



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2023-24**



Judicial Council of California

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BACKGROUND

The Audit Committee

The Judicial Council amended Rule of Court, rule 10.63 in July 2017, establishing the “Advisory Committee on Audits and Financial Accountability for the Judicial Branch” (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee’s audit-specific responsibilities include¹:

- Reviewing and approving an annual audit plan for the judicial branch.
- Reviewing all audit reports of the judicial branch and recommending actions to the Judicial Council in response to any substantial issues identified.
- Approving the public posting of all audit reports of the judicial branch.
- Advising and assisting the Judicial Council in performing its responsibilities under:
 - Government Code, Section 77009(h) – the Judicial Council’s audits of the superior courts.

¹ The Judicial Council tasked the Advisory Committee on Audits and Financial Accountability for the Judicial Branch with responsibilities beyond reviewing and responding to audit reports, which is the principal focus of this annual audit plan. Other committee responsibilities generally include monitoring adherence to the California Judicial Branch Contract Law, evaluating proposed changes to the *Judicial Branch Contracting Manual*, and making recommendations on proposed changes to the annual compensation plan for Judicial Council staff.

- Government Code, Section 77206 – Responding to external audits of the Judicial Council and the superior courts by the State Controller, State Auditor, or Department of Finance.

The audit committee serves as a central clearinghouse for hearing all audit-related issues pertaining to the Judicial Council, Courts of Appeal, and the superior courts, regardless of whether the audit was performed by the Judicial Council’s own staff (Audit Services) or by external audit organizations (such as the State Controller’s Office, State Auditor’s Office, or the Department of Finance). The audit committee communicates significant audit findings and issues to the entire Judicial Council and can also suggest policy changes or other proposed corrective actions in response to any significant audit finding.

Purpose of the Annual Audit Plan

The purpose of the annual audit plan is twofold: The annual plan explains (a) which focus areas will be audited during the year, and (b) how Audit Services will coordinate with external audit organizations (described below) to execute the annual audit plan in response to statutorily mandated audits and to other areas of focus. The annual audit plan itself also helps to establish expectations for audit committee members regarding which audits and topics will come before their committee for further discussion during the year.

Audit Services’ Role

Audit Services’ primary role is to establish an annual audit plan, which explains how significant risks and statutory audit requirements imposed on the judicial branch will be addressed in the coming year, and to perform audits of the Courts of Appeal and superior courts to ensure the Judicial Council’s rules and policies are followed in actual practice. An audit of a superior court often entails a review of its fiscal affairs such as, but not limited to, whether the court has: implemented certain mandatory internal controls over cash handling and has spent state-provided funding on allowable expenses for “court operations” as defined by Rule of Court, rule 10.810. Audits of the Courts of Appeal focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council and state law. Generally, audits are scheduled based on the time elapsing from the prior audit. Finally, Audit Services periodically performs internal reviews of the Judicial Council as directed by executive management and coordinates with independent, external agencies that audit the Judicial Council’s operations.

The Role of External Audit Agencies

External audit agencies, such as the State Auditor's Office (State Auditor) and the State Controller's Office (SCO), also perform recurring audits of the judicial branch as directed by statute. The statutory authorities for each external audit agency (as they currently pertain to the judicial branch) are summarized below:

State Auditor's Office – performs the following audits:

- Financial statement audits of the State's annual comprehensive report, as prepared by the SCO in accordance with Generally Accepted Accounting Principles. [Govt. Code, Section 8546.3]
- Discretionary audits as directed by the Joint Legislative Audit Committee. [Govt. Code, Section 8546.1]
- Audits of the Judicial Council and other judicial branch entities' compliance with the Judicial Branch Contract Law. [Pub. Contract Code, Section 19210]

State Controller's Office – performs the following audits:

- Audits of Judicial Council and superior courts' revenues, expenditures, and fund balance. [Govt. Code, Section 77206]
- Audits of criminal fine and fee revenue collection and distributions by the superior courts. [Govt. Code 68101- 68104]

Although the State Auditor and the SCO both perform financial-related audits, the purpose of each audit is different. The State Auditor's annual financial statement audit includes the financial information submitted by the judicial branch to the SCO. Separate from this statewide financial statement audit, the Government Code requires the SCO to evaluate the Judicial Council and superior courts' compliance with state laws, rules and regulations pertaining to significant revenues, expenditures, and fund balances under their control. These SCO audits focus on evaluating financial compliance with the State's unique rules, such as the State's legal/budgetary basis of accounting and civil filing fee collections and distributions. The Judicial Council is required to use the SCO to perform the audits mandated under Government Code, Section 77206, unless either the State Auditor or Department of Finance can perform the same scope of work as the SCO but at a lower cost.

