

SUPERIOR COURT OF CALIFORNIA, COUNTY OF VENTURA

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

March 2022



BETTY T. YEE
California State Controller

March 4, 2022

Brenda L. McCormick, Court Executive Officer
Superior Court of California, County of Ventura
Hall of Justice
800 South Victoria Avenue
Ventura, CA 93009

Dear Ms. McCormick:

The State Controller's Office audited the Superior Court of California, County of Ventura (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified revenues and expenditures that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. This issue is described in the Finding and Recommendation section of our report.

This report is for the Court's information and use. The Court's response to the finding is incorporated into this final report. The Court agreed with our observation and provided a Corrective Action Plan to address the fiscal control weakness and recommendation. We appreciate the Court's willingness to implement corrective actions.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Robert Sherman, Assistant Court Executive Officer
Superior Court of California, County of Ventura
Kelly O'Dell, Director
Superior Court of California, County of Ventura
Richard Cabral, Director
Superior Court of California, County of Ventura
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	6
Follow-up on Prior Audit Findings.....	6
Views of Responsible Officials.....	6
Restricted Use	6
Schedule 1—Summary of Revenues and Revenue Test Results	7
Schedule 2—Summary of Expenditures and Expenditure Test Results.....	8
Schedule 3—Summary of Fund Balances and Fund Balance Test Results	9
Finding and Recommendation	10
Attachment—Superior Court’s Comments Regarding the Audits Results	

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Ventura (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, our audit identified revenues and expenditures that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. This issue is described in the Finding and Recommendation section of our report.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the California Constitution. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The *Judicial Council Governance Policies* are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, "The Organization and Government of Courts."

Pursuant to California Rules of Court rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual*, which provides guidance and directives for trial court fiscal management. The manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual describes an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, California Rules of Court rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2019-20, the Court reported revenues of \$57,713,038. The Court receives the majority of its revenue from state financing sources. The TCTF provided 69.9% of the Court's revenue. For the audit period, the Court incurred expenditures of \$59,597,585. Personal services (salaries and benefits) comprised 74.4% of total expenditures. The Court employed 439 staff members to serve Ventura County's population of approximately 838,000 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary Fund. The General Fund, Special Revenue Non-Grant Fund, and Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 58163, dated January 6, 2020, between the SCO and the JCC, pursuant to GC section 77206 (h)(2).

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control.

The audit period was July 1, 2019, through June 30, 2020.

Specifically, we conducted this audit to determine whether:

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

To accomplish our objective, we performed the following procedures.

General Procedures

- We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2019-20 Budget Act, the Manual of State Funds, applicable sections of Government Code, the California Rules of Court, the *Trial Court Financial Policies and Procedures Manual* (10th edition, June 2019), and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- We reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files with published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of responding to our objectives.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 25 revenue items and 42 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We also performed a comparative analysis of periodic TCTF distributions and, from the analysis, selected additional transactions for testing. We expanded testing on accounts with transactions containing errors to determine the effect of the identified errors. Errors were not projected to the population.

Revenue Testing

We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting.

- We tested revenue transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special

Revenue Fund to determine whether revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.

- Our testing included tests of accounting internal controls and of recorded transaction details. We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the TCTF, the Memorandum of Understanding (MOU) Reimbursements, and the Enhanced Collections accounts were material. We also selected the non-material Court Interpreter and Other Miscellaneous revenue accounts for testing. Our test procedures included a combination of sampling, analytical procedures, inquiries, and review of source documents.
- We tested \$48,937,112 of \$57,713,038, or 84.8% of total revenues.

We found errors in three reimbursement account balances that resulted from unadjusted differences between reimbursements earned and accrued in the prior year, and remittances received in the current year. The combined total amount of error is \$66,619.

The details of our finding are provided in the Finding and Recommendation section of this report. We combined the errors for both revenue and expenditure accounts in a single finding because of their similarity to unadjusted differences for prior-year activities. Schedule 1—Summary of Revenues and Revenue Test Results presents, by account, the total revenues, amounts tested, and error amounts noted.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. We separated accounts into two groups comprised of personal services (payroll and benefits) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in September 2019 and May 2020, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger. We further selected 20 of 439 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by approved salary schedules and personnel action forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.

- To test material non-payroll accounts, we:
 - Selected individually significant expenditure transactions that exceeded \$107,000;
 - Selected a sample of 22 expenditure transactions to test internal controls and the accuracy of recording transactions; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$1,857,307 of \$59,597,585, or 3% of total expenditures.

We also reviewed certain program expenses in connection with MOU Reimbursement testing, and noted additional errors from unadjusted differences that had occurred in five reimbursed expenditure accounts. These errors occurred because the Court did not separate prior year unaccrued expenditures from current operating accounts. These errors do not affect the Court's overall expenditure or fund balance totals; however, they do distort information about current- and prior- year activities. The five accounts are included in the Operating Expenses and Equipment category of the Court's statement of expenditures. The Prior Year Adjustment account is listed among the Special Items of Expense category of accounts.

The details of our finding are provided in the Finding and Recommendation section of this report. We combined the errors for both revenue and expenditure accounts in a single finding because of their similarity to unadjusted differences for prior-year activities. Schedule 2—Summary of Expenditures and Expenditure Test Results presents, by account, the total expenditures, amounts tested, and error amounts noted.

Fund Balance Testing

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedule 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2020, were accurate and in compliance with applicable criteria.

We noted that the reported General Fund balance was understated by \$66,619, as of June 30, 2020, because the Court did not accrue certain reimbursable project expenditures that were incurred in its Self Help Case Management System (CMS) program. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, the total balances, changes in fund balances, and error amounts noted.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

However, our audit identified certain revenues and expenditures that were not reported correctly for the fiscal year in which they were earned. This issue is described in the Finding and Recommendation section of this report.

Follow-up on Prior Audit Findings

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC's Internal Audit Services, which issued a report in December 2018. We are not including any follow-up to matters presented in JCC's prior report.

Views of Responsible Officials

We issued a draft audit report on January 20, 2022. The Court responded by letter, dated January 26, 2022, agreeing with the audit results. This final audit report includes the Court's response as an Attachment.

Restricted Use

This report is solely intended for the information and use of the Court; JCC, and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

March 4, 2022

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2019, through June 30, 2020**

Revenue Accounts ¹	Revenues Reported		Revenues Tested		Errors ²
	Totals	Percentage	Amounts	Percentage	Amount
State Financing Sources					
Trial Court Trust Fund ^{3,4}	\$ 40,332,825	69.9%	\$ 40,332,825	100.0%	\$ -
Improvement and Modernization Fund ²	86,170	0.1%	86,170	100.0%	86,170
Court Interpreter ^{2,4}	1,818,616	3.2%	1,818,616	100.0%	(186,900)
MOU Requirements ^{2,3,4}	4,301,375	7.5%	3,483,184	81.0%	(34,960)
Other Miscellaneous ⁴	968,752	1.7%	968,752	100.0%	-
Subtotal	47,507,737		46,689,547		(135,690)
Grants					
AB 1058 Commissioner/Facilitator	731,545	1.3%	-	0.0%	-
Other Judicial Council Grants	689,975	1.2%	-	0.0%	-
Non-Judicial Council Grants	19,959	0.0%	-	0.0%	-
Subtotal	1,441,479		-		-
Other Financing Sources					
Interest Income	213,585	0.4%	-	0.0%	-
Local Fees	1,108,514	1.9%	-	0.0%	-
Non-Fee Revenues	174,724	0.3%	-	0.0%	-
Enhanced Collections ^{3,4}	7,207,975	12.5%	2,247,565	31.2%	-
Escheatment	6,241	0.0%	-	0.0%	-
Prior Year Revenue ²	(15,737)	0.0%	-	0.0%	69,071
County Program - Restricted	-	0.0%	-	0.0%	-
Reimbursement Other	56,422	0.1%	-	0.0%	-
Other Miscellaneous	12,097	0.0%	-	0.0%	-
Subtotal	8,763,821		2,247,565		69,071
Total Revenues	\$ 57,713,038	100.0%	\$ 48,937,112	84.8%	\$ (66,619)

¹ Differences due to rounding.

² Revenue over/(under) stated; see Finding 1.

³ Material account.

⁴ Tested account internal controls.

Schedule 2—
Summary of Expenditures and Expenditure Test Results
July 1, 2019, through June 30, 2020

<u>Expenditure Accounts¹</u>	<u>Expenditures Reported</u>		<u>Expenditures Tested</u>		<u>Errors²</u>
	Totals	Percentage	Amounts	Percentage	Amount
<u>Payroll</u>					
Salaries – Permanent ^{3,4}	\$ 28,645,709	48.1%	\$ 75,256	0.3%	\$ -
Temporary Help	64,813	0.1%	-	0.0%	-
Overtime	277,480	0.5%	-	0.0%	-
Staff Benefits ^{3,4}	15,339,185	25.7%	28,591	0.2%	-
Subtotal	44,327,186		103,846		-
<u>Operating Expenses and Equipment</u>					
General Expense ²	1,302,414	2.2%	56,789	4.4%	56,789
Printing	242,910	0.4%	-	0.0%	-
Telecommunications	230,795	0.4%	-	0.0%	-
Postage	535,501	0.9%	-	0.0%	-
Insurance	20,923	0.0%	-	0.0%	-
In-State Travel ²	51,235	0.1%	1,344	2.6%	1,344
Out of State Travel	9,850	0.0%	-	0.0%	-
Training ²	110,705	0.2%	(450)	-0.4%	(450)
Security Services	1,968,535	3.3%	-	0.0%	-
Facility Operations ²	1,117,690	1.9%	517	0.0%	517
Utilities	7,123	0.0%	-	0.0%	-
Contracted Services ^{2,3,4}	6,163,200	10.3%	1,753,460	28.5%	-
Consulting and Professional Services	1,371,884	2.3%	-	0.0%	-
Information Technology ²	1,778,123	3.0%	3,117	0.2%	3,117
Major Equipment	53,604	0.1%	-	0.0%	-
Other Items of Expense	13,410	0.0%	-	0.0%	-
Subtotal	14,977,901		1,814,777		61,317
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	303,829	0.5%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense ²	(11,331)	0.0%	(61,317)	541.1%	(61,317)
Subtotal	292,498		(61,317)		(61,317)
Total Expenditures	\$ 59,597,585	100.0%	\$ 1,857,307	3.1%	\$ -

¹ Differences due to rounding.

² Expenditure over/(under) stated; see Finding 1.

³ Material account.

⁴ Tested account internal controls.

**Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2019, through June 30, 2020**

Balance¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Fiduciary Fund	Total
Beginning Balance	\$ 3,525,432	\$ 106,864	\$ -	\$ -	\$ 3,632,296
Revenues	46,876,672	9,394,887	1,441,479	-	57,713,038
Expenditures	(48,366,107)	(9,265,189)	(1,966,289)	-	(59,597,585)
Transfers In	-	-	-	-	-
Transfers Out	(613,068)	88,259	524,809	-	-
Ending Balance	<u>\$ 1,422,928</u>	<u>\$ 324,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,747,749</u>
Errors Noted ²					
Revenues	\$ (66,619)	\$ -	\$ -	\$ -	\$ (66,619)
Expenditure	-	-	-	-	-
Total	<u>\$ (66,619)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,619)</u>

¹ Differences due to rounding.

² Revenue over/(under) stated; see Finding 1.

Finding and Recommendation

FINDING— Revenue and expenditure adjustment and accrual accounting errors

Certain operating revenue and expenditure accounts were incorrectly presented and stated in the Court's financial statements. In three revenue accounts, the Court did not reclassify revenues attributable to the prior year (FY 2018-19) by making adjusting entries to current-year (FY 2019-20) operating accounts and General Ledger (GL) Account Number 899910 – Prior Year Revenue Adjustment. In one of the three operating revenue accounts, the Court also did not claim and accrue reimbursements for eligible projects costs that were incurred in FY 2019-20.¹

Additionally, while reviewing the reimbursed expenditures in connection with testing GL Account Number 832010 – TCTF-MOU Reimbursement, we noted that the Court did not adjust and reclassify payments for prior-year expenditures.

The unadjusted differences are as follows:

- GL Account Number 834010 – TCTF-Court Interpreter

The Court accrued revenue of \$186,900 in FY 2018-19 that was not received in FY 2019-20. Accruals are automatically reversed by the Court's accounting system in the subsequent year that follows the accrual. In the absence of receipts or other accruals, a reversal creates a deficit in the account's balance of the next year. Court staff members informed us that this revenue was received in FY 2020-21. The deficit can be reclassified by an adjusting entry to GL Account Number 899910 – Prior Year Revenue Adjustment. Alternatively, if the Court is able to anticipate collection, it can offset the deficit with another accrual. Neither entry was recorded; as a result, the account was understated by \$186,900.

- GL Account Number 832010 – TCTF-MOU Reimbursement

The Court accrued revenue of \$89,445 in FY 2018-19 for the Self Help CMS program (project number M-5602-118-01), and received \$121,104 in FY 2019-20. The excess of \$31,659 should have been reclassified by an adjustment to the operating account, and recorded in GL Account Number 899910 – Prior Year Revenue Adjustment. As a result, the account is overstated by \$31,659.

In addition, some project expenses that were incurred in FY 2019-20 were not claimed until the following fiscal year. These unclaimed costs were not accrued for reimbursement in FY 2019-20. The Court expended \$606,673 in FY 2019-20 for the Self Help CMS program (project numbers M-5602-119-01 and M-5602-119-02), but claimed reimbursement for only \$540,054. The remaining expenditures of \$66,619 were neither claimed nor accrued at year-end and, as a result, the reimbursement account balance was equally understated by \$66,619.

We reviewed the grant to verify its project requirements and to determine whether the Court fully used the grant funds that were

¹ Reimbursements are recognized as revenue for financial-statement presentation.

available for authorized projects under the grant terms. The grant stipulates that for reimbursement, funds must be expended or encumbered by June 30, 2020. The Court provided correspondence from the grantor (JCC) showing that funds from FY 2019-20 were available and the Court could claim indirect costs. By applying certain FY 2019-20 indirect costs, the Court satisfied the grant terms requiring expenditure of the full amount of the grant, and provided a copy of the journal entry that reclassifies eligible indirect costs to an authorized and reimburseable grant project in FY 2020-21. The reimbursement should have been entered as an adjustment to prior-year revenue when it was received.

These errors, when combined, resulted in a net understatement of \$34,960 to GL Account Number 832010 – TCTF-MOU Reimbursement.

- GL Account Number 837011 – State Trial Court Improvement and Modernization Fund Reimbursement

The Court received revenue of \$86,170 for FY 2018-19; this amount was neither accrued in FY 2018-19 nor adjusted in FY 2019-20. The excess of \$86,170 should have been reclassified by an adjustment to the operating account, and entered in GL Account Number 899910 – Prior Year Revenue Adjustment. As a result, the account was overstated by \$86,170.

When a revenue is accrued to an account at the end of a fiscal year and is not fully collected in the subsequent fiscal year, the revenue account of the subsequent year incurs a deficit. The revenue account of the subsequent year should be adjusted to correctly report revenue earned in that fiscal year.

- Unadjusted operating expenditures, various accounts

The Court paid for and recorded expenditures of \$61,317 in FY 2018-19 for its Self Help CMS M-5602-118-01 program (as described in our discussion of the unadjusted difference in GL Account Number 832010 – TCTF-MOU Reimbursement). The expenditures were not accrued in FY 2018-19, and should have been reclassified to GL Account Number 999910 – Prior Year Expense Adjustments.

