



Transmitted via e-mail

May 17, 2011

Honorable Tani Cantil-Sakauye
Chief Justice of California
California Supreme Court
350 McAllister Street
San Francisco, CA 94102-4797

Dear Justice Tani Cantil-Sakauye:

Final Report—Judicial Council of California, Administrative Office of the Courts Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Judicial Council of California, Administrative Office of the Courts' (AOC) expenditure controls for fiscal year 2009-10.

The enclosed report is for your information and use. The AOC's response to the report findings are incorporated into this final report. The AOC agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its operations.

We appreciate the assistance and cooperation of the AOC. 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:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. William C. Vickrey, Administrative Director of the Courts, Administrative Office of the Courts, Judicial Council of California
Mr. Stephen H. Nash, Director and Chief Financial Officer, Finance Division, Administrative Office of the Courts, Judicial Council of California
Ms. Pat Haggerty, Assistant Director, Accounting and Business Services, Finance Division, Administrative Office of the Courts, Judicial Council of California

AUDIT REPORT

Judicial Council of California Administrative Office of the Courts For the Fiscal Year Ended June 30, 2010



Earl Warren Building in San Francisco

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

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EXECUTIVE SUMMARY

The Administrative Office of the Courts (AOC) is the staff agency to the Judicial Council of California, the policymaking body of the state court system. As the staff agency, the AOC provides policy and administrative support to the Judicial Council of California.

The AOC requested the Department of Finance, Office of State Audits and Evaluations (Finance), to review their fiscal controls related to expenditures. In most instances, AOC's fiscal controls were adequate and expenditures were properly recorded. While we did not identify any material control weaknesses, we identified some areas where controls were either not in place or not functioning as intended, and where corrective action is necessary. The proposed recommendations, if implemented, will reduce the risk of fraud, waste, and abuse by further enhancing the AOC's compliance with best business practices and its own policies and procedures.

- The AOC did not always provide evidence of purchasing research or sole source justification to support 5 of 24 purchases reviewed totaling \$58,349. Additionally, policies for art and cell phone purchases (including related accessories) should be developed to ensure the appropriate and efficient use of AOC resources.
- The AOC did not comply with its meal expense guidelines for six of seven group meal purchases reviewed totaling \$5,262. In addition, AOC policies for providing meals to non-AOC employees need further clarification.
- Office revolving fund (ORF) employee receivables were not cleared in a timely manner. During the audit, the AOC implemented corrective actions and cleared \$57,000 in outstanding ORF employee receivables.
- Monthly reconciliations were not properly prepared or reviewed.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Judicial Council is the policymaking body of the state court system. The Administrative Office of the Courts (AOC) is the staff agency to the Judicial Council of California and is responsible for a variety of programs and services to improve access to the judicial system. Specifically, the AOC provides policy and administrative support including accounting, auditing, budgeting, contracting, human resources, procurement, and information technology services. The AOC is organized into nine divisions in San Francisco, two divisions in Sacramento, and three regional offices. The AOC's Finance Division, Office of Accounting and Business Services (OABS), provides procurement, contracting, and accounting services for the AOC, the California Supreme Court, and the Court of Appeals.¹

SCOPE

In response to a request from the AOC, the Department of Finance, Office of State Audits and Evaluations (Finance), determined whether OABS' fiscal controls were adequate for authorizing, processing, and paying expenditures during the period July 1, 2009 through June 30, 2010. See Appendix A for specific programs and funds included in the scope of this audit.

The AOC's management is responsible for ensuring an adequate system of fiscal and program controls is designed and implemented, and evaluating their effectiveness and efficiency. Because audits by other organizations were already in progress, we did not review the expenditures for the California Court Case Management System (CCMS) and the court facilities service providers, overseen by the Office of Court Construction Management (OCCM). Furthermore, we did not evaluate the effectiveness or efficiency of the AOC's various programs and services.

METHODOLOGY

To determine whether the fiscal controls over expenditure processing were adequate and expenditures were properly recorded, we performed the following:

- Obtained an understanding of AOC's mission, background, and critical fiscal functions. To achieve this understanding, we reviewed current policies and procedures, relevant information systems controls, organization charts, and the AOC's website; analyzed financial reports; and interviewed various staff.
- Identified potential risks for accounting expenditures and developed a risk assessment.

¹ Source: www.courts.ca.gov/policyadmin-aoc.htm

- Selected a sample of transactions, based on risk areas identified, to determine whether the relevant AOC's policies and procedures were adequately designed and implemented, and whether the transactions were properly recorded.

The recommendations were developed based on the evaluation of data, documentation obtained, and discussions with staff. This audit was performed from July 2010 through March 2011.

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

The Administrative Office of the Courts' (AOC) fiscal controls were generally adequate and expenditures were properly recorded. While we did not identify any material control weaknesses, we identified some areas where controls were either not in place or not functioning as intended, and where corrective action is necessary. The proposed recommendations, if implemented, will reduce the risk of fraud, waste, and abuse by further enhancing the AOC's compliance with best business practices and its own policies and procedures.