ANNUAL AUDIT PLAN

Risk Assessment Background

The concepts behind risk and internal controls are interrelated. Internal controls are those policies or procedures mandated by the Judicial Council, or developed by a court, designed to

achieve a specific control objective. For example, an internal control for cash handling, such as the segregation of certain conflicting duties, principally focuses on reducing the risk of theft. Internal controls respond to risks and Audit Services broadly classifies risks into the following three categories:

- Operational Risk – The risk that the court’s strategic business objectives or goals will not be accomplished in an effective or efficient manner.
- Reporting Risk – The risk that financial or operational reporting is not relevant or reliable when used for internal decision-making or for external reporting. Examples of external reporting include the Judicial Council and the courts’ financial reporting to the SCO, or a court’s reporting of case filing data to the Judicial Council through the Judicial Branch Statistical Information System (JBSIS).
- Compliance Risk – The risk of not complying with statutory requirements or the policies promulgated by the Judicial Council (such as the requirements found in the *Trial Court Financial Policies and Procedures Manual* (FIN manual), Judicial Branch Contracting Manual, or other Judicial Council policies).

Any single risk area may overlap with more than one of the three risk categories defined above. For example, certain reports—such as JBSIS case filing reports—have a reporting risk component in that the data reported must be accurate and complete to support trial court funding allocations, along with a compliance component since the Judicial Council has established definitions for what constitutes a new case filing and how a filing should be categorized by case type. Another example would be the court’s reporting of encumbrances at fiscal year-end, which the Judicial Council uses to help monitor court compliance with statutory caps on each court’s fund balance. Audit Services considers risk areas that cross over into more than one risk category to be indicative of higher risk.

However, risk areas that can be confined to only one risk category—such as compliance risk—may also be considered an area of higher risk depending on the likelihood of error or its potential negative effects (financial, reputational, etc.). For example, the FIN Manual has established policies concerning the proper handling of cash and other forms of payment received by the courts. Many of these policies were issued with the intent of establishing a minimum level of internal controls at each court to prevent or detect theft or fraud by court employees, and to provide the public with the highest level of assurance that their payments would be safeguarded and properly applied to their cases.

When identifying areas to include within the scope of its superior court audits, Audit Services focused on identifying compliance and reporting risks, but not operational risks. This decision

reflects Audit Services' recognition of each superior court's broad authority to operate under its own locally developed rules and strategic goals. Government Code, Section 77001 provides for each superior court's local authority by authorizing the Judicial Council to adopt rules that establish a decentralized system of trial court management. The Judicial Council's Rules of Court, rule 10.601, also emphasizes the decentralized management of superior court resources and affirms each superior court's authority to manage their day-to-day operations with sufficient flexibility. Audit Services will consider auditing operational risk areas where courts have local discretion only when asked to do so by the superior court's presiding judge or court executive officer and provided that sufficient audit staff resources are available.

The Legislature has provided the Judicial Council with the responsibility for developing broad rules within which the superior courts exercise their discretion. For example, Government Code, Section 77206 authorizes the Judicial Council to regulate the budget and fiscal management of the trial courts, which has resulted in it promulgating the FIN Manual pursuant to Rules of Court, rule 10.804. The FIN Manual establishes a fundamental system of internal controls to enable trial courts to monitor their use of public funds, consistently report financial information, and demonstrate accountability. The FIN Manual contains both mandatory requirements that all trial courts must follow, as well as suggestive guidance that recognizes the need for flexibility given varying court size and resources. Similarly, the Legislature enacted section 19206 of the Public Contract Code, requiring the Judicial Council to adopt and publish a *Judicial Branch Contracting Manual (JBCM)* that all judicial branch entities must follow. When identifying high risk areas that will be included in the scope of its audits, Audit Services considers the significant reporting and compliance risks based on the policies and directives issued by the Judicial Council, such as through the FIN Manual, JBCM, Rules of Court, and budgetary memos.

Risk Areas, Assessed Level of Risk, and Auditing Entities

Audit Services uses its professional judgment when identifying areas of risk (and associated risk levels), which inform the scope of its audits. Specifically, Audit Services considered the significance of each risk area in terms of the likely needs and interests of an objective third party with knowledge of the relevant information, as well as a risk area's relevance or potential impact on judicial branch operations or public reputation. The risk areas assessed are shown in Table 1 below. The table also reflects statutorily mandated audits performed by the State Auditor and State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. High risk areas are those where the internal control requirements may be complex or the incentives to circumvent those controls or to rationalize not having them in the first place is high (e.g., cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to

moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

Table 1 – Risk Areas Considered (by area, level of risk, and responsible audit organization)

