant agreements, and SCO journal entries. Further, the transactions were recorded in the correct fund and processed in accordance with the Council staff's internal accounting policies and procedures.

Fund Balances

The fund balances were reported based on the Legal/Budgetary basis of accounting and in accordance with fund accounting principles. Based on a sample of 5 of the 17 funds, the revenue and expenditure transactions which close into the fund balance clearing account at year-end complied with applicable Government Codes. No unusual or unexplained changes in the fund balances were identified and recalculations of fund balances did not disclose any variances.

Fund balances represent the excess of a fund's assets over its liabilities. During the fiscal year, if revenues exceed the expenditures, the fund balance will increase. Conversely, if the expenditures exceed the revenues during a fiscal year, the fund balance will decrease.

Many funds are shared by various state entities. For the shared funds, one state entity is appointed as the fund administrator, except for the General Fund. Each entity receiving revenues or expending from a shared fund records the accounting transactions separately within its accounting records. Therefore, the fund balances reported by Council staff for each shared fund only represents the Council's portion of the fund balance, and does not represent the entire fund balance. The fund administrator is responsible for overall management of the shared fund.

As presented in Table 3 below, 9 of the 17 funds were under the sole administration, jurisdiction, or control of Council staff. However, 8 of the 17 funds were shared with other state entities. Table 4 displays the shared funds and the designated fund administrator.

Table 3: Judicial Council Administered Funds

Fund Number	Fund Name	Fund Administrator
0159	State Trial Court Improvement and Modernization Fund	Judicial Council
0327	Court Interpreters' Fund	Judicial Council
0587	Family Law Trust Fund	Judicial Council
0932	Trial Court Trust Fund	Judicial Council
3037	State Court Facilities Construction Fund	Judicial Council
3066	Court Facilities Trust Fund	Judicial Council
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	Judicial Council
9728	Judicial Branch Workers' Compensation Fund	Judicial Council
9733	Court Facilities Architecture Revolving Fund	Judicial Council

Table 4: Judicial Council Shared Funds

Fund Number	Fund Name	Fund Administrator
0001	General Fund	Each entity is responsible for its share of this fund.
0044	Motor Vehicle Account, State Transportation Fund	Department of Motor Vehicles
0660	Public Buildings Construction Fund	Public Works Board
0668	Public Buildings Construction Fund Subaccount	Public Works Board
0890	Federal Trust Fund	State Controller's Office
0942	Administration of Justice Special Deposit Fund	State Controller's Office
3085	Mental Health Services Fund	Department of Health Care Services
8059	State Community Corrections Performance Incentives Fund	California Department of Corrections and Rehabilitation

Internal Control

While performing procedures related to our audit objectives, we identified fiscal control weaknesses. The *Judicial Council Governance Policies* promote advancing the highest standards of accountability to the Executive Branch, Legislative Branch, and people of California for the use of public resources and adherence to statutory and constitutional mandates.

Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies. The weaknesses indicated as unresolved audit findings were previously reported to Council staff in an audit report issued by the Department of Finance on May 17, 2011. The fiscal control weaknesses include the following:

A. ***Employee receivables and payables were not cleared timely.*** Employee receivables outstanding over 90 days totaled $102,826 as of June 2014, and increased to $129,282 as of November 30, 2014. In addition, monies owed to employees totaled $10,578 as of June 30, 2014 and increased to $11,154 as of November 30, 2014. Failure to timely clear receivables in accordance with SCO Payroll Procedures Manual, sections I 007 and I 180, increases the risk that monies due to the Council will not be collected. Further, untimely payment of amounts due to employees could expose the Council to potential legal risks. This weakness represents an unresolved prior audit finding.

B. ***Vendor payment duties were not adequately segregated.*** The Supervising Accountant in ABSU's Accounts Payables Unit has access to input and approve payments to vendors and edit the approved vendor master file. This incompatible information system access creates a risk that fraudulent payments could be issued to fictitious vendors.

C. ***Deposits were not always allocated timely.*** As of January 30, 2015, deposits made during 2013-14 totaling $949,906 (consisting of four checks, three of which represented insurance settlements) had not been allocated to the appropriate account for a period of 12 to 16 months. Deposits should be allocated to the appropriate account timely so that the funds can be used for their specified purpose.

D. ***Reconciliations were not properly reviewed.*** Reviews of the following monthly reconciliations were not performed:
   - State Controller's Appropriation and Executive Order balances with the unexpended allotments
   - Bank statements with accounting records

   Timely and proper reviews reduce the risk of errors, omissions, and irregularities and ensure the integrity of financial reporting. This weakness represents an unresolved prior audit finding.

E. ***Some policies and procedures were not documented.*** Specifically, Council staff's policies and procedures do not document the following:
   - Revenue collection for court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts
   - Fund reconciliations
   - Art purchases
   - Property Management Accounting Unit review of invoices

Lack of properly documented policies and procedures increases the risk that documents or transactions may be processed improperly and creates key person dependency. The lack of documented policies and procedures for art purchases represents an unresolved prior audit finding.