Observation 1: Procurement Procedures Need Improvement

The AOC's procurement files were not always complete. For 5 of 24 purchases reviewed totaling \$58,349, procurement research (e.g. price quotes or three offers) and sole source justification were not documented in the procurement files as required by AOC's Policies and Procedures, Procurement of Goods and Services. In addition, AOC's policies and procedures did not specifically address art and cell phone (including related accessories) purchases. Properly documented procurement files and clear purchasing policies promote fair, reasonable, and economical purchases and protect the state's interests.

Recommendations:

- A. Properly document procurement research and sole source justification in the procurement files.
- B. Develop policies and procedures to address art and cell phone (including related accessories) purchases. Review monthly wireless service plans and identify lines and features that are not essential to AOC's mission. Cancel unused lines and negotiate lower rates if applicable.

Observation 2: Failure to Comply with Business Meal Guidelines and Clarification of Non-AOC Employee Meals Policy

Based on a review of seven group meal purchases, six meal purchases totaling \$5,262 were not in compliance with the AOC Finance Memo AE 2005-003, Revised Business Lodging and Meal Expense Guidelines (business meal expense guidelines). Specifically, the following issues were identified:

- Six group meal purchases were not properly approved *prior* to the event date. A Business-Related Meal form was provided for each group meal purchase, but all were approved after the event occurred. A purchase requisition was approved for three of the six group meal purchases prior to the event. However, an approved purchase requisition does not meet the preapproval requirements of the business meal expense guidelines. Specifically, the business meal expense guidelines require a completed, approved Business-Related Meal form or written authorization, by memo or e-mail, that predates the event and includes the following:

- Date of the business meal
 - Scheduled start and end time of the meeting
 - Statement explaining the business
 - Category and duration of the business meal
 - Copy of the formal agenda, if applicable
 - List of expected attendees, their titles, and affiliations
- Four group meals were not arranged through Conference Services as required by the business meal expense guidelines.

In addition, the Business Meal Expense Guidelines are unclear regarding group meal purchases for non-AOC employees attending AOC training and other events. Unclear guidelines, and non-compliance with those guidelines, increase the risk of waste and abuse of state funds.

Recommendations:

- A. Ensure that meal purchases comply with the Business Meal Expense Guidelines.
- B. Revise the Business Meal Expense Guidelines to address group meal purchases for non-AOC employees attending AOC training and other events.

Observation 3: Inadequate Practices for Office Revolving Fund Employee Receivables

Office revolving fund employee receivables were not cleared timely. Payments to clear employee receivables were not properly posted and separated employees were overpaid. This weakness resulted in employee account receivables outstanding over 90 days totaling \$66,237 at June 30, 2010. During the fieldwork, the AOC implemented corrective actions and reduced the receivables balance outstanding over 90 days to \$9,442 as of November 1, 2010. Failure to properly clear employee receivables results in an overstatement of receivables and reduces the efforts available to collect on valid account receivables.

Recommendation:

- A. Timely collect and clear employee receivables.

Observation 4: Reconciliations Are Not Properly Reviewed

The June 30, 2010 monthly reconciliations of the State Controller's Appropriation Executive Order balances with the Unexpended Allotments, and the monthly bank reconciliations were not reviewed. In addition, the June 30, 2010 bank reconciliation was not properly supported. Specifically, some of the amounts listed on the bank reconciliation did not readily trace to supporting documents. Furthermore, the June 30, 2010 Office Revolving Fund reconciliation did not include a \$6,360 reconciling item. Timely and proper reviews reduce errors and omissions and ensure the integrity of financial reporting.

Recommendations:

- A. Properly prepare and timely review reconciliations. Once the review is complete, both the reviewer and preparer should sign their name and date the reconciliations.
- B. Ensure the required supporting documentation readily supports the reconciliations.

The following programs and funds were in the scope of our audit:

Programs

1. Supreme Court, Program 10
2. Courts of Appeal, Program 20
3. Judicial Council, Program 30
4. Judicial Branch Facility, Program 35

Funds

1. General Fund (0001), support only (001), excluding Habeas Corpus Resource Center (Program 50)
2. Motor Vehicle Fund (0044)
3. Trial Court Improvement Fund (0159), support only (001)
4. Court Interpreter Fund (0327)
5. Judicial Administration Modernization and Efficiency Fund (0556), support only (001)
6. Family Law Trust (0587)
7. Public Building Construction Fund (0660)
8. Federal Trust Fund (0890)
9. Trial Court Trust Fund (0932), support only (001)
10. Administration of Justice Fund (0942)
11. State Court Facilities Construction Fund (3037)
12. Appellate Court Trust Fund (3060)
13. Court Facilities Trust Fund (3066)
14. Mental Health Fund (3085)
15. Immediate and Critical Needs Account (3138)
16. Judicial Council Workers Compensation Fund (9728), only Judicial Council and Appellate Court portions
17. Court Facilities Architectural Fund (9733)