As a result, various expenditure operating accounts were overstated for a total of \$61,317, as shown in the following table:

Description	Account Number	Expended
Office Furniture – Minor	922603	\$ (1,483)
Minor Equipment – Under \$5,000	922699	57,797
General Expense – Service	923999	475
Travel In State	929299	1,344
Training	933101	(450)
Other Facility Costs – Goods	935799	517
IT Maintenance	943201	1,385
IT Commercial Contract	943301	1,732
Total		<u>\$ 61,317</u>

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 – Prior Year Revenue Adjustment to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 – Prior Year Expense Adjustments.

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The Court indicated that adjustments were not recorded due to an oversight on the part of staff. The JCC's Administrative Division staff introduced new guidance for using this account in its FY 2019-20 *Year-End Close Training Manual–General Ledger*.

Page 64 of the *Year-End Close Training Manual–General Ledger* states, in part:

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent year.

California Rules of Court rule 10.804(a) states:

As part of its responsibility for regulating the budget and fiscal management of the trial courts, the Judicial Council adopts the *Trial Court Financial Policies and Procedures Manual*. The manual contains regulations establishing budget procedures, recordkeeping, accounting standards, and other financial guidelines for superior courts. The manual sets out a system of fundamental internal controls that will enable the trial courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the *Trial Court Financial Policies and Procedures Manual* states:

It is the policy of the trial court to establish an accounting system with a chart of accounts and general ledger that enables the court to record financial transactions with accuracy and consistency. All of the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly. The actual accounts each court utilizes may vary depending on the complexity of operations.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, as described in the JCC's accounting guidance. Differences that occur in the current year for amounts actually received or expended from amounts accrued in the prior year should be entered in the adjustment accounts. Amounts either received or expended in the current year for unaccrued prior year operating activities should be also recorded in the adjustment accounts.

**Attachment—
Superior Court’s Comments
Regarding the Audit Results**



*Superior Court of California
County of Ventura*

Hall of Justice
800 South Victoria Avenue
Ventura, CA 93009

*Brenda L. McCormick
Executive Officer/Clerk
and Jury Commissioner*

January 26, 2022

Ms. Kimberly Tarvin, Chief, Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250

Re: *Response to Draft Audit Report*

Dear Ms. Tarvin,

Thank you for the opportunity to respond to the draft audit report dated January 20, 2022.

Audit Finding:

Certain operating revenue and expenditure accounts were incorrectly presented and stated in the Court's financial statements. In three revenue accounts, the Court did not reclassify revenues attributable to the prior year (FY 2018-19) by making adjusting entries to current-year (FY 2019-20) operating accounts and General Ledger (GL) Account Number 899910 – Prior Year Revenue Adjustment. In one of the three operating revenue accounts, the Court also did not claim and accrue reimbursements for eligible projects costs that were incurred in FY 2019-20.¹

Additionally, while reviewing the reimbursed expenditures in connection with testing GL Account Number 832010 – TCTF-MOU Reimbursement, we noted that the Court did not adjust and reclassify payments for prior-year expenditures.

¹ Reimbursements are recognized as revenue for financial-statement presentation.

Ms. Kimberly Tarvin
Division of Audits
California State Controller
Page 2

Court Response:

The Court agrees with the finding that certain revenues and expenditures were not reported correctly for the fiscal year in which they were earned. The Court has taken steps to ensure that the reporting error does not re-occur, and revenue and expenditures are recorded in the appropriate fiscal year.

Please let us know if you have questions.

Sincerely,



Brenda L. McCormick
Court Executive Officer

cc: Robert Sherman, Assistant Court Executive Officer
Superior Court of California, County of Ventura
Kelly O'Dell, Director, Fiscal Services
Superior Court of California, County of Ventura

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