Recommendations:

A. Timely collect and clear employee receivables and payables.

B. Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file.

C. Ensure deposits are posted to the appropriate account timely.

D. Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations.

E. Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.

APPENDIX A

Programs and Funds Included in Audit

Government Code section 77206(i)(1) requires an audit of all material and significant funds under the administration, jurisdiction, or control of the Judicial Council of California (Council) staff. Funds for which the Council staff review, approve, and record the accounting transactions were considered to be under the administration, jurisdiction, or control of the Council's staff. Based on this determination, the following programs and funds were included in the audit:

Programs[1]

- Judicial Council, Program 30
- Judicial Branch Facility, Program 35
- State Trial Court Funding, Program 45 (Revenue allocations made to the trial courts were included in the audit, but expenditures of those allocations made by the trial courts were excluded)
- Capital Outlay, Program 91

Funds

1. General Fund (0001)
2. Motor Vehicle Account, State Transportation Fund (0044)
3. State Trial Court Improvement and Modernization Fund (0159)
4. Court Interpreters' Fund (0327)
5. Family Law Trust Fund (0587)
6. Public Buildings Construction Fund (0660)
7. Public Buildings Construction Fund Subaccount (0668)
8. Federal Trust Fund (0890)
9. Trial Court Trust Fund (0932)
10. Special Deposit Fund (0942)
11. State Court Facilities Construction Fund (3037)
12. Court Facilities Trust Fund (3066)
13. Mental Health Services Fund (3085)
14. Immediate and Critical Needs Account, State Court Facilities Construction Fund (3138)
15. State Community Corrections Performance Incentives Fund (8059)
16. Judicial Branch Workers' Compensation Fund (9728)
17. Court Facilities Architectural Revolving Fund (9733)

[1] The Supreme Court (Program 10), Courts of Appeal (Program 20), and Habeas Corpus Resource Center (Program 50) are the responsibility of other Judicial Branch entities.

APPENDIX B

Methodology

To adequately plan the audit, we performed general procedures, evaluated internal controls, and assessed the reliability of data significant to the audit objectives. Based on the results, we designed our audit procedures to address the specific audit objectives. See below for the general and specific procedures performed.

To Plan the Audit	
General procedures used to perform the audit.	1. Reviewed the *Judicial Council Governance Policies*, Budget Act, *Manual of State Funds*, Government Codes, Rules of the Court, and relevant internal policies and procedures to identify compliance requirements applicable to Judicial Council staff for revenues, expenditures, and fund balances. 2. Followed up on the status of prior findings identified in the Department of Finance audit report issued on May 17, 2011.
Understanding the internal control environment specific to the audit objectives.	1. Reviewed current policies and procedures, organization charts, and the Judicial Council of California's (Council) website, and interviewed Council staff to gain an understanding of the internal control environment. 2. Determined the significant internal controls within the context of the audit objectives. 3. Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties are properly designed, implemented, and operating effectively. 4. Determined impact to the audit objective of the identified internal control weaknesses.

To Plan the Audit	
Assessing reliability of data significant to the audit objectives.	1. Identified the information systems used to process and account for the revenues, expenditures, and fund balance transactions. 2. Interviewed staff and reviewed documented policies and procedures regarding security, data entry, processing, and reporting to gain an understanding of information technology systems and data significant to the audit objectives. 3. Compared the data to other sources to determine the completeness accuracy of the data in the Oracle financial system. 4. Evaluated the electronic access controls over the Oracle financial system. 5. Determined whether the data was sufficiently reliable for conducting the audit.
To Address Specific Audit Objectives	
Audit Objective	**Procedures**
Determine whether revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.	1. Identified the funds and revenues received under the administration, jurisdiction, or control of Council staff. 2. For funds identified above, determined whether Council staff or other entities received and accounted for and/or audited the revenue. 3. For revenues received and accounted for by Council staff that were not audited by other entities, selected a sample of transactions over 4 percent of the total revenue and determined whether the revenue reported was received and accounted for in accordance with authorizing Government Codes, properly supported with adequate documentation, and accurately reported in the accounting records. 4. For revenues received and accounted for by other entities, determined whether audits are performed by other entities to ensure the revenues are received, accounted for, and remitted.

To Address Specific Audit Objectives	
Audit Objective	**Procedures**
Determine whether expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.	1. Identified the funds and amount of expenditures recorded under the administration, jurisdiction, or control of the Council staff. 2. For the 6 largest funds identified in Step 1, selected expenditure transactions for review. 3. For funds identified in Step 2, selected expenditure categories exceeding 4 percent of the fund's total expenditures. 4. For the sample selected, determined whether expenditures were incurred pursuant to the authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
Audit Objective	**Procedures**
Determine whether fund balances are reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.	1. Selected a sample of funds with fund balances over $100 million as of June 30, 2014, or with balances that fluctuated by more than 25 percent from the prior period. 2. Consider results of revenue and expenditure testing to assess whether the transactions were reported based on the Legal/Budgetary basis of accounting and recorded in accordance with fund accounting principles. 3. Recalculated sampled funds to ensure fund balances are accurate and in compliance with applicable criteria.