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

WILLIAM C. VICKREY
Administrative Director of the Courts

RONALD G. OVERHOLT
Chief Deputy Director

May 9, 2011

Mr. David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, California 95814

Re: Response to Department of Finance, Office of State Audits and Evaluations (OSAE), Draft Audit Report Dated 04/08/2011

Dear Mr. Botelho:

This letter is in response to the observations and recommendations provided in OSAE's draft report based on the audit performed on programs 10, 20, 30, and 35 within the judicial branch, and the funds noted in your report for fiscal year 2009-2010. We agree with OSAE's recommendations, and our responses to the recommendations are set forth in the attached document. Although the exceptions noted in the audit were small in dollar amount, we strive to continually improve our processes. We appreciate the staff time and effort OSAE dedicated to this audit and the professionalism of your staff throughout the process. If you have any questions about our response, please contact Pat Haggerty, Assistant Director, AOC Finance Division, at 415-865-7922 or pat.haggerty@jud.ca.gov.

Sincerely,

Original signed by:

William C. Vickrey
Administrative Director of the Courts

WCV/PH
Attachment

cc: Hon. Tani Cantil-Sakauye, Chief Justice of California and Chair of the Judicial Council
Mr. Ronald G. Overholt, AOC Chief Deputy Director
Mr. Stephen Nash, Director, AOC Finance Division
Ms. Pat Haggerty, Assistant Director, AOC Finance Division
Mr. John A. Judnick, Senior Manager, Internal Audit Services, AOC Finance Division

Responses to OSAE Draft Audit Report Recommendations

Observation 1

Procurement Procedures Need Improvement

- A. Properly document procurement research and sole source justification in the procurement files.**

The AOC concurs with this recommendation. Procurement research and sole source justification will be consistently documented in procurement files with the AOC Business Services Unit and appellate court locations.

- B. Develop policies and procedures to address art and cell phone (including related accessories) purchases. Review monthly wireless service plans and identify lines and features that are not essential to AOC's mission. Cancel unused lines and negotiate lower rates if applicable.**

The AOC concurs with this recommendation. Provisions concerning the purchase of cell phones (including related accessories) and art will be incorporated into existing AOC purchasing policies. The AOC is in the process of carefully reviewing all cell phone assignments and usage for cost-effectiveness and consistency. After that evaluation, only cell phones determined to be essential will be maintained. It is standard practice for AOC Business Services to review cell phone rate plans on a regular basis to ensure that the most economic plan is utilized.

Observation 2

Failure to Comply with Business Meal Guidelines and Clarification on Non-AOC Employee Meals Policy

- A. Ensure that meal purchases comply with the Business Meal Expense Guidelines.**

The AOC concurs with this recommendation. The AOC is in the process of changing its payment procedures pertaining to the business meal signature authorization being dated after the business event. It is important to note that all expenses were paid in accordance with the business meal pricing guidelines. The AOC Accounting Services Unit continues to carefully review all business meal documentation.

- B. Revise the Business Meal Expense Guidelines to address group meal purchases for non-AOC employees attending AOC training and other events.**

The AOC concurs with this recommendation. We plan to revise the Business Meal Expense Guidelines to clarify group meal purchases for nonjudiciary employees attending judiciary training and other events.

Observation 3

Inadequate Practices for Office Revolving Fund

A. Timely collect and clear employee receivables.

The AOC concurs with this recommendation. The AOC Finance Division continues to send the list of outstanding office revolving fund receivables to the AOC Human Resources Division on a monthly basis. Those divisions now hold regular joint meetings to review the outstanding list to ensure collection and clearance of the receivables. They are also jointly working on procedures related thereto. In addition, separating employees are now required to sign a document acknowledging that they have to repay the AOC for any current and future overpayments they may owe.

Prior practice was for outstanding overpayments that are beyond 90 days, the employee was given three notifications to repay the overpayment. In addition to the three notifications, if a response is not received after the third notification due date, the AOC Human Resources Division will now submit the employee's name to the State Franchise Tax Board to collect the overpayment by deducting the outstanding balance from the employee's future state tax refund.

Observation 4

Reconciliations Are Not Properly Reviewed

A. Properly prepare and timely review reconciliations. Once the review is complete, both the reviewer and preparer should sign their name and date the reconciliations.

The AOC concurs with this recommendation. The AOC will ensure that all bank and account reconciliations are timely reviewed and will have the preparer and the reviewer sign and date the reconciliations.

B. Ensure the required supporting documentation readily supports the reconciliations.

The AOC concurs with this recommendation. The AOC will develop a report that will contain information necessary to verify proper reconciliation. This will include the identification of all nonreconciled items.