Risk Area	Description of Risk	Risk Category and Level		Audit Organization		
		Reporting Risk	Compliance Risk	JCC Audit Services	State Controller's Office	State Auditor's Office
<i>Superior Courts</i>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Cash Handling	JCC internal control policies on handling cash and other forms of payment not followed.	N/A	High	X		
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
Payments & Authorization	Payments are for unallowable activities and/or lack authorization from the designated level of court management.	N/A	Medium	X		
Criminal Fine & Fee Revenue	Criminal fines and fees not properly calculated and reported to the county.	Medium	Medium		X	
Enhanced Collections Revenue	Court retains revenue from delinquent collections in excess of the actual costs of collecting that delinquent debt.	N/A	Medium	X		
Budgetary Accountability	Court submits inaccurate case filing data to JBSIS, impacting trial court budget allocations. Court retains more fund balance than allowed under statute and JCC policy.	Medium	Medium	X		
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	Low	Low	X		
<i>Appellate Courts</i>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	Low	Low	X		
<i>Judicial Council</i>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium			X
Non-Audit, Internal Reviews	The Judicial Council's offices and programs are reviewed for financial and/or operational performance as directed by executive management.	Medium	Medium	X		

To the extent that Audit Services notes systemic and recurring issues at multiple courts, this too is considered as part of the risk-assessment process. Of the four audits reviewed by the audit committee in fiscal year (FY) 2022-23, there were a total of 13 findings. Additionally, seven more audits are pending the review and approval of the audit committee at its next meeting, which have a total of 41 findings. Last year's audit plan reinstated the review of cash handling controls. This has historically been an area with the largest number of audit findings. Although the findings from the seven reports are preliminary since they are pending review by the audit committee, we included them in the following statistics to provide additional context for Audit Services' FY 22-23 work. The most frequent categories of audit findings for FY 22-23 were cash handling-related findings (35 findings or 65%) such as lacking proper segregation of duties, not requiring periodic counts of the change fund by someone other than the change fund custodian, or not officially appointing a change fund custodian for change funds of \$500 or more. The area with the second highest number of findings was procurements and contracts (11 findings or 54%), such as courts not consistently documenting or requiring purchase requisitions.

Table 2 – Recap of FY 22-23 Audit Findings

Standard Audit Scope - Superior Courts

Areas and Sub-Areas Subject to Review		In Scope for FY 23-24?	Audit Findings from Prior Year	
			# of Findings in FY 22-23	Common Compliance Issues
Cash Handling				
1	Daily Opening Process	Yes	2	
2	Voided Transactions	Yes	0	
3	Handwritten Receipts	Yes	2	
4	Mail Payments	Yes	8	Courts do not always restrictively endorse mail payments, maintain a mail payment receipt log, safeguard mail payments, or identify and track mail payments not processed in 5, 15, or 30 days.
5	Internet Payments	Yes	0	
6	Change Fund	Yes	9	Courts do not require someone to count and verify the change fund at the end of each day while in the presence of a manager or supervisor, require periodic counts of the change fund by someone other than the change fund custodian, or do not officially appoint a change fund custodian for change funds of \$500 or more.
7	End-Of-Day Balancing and Closeout	Yes	3	
8	Bank Deposits	Yes	3	
9	Other Internal Controls	Yes	8	Courts do not always maintain a segregation of duties, or safe combinations and contents are not properly secured.
Procurement and Contracts				
10	Procurement Initiation	Yes	4	Courts do not consistently document or require purchase requisitions.
11	Authorization & Authority Levels	Yes	1	
12	Competitive Procurements	Yes	1	
13	Non-Competitive Procurements	Yes	2	
14	Leveraged Purchase Agreements	Yes	0	
15	Contract Terms	Yes	2	
16	Other Internal Controls	Yes	1	
Payment Processing				
17	3-Point Match Process	Yes	2	
18	Payment Approval & Authority Levels	Yes	2	
19	Special Rules - In-Court Service Providers	Yes	2	
20	Special Rules - Court Interpreters	Yes	0	
21	Other Items of Expense	Yes	0	
22	Jury Expenses	Yes	1	
23	Allowable Costs	Yes	0	
24	Other Internal Controls	Yes	0	
Fine & Fee Distributions				
25	Calculated Distributions	No	0	
3% Fund Balance Cap				
26	Calculation of the 3% Cap	Yes	1	
27	Use of "Held on Behalf" Funds	Yes	0	
JBSIS Case Filing Data				
28	Validity of JBSIS Data	Yes	0	
Grants				
29	AB 1058 Grants	No	0	
Collections				
30	Enhanced Collections	Yes	0	

In Audit Services’ view, cash handling continues to be a high-risk area given that courts do not consistently follow the FIN Manual’s processes for maintaining and tracking accountability over

the change fund with periodic change fund counts and appointed change fund custodians. Additionally, courts do not always properly secure the contents of their safes, leaving collections and monies unsecured and at risk for loss or theft. Finally, we believe procurement processing continues to be an inherently medium-risk process given the lack of use or documentation of purchase requisitions, as well as the complexity of the rules and requirements for the various procurement types and their processing.

Audit Scope and Adjustments for Fiscal Year 2023-24

Additions, deletions, and modifications to the audit plan for FY 23-24 are described below.

- ***Remove revenue distribution testing*** – We propose to remove this testing from our audits because we do not believe that Audit Services’ review of revenue distributions provides as much value to the courts as it did in the past. Since 2013 there is now annual revenue distribution training which all courts are invited to attend and at which the statutes governing distributions are explained, court personnel get hands-on experience working with sample distributions, and where court staff can ask questions and get both answers and resources for further guidance. Audit Services did not identify any reportable findings in the area during its FY 2022-23 court audits. Additionally, SCO’s audits include testing in this area and SCO’s audit work has a broader scope than Audit Services’ work.

Available Staff Resources and Audit Scheduling

Audit Services has two audit teams assigned to court audit work. Staffing currently consists of 1 manager, 1 supervisor, 2 team leaders and 3 audit staff (total of 8 auditors). Audit Services is actively recruiting to fill one auditor position and we plan to recruit to fill another auditor vacancy later this fiscal year. The success of those recruitment efforts may impact the audit schedule. On an as-needed basis, audit staff are pulled to support other projects focusing on the Judicial Council’s internal operations. Based on the available staff resources, Audit Services estimates that it will be able to complete five audits currently in progress and begin an additional eight audits. Staff from the internal review team will work on trial court audits as time permits.

When scheduling court audits, Audit Services will provide each court with a reasonable time—up to 30 days—to provide its official response and corrective action plan before finalizing the draft report for the audit committee. The audit schedule includes assumptions about the required time to complete each audit based on the revisions to the audit plan (discussed previously) and other factors such as the number of anticipated locations where cash handling activities take place.

Schedule of Future Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year’s annual audit plan. Table 3 shows all 58 superior courts, ranked by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits. To minimize the risk of a single court being audited by multiple entities during the same year, audit scheduling is also influenced by—and to the extent possible coordinated with—the work of external audit organizations.

Table 3 –Audit Services’ Previous and Planned Appellate and Superior Court Audits (Current Year and Anticipated Next Year)

Appellate / Superior Court	Date of Last Audit Report	(Current Plan)		(Next Year)	
		FY 2023-24	FY 2024-25	Appellate / Superior Court	Date of Last Audit Report
Madera	June-14	IP		Imperial	March-21
Plumas	January-11	IP		Napa	March-21
Sonoma	April-11	IP		Mariposa	July-21
San Bernardino	January-15	IP		Mono	July-21
Fresno	June-16	IP		Riverside	July-21
Alameda	March-13	X		Alpine	February-22
Lake	August-14	X		Amador	February-22
Yolo	February-15		Y	Del Norte	February-22
Kings	October-15	X		Inyo	February-22
Humboldt	December-15		Y	Santa Clara	February-22
Contra Costa	February-16	X		Shasta	February-22
Kern	August-16	X		Sutter	February-22
Placer	October-17	X		Orange	June-22
Merced	January-18	X		Santa Barbara	June-22
Butte	April-18		Y	Stanislaus	June-22
Colusa	June-18		Y	Nevada	July-22
Solano	June-18		Y	El Dorado	November-22
Calaveras	June-18	X		Mendocino	November-22
Siskiyou	October-18		Y	Tuolumne	November-22
Sacramento	December-18		Y	Marin	*TBD
Ventura	December-18		Y	Monterey	*TBD
Glenn	February-19		Y	San Luis Obispo	*TBD
San Benito	June-19		Y	Yuba	*TBD
San Francisco	June-19			Los Angeles	*TBD
Santa Cruz	June-19			Tulare	*TBD
Modoc	October-19			San Joaquin	*TBD
Trinity	October-19			3rd DCA	^May-18
Lassen	February-20			5th DCA	^February-19
San Mateo	February-20			4th DCA	^March-19
Sierra	February-20			1st DCA	^July-20
Tehama	February-20			2nd DCA	^July-20
San Diego	July-20			6th DCA	^March-21

Notes:

"IP" = In progress

"X" = Scheduled for audit in current year's audit plan

"Y" = Tentative for audit in next year's audit plan

* = Pending audit committee approval

^ = The appellate courts are not scheduled for audits at this time