JUDICIAL COUNCIL OF CALIFORNIA

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TANI G. CANTIL-SAKAUYE
Chief Justice of California
Chair of the Judicial Council

MARTIN N. HOSHINO
Administrative Director

August 5, 2015

Mr. Richard R. Sierra, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street, Sixth Floor
Sacramento, California 95814

Dear Mr. Sierra:

As the Administrative Director for the Judicial Council of California, I am pleased to acknowledge receipt of the audit report for the period July 1, 2013 through June 30, 2014, required by Government Code section 77206(i)(1). This performance audit of the Judicial Council of California focuses on fiscal compliance and provides several recommendations that will enhance the transparency, accountability, and efficiency of the Judicial Branch.

Judicial Council staff and I understand the issues and recommendations that resulted from your work and welcome input on internal controls, processes, and procedures that will improve our financial operations. We acted on one of the recommendations immediately when you informed us of your concern regarding the segregation of duties. Council staff is working on the other recommendations to implement corrective actions that will assist the staff in ensuring continued accountability and compliance with governing statutes, rules, regulations, and policies.

Enclosed are our detailed responses to implement the recommendations of your audit. Thank you for your team's work on the audit and the opportunity to respond to it.

Sincerely,

Originally signed by

Martin Hoshino
Administrative Director

Enclosure
cc: Ms. Jody Patel, Chief of Staff, Judicial Council of California
Mr. Curt Soderlund, Chief Administrative Officer, Judicial Council of California
Mr. Zlatko Theodorovic, Chief Financial Officer and Director of Finance, Judicial Council of California
Ms. Pat Haggerty, Assistant Director, Finance, Judicial Council of California
Mr. John Judnick, Senior Audit Manager, Audit Services, Judicial Council of California

Office of State Audits and Evaluations
Performance Audit Report of July 2015
Detailed Response to Issues and Recommendations

Issue and Recommendation No. 1

Issue: Employee receivables and payables were not cleared timely.
Recommendation: Timely collect and clear employee receivables and payables.
Status: Ongoing monitoring

Employee receivables and payables are tracked closely by Judicial Council staff. When benefit changes occur or new employees are hired, the State Controller may take up to three months to key in the changes to benefits into their system. Judicial Council staff cannot process amounts due or payable timely because of the lag time of implementation into the system. Judicial Council staff discuss with employees the delay and manner in which employees wish to pay the amounts due (payroll deduction, check, etc.). In addition, to minimize undue hardship on employees when they owe large amounts, employees have the option to participate in a payment plan for a defined period. Payment plans result in amounts that appear not to be cleared in full on a timely basis, however, all amounts due are tracked under agreed upon payment terms and are reconciled monthly.

Issue and Recommendation No. 2

Issue: Vendor payment duties were not adequately segregated.
Recommendation: Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file.
Status: Fully implemented

The accounting supervisor's access to the Vendor Master File was removed immediately after staff was notified of the auditors' concern. Vendor Master File access is now limited to two individuals with no payables access.

Issue and Recommendation No. 3

Issue: Deposits were not always allocated timely.
Recommendation: Ensure deposits are posted to the appropriate account timely.
Status: Ongoing monitoring

Checks are deposited in the Judicial Council's local revolving fund as soon as they are received in Accounting; all four checks noted in the audit as distributed late were deposited timely. Checks that have a clear indication of where they should be posted are posted to the fund and account code timely by Accounting. When Accounting receives a check and is unable to determine to what fund and account to post the monies, Accounting asks the applicable office for research and documentation. Three of the four aforementioned checks were distributed late because they were for insurance settlements; the fourth was mistakenly noted to be an insurance settlement. Construction insurance settlements are applied to funds and accounts after the damage remediation occurs and those related costs are paid and accounted for; this

process often has an inherent prolonged time frame. Accounting will continue to monitor and follow up on received and deposited checks that have not been posted to the appropriate funds and accounts.

Issue and Recommendation No. 4

Issue: Reconciliations were not properly reviewed.

Recommendation: Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations.

Status: Fully implemented

The General Ledger Unit of Accounting has a process in place to timely review all reconciliations, with the preparer and reviewer initialing and dating that review. The General Ledger accounting supervisor will monitor the timeliness of the review process regularly.

Issue and Recommendation No. 5

Issue: Some policies and procedures were not documented.

Recommendation: Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.

Status: Pending

By November 1, 2015, internal policies and procedures will be developed for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, and for the Property Management Accounting Unit review of invoices.

Also by November 1, 2015, an art purchases policy will be approved by the Judicial Council. Currently, a draft *Judicial Council Policy on Art Acquisition for Court Facilities* has been prepared and will be reviewed by various advisory committees before submission to the Judicial Council.