

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

130



FROM: County Auditor-Controller

SUBMITTAL DATE:
August 1, 2006

SUBJECT: Internal Auditor's Report #2005-303 – Superior Court of California, County of Riverside – Follow-up Audit


RECOMMENDED MOTION: Receive and file Internal Auditor's Report #2005-303

BACKGROUND: During 2003, the State Controller performed an audit to determine the propriety of court revenues remitted to the State of California by the County of Riverside for the period of July 1, 1997, through June 30, 2002. That State Controller's audit disclosed that the County under-remitted \$1,058,038 in court revenues to the State Treasurer because the County under-remitted 50 percent excess of qualified fines; inequitable distributed collection program operating cost; and, under-remitted civil filing fees on bail bond forfeitures.

The Auditor-Controller completed a follow-up of the Superior Court of California to ensure the findings identified in the State Controller's Audit Report, dated July 31, 2003 were resolved and that the Courts corrected the remittance and distribution processes which impact the County.

Prior to our follow-up audit, the Courts took corrective action on all but three findings from the State Controller's Audit Report. In response to our audit, additional steps were taken to adequately address the three remaining findings.

Departmental Concurrence


for Robert E. Byrd
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:
RECEIVE AND FILE

County Executive Office Signature 

- Dep't Recomm.: Consent Policy
- Per Exec. Ofc.: Consent Policy



County of Riverside

INTERNAL AUDITOR'S REPORT

Superior Court of California, County of Riverside

August 1, 2006

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

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ASSISTANT AUDITOR-
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August 1, 2006

Marita Ford
Chief Deputy Court Executive Officer
Superior Court of California, County of Riverside
4075 Main Street, Suite 310
Riverside, CA 92501

Subject: Internal Auditor's Report #2005-303 - Superior Court of California, County of Riverside
- Follow-up Audit

Dear Ms. Ford:

We have completed a follow-up audit of the Superior Court of California, County of Riverside. Our objective was to ensure the findings identified in the California State Controller's Audit Report, dated July 31, 2003 were resolved.

We conducted our audit in accordance with auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe our work provided a reasonable basis for the conclusions reached.

Prior to our follow-up audit, the Riverside County Superior Courts took corrective action on all but three findings from the State Controller's Audit Report. In response to our audit, additional steps were taken to adequately address the three remaining findings.

We thank the Courts and the staff for their cooperation during this audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM
Auditor-Controller

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Sally Beavan, Executive Office

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Executive Summary

Overview

State Statutes govern the distribution of court revenues, which include fines, penalties, assessment, fees, restitutions, bail forfeitures, and parking surcharges. Government Code Section 68101 requires that whenever the state is entitled to receive a portion of any money, forfeited bail or fines received by a judge of any court, that portion shall as soon as practicable after the receipt thereof, be deposited with the county treasurer of the County in which that court is situated. On a monthly basis, the County Auditor-Controller must transmit the funds and a record of the money collected to the State Treasurer. Government Code Section 68103 requires the State Controller to check the reports and records received with the transmittals of such fines and forfeitures. Whenever it is apparent that such fines or forfeitures have not been transmitted, the County Auditor shall and the State Controller may bring suit to enforce the collection or transmittal, or both.

Based upon those Governmental codes, the State Controller performed an audit to determine the propriety of court revenues remitted to the State of California by the Riverside County Superior Court for the period of July 1, 1997, through June 30, 2002. The State Controllers issued a final Audit Report in December 2003.

That audit disclosed that the County under-remitted \$1,058,038 in court revenues to the State Treasurer because the County:

- Under-remitted 50 percent excess of qualified fines;
- Inequitable distributed collection program operating cost; and
- Under-remitted civil filling fees on bail bond forfeitures.

In addition the audit disclosed the following inequitable distributions:

- The County's General Fund under-remitted \$1,358,435 to other restricted County funds as a result of inequitable distribution of collections program operating cost and incorrect distribution of traffic violator school fees.
- The County's General Fund over-remitted \$272,583 to other restricted County funds as a result of inequitable distribution of the collections program operating cost.
- The County's General Fund under-remitted \$225,721 to other cities as a result of inequitable distribution of collections program operating cost.

Objective Our objective was to ensure the findings identified by the California State Controller's Audit Report, dated July 31, 2003, have been resolved.

Methodology To accomplish our objective, we:

- Identified each finding as stated by the California State Controller's Audit Report.
- Obtained an understanding from the Riverside County Superior Court's management about steps taken to correct the findings.
- Tested management's assertion by selecting recent cases for testing.

Overall Conclusion Prior to our follow-up audit, the Riverside County Superior Courts took corrective action on all but three findings from the State Controller's Audit Report. In response to our audit, additional steps were taken to adequately address the three remaining findings.

Results

**State Audit
Finding 1**

Government Code Section 77205(a) requires the County to remit 50 percent of qualified revenues to the State Trial Court Improvement Fund that exceed the County's base of \$13,328,445 for fiscal year 1998 and \$11,028,078 for fiscal year 1999 and thereafter. The State Audit Report found that the County under-remitted 50 percent of the qualified excess of fines, fees and penalties to the State Treasurer for fiscal years 1998, 1999, 2000, 2001 and 2002 by \$1,290,212. The error occurred because the County's computations did not include the fiscal impact to the County realignment account from the audit report's findings.

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**Internal Audits
Follow Up**

Status of Underpayment:

We inspected a copy of payment to the State Controllers for \$1,290,212, which was paid on September 15, 2004.

Status of Current Operations:

In addition, we obtained the Court's payments to the State for fiscal years 2003, 2004 and 2005. We tested documentation supporting calculations and distributions to the State for each fiscal year. Based on our testing we determined that the Courts properly calculated and distributed the 50 percent of qualified excess of fines, fees and penalties to the State Treasurer for the years subsequent to the State Audit.

**Follow-up
Finding 1**

We have identified an Internal Audit Finding 2, in relation to erroneous distribution of red light violation fees, as explained on page 8. The erroneous distribution caused the County's realignment account to be understated. Accordingly, the County's 50 percent distribution to the State is understated by the cumulative error caused by the red light violation distribution. As explained on page 8, the value of erroneous distributions could not be feasibly estimated during the course of our audit.

**Follow-up
Recommendation 1**

We recommend that the Courts compute or estimate the amounts due to or receivable from each entity (County restricted funds, Cities and State) from errors on red light violation fee distributions from July 2002 through November 2005. The computations should include a recalculation of the annual 50 percent excess distribution of the realignment account for fiscal years 2003, 2004 and 2005.

Management's Reply Concur. The distributions for the Red Light fines indicated in this finding have been corrected.

In their final December 2003 final report, the SCO indicated that no prior period adjustments were necessary; however, the Court has considered the possibility of recalculating fiscal years 2003, 2004 and 2005 per the County's request. Unfortunately, the extent of programming expertise needed requires the Court to contract with an outside programming firm and will also require excessive court staff time dedicated to ensure the recalculations. Expending the costs for programming and staff time would not be fiscally prudent considering the SCO did not require this in its final report. Should, in the future, Court staff determine the recalculation to be feasible within the State's case management system, the Court will proceed. In addition, the Court would need to receive official direction from the State Administrative Office of the Court to commit court resources to such a project.

Auditor's Comment We reviewed the sample cases provided and concur that the finding was corrected. We also discussed the difficulty and cost of reprogramming the system to recalculate fiscal years 2003, 2004 and 2005 with the Courts, and agree that it may not be reasonable to incur the expense to perform the additional work.

**State Audit
Finding 2**

Penal Code Section 1463.007 allows a court collecting entity which implemented a comprehensive collections program that satisfies specific statutory requirements to deduct program operating cost from program revenue collections. The State Audit reported that the Courts did not equitably distribute operating costs from the comprehensive collections program to those accounts on which collections were made from the period of January 1998 through June 2002, and collections received from qualifying accounts were not separately identified.

The inappropriate practices and distributions caused the following effect:

State Accounts - Overpayment	\$ (611,374)
County Restricted Funds - Underpayment	835,025
City Accounts - Underpayment	<u>225,721</u>
Amount due from General Fund	<u>\$ 449,372</u>

**Internal Audits
Follow Up**

Status of (Over)/Underpayments:

We reviewed the County's use of the \$611,374 State credit caused by the overpayment to State. The County properly used the credit on September 15, 2004 to offset amounts due to the State on other findings.

On November 1, 2005, the County's General Fund properly reimbursed and transferred funds in the amount of \$835,025 to various restricted funds as a result of the above finding.

On November 8, 2005, the County's General Fund properly reimbursed various cities a total of \$225,721 in underpaid fees based on the State audit finding.

Status of Current Operations:

We tested the Comprehensive Collections Program for accordance with Penal Code Section 1463.007. We randomly selected monthly reports to the State for compliance with Penal Code Section 1463.007. Based upon our testing, we found the monthly reports to be properly reported and computed in accordance with the code.

**State Audit
Finding 3**

The State Audit reported that the Superior Court inappropriately deducted and distributed to the County general fund \$158 from each \$232 civil filing fee relative to bail bond forfeiture and exoneration cases. The \$158 should have been distributed to the State. The analysis concluded that \$379,200 in civil filing fees and bail bond forfeitures should have been distributed to the State from July 1, 1997 through June 30, 2002, plus an underremained amount from July 1, 2002 through the date of correction.

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**Internal Audits
Follow Up**

Status of Underpayment:

We reviewed payment to the State Treasurer in the amount of \$379,200 on September 14, 2004.

Status of Current Operations:

During our audit, we obtained recent case collections of the \$158 filing fee relative to bail bond forfeiture cases. The \$158 was properly collected and distributed to the State Trial Court Trust Fund in accordance with Government Code Section 68085(d).

**State Audit
Finding 4**

The Superior Court inappropriately distributed 100 percent of traffic violator school fees to the cities and County for the period of January 1999 through March 2000. The Court made adjusting entries to reduce the penalty component of the traffic violator school fees distribution made to the cities and the County. However, the adjusting entries did not correctly identify the error of over-remittances and under-remittances within the accounts. The erroneous distribution caused the revenue realignment account to be understated by \$261,260 of which 50 percent (\$130,630) was underpaid to the State and was included in State Audit Finding 1.

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**Internal Audits
Follow Up**

We selected monthly adjustments made by the Courts to test for their validity and applicable codes. We found that during the test period, adjustments were made which appear proper and reasonable. No discrepancies were found during our audit.

**State Audit
Finding 5**

The Superior Court did not exclude and distribute penalties to the Emergency Medical Service Fund account from Traffic Violator School fees for the period of January through September 2000. The inappropriate distribution caused the County's Emergency Medical Service Fund to be understated by \$250,824 and the State to be overremitted by \$96,567 in realignment revenues (included with finding 1).

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**Internal Audits
Follow Up**

Status of underpayment:

We verified payment of \$250,824 on November 1, 2005 from the General Fund to the County's Emergency Medical Service Fund.

Status of Current Operations:

We tested various collections of traffic violator school fees. We verified the proper collection and distribution of the penalties associated with the Emergency Medical Service Fund. We tested five different cases. Of the five cases, four cases for speeding and/or running stop lights, were properly distributed. However, we found one discrepancy with traffic violator school fees collected for red light violation cases as explained on page 8, Internal Auditor's Finding 2.

**State Audit
Finding 6**

The Superior Court imposed traffic fines for red light offenses for the period of January 1998 through April 2002 without implementing recent statute changes. Effective May 2002, the Courts properly distributed the red light citations. Failure to impose the complete distribution requirement for red light violations causes distributions to the state and county penalty fund to be overstated. Measuring the fiscal effect was not cost effective because of the difficulty in identifying and redistributing the various accounts.

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**Internal Audits
Finding 2**

We selected red light violation fee cases for testing. We found that for the test period, red light violation fee cases with traffic school were improperly distributed. During our testing we noticed that the fees of \$386 for red light violation fees with traffic school caused the following:

	<u>(Understated)/Overstated</u>
County –various funds	\$(39.30)
City accounts	53.93
State Accounts (including impact on realignment account)	14.63

During our testing we also identified erroneous distributions of red light violation cases without traffic school. The erroneous distribution had the following fiscal impact:

	<u>(Understated)/Overstated</u>
City accounts	\$ 22.34
State accounts – (including impact on realignment account)	(22.34)

The errors were corrected in November 2005. The red-light violation tickets subsequent to November 2005 appear to be properly collected and distributed.

**Internal Audits
Recommendation 2**

We recommend the Courts perform computations for determining amounts owed to the State and to County's restricted accounts as a result of erroneous red light violation fee distributions from the period of July 2002 through November 2005. During our audit, it was not feasible to calculate such amounts.

Management's Reply Concur. See comments to recommendation Number 1 above.

**State Audit
Finding 7**

The Superior Court did not adequately document the imposition or waiver for proof-of-insurance fees. Additionally an insignificant amount of proof-of-insurance fees collections were not properly distributed. Failure to impose and make the proper fine distribution causes the State General Fund, State Transportation Fund, and the County General Fund to be understated.

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**Internal Audits
Follow Up**

The courts have taken the steps necessary to inform all parties of the requirements and compliance with Vehicle Code Section 16028. We tested certain cases for proof of insurance. We found the \$30.50 fee to be properly collected and distributed in accordance with Vehicle Code Section 16028.

**State Audit
Finding 8**

The County and Courts made distribution to the State Criminalistic Laboratory Fund based on collections rather than convictions. Health and Safety Code Section 11372.5 requires a \$50 criminality laboratory fee on each conviction of a controlled substance violation identified under Health and Safety Code Section 11372.5. Additionally, the Court does not consistently maintain conviction counts on controlled substance violations and conviction counts are not compared to the criminalistic laboratory fee collections.

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**Internal Audits
Finding 3**

Per discussion with the Court's management, the Court's Information Technology Division has been working on a query to determine a "per conviction" on Health Safety Code Section 11372.5. However, the Division has been unable to create such a report. Thus, the Courts continues to make the \$50 distribution to the State based on collections rather than convictions.

**Internal Audits
Recommendation 3**

We recommend the Courts make distribution to the State Criminalistic Laboratory Fund based on conviction in accordance with Health and Safety Code Section 11372.5.

Management's Reply

Concur. Originally, the extent of programming expertise needed required the Court to contract with an outside programming firm for the correction. While the Court was waiting for the programming correction; an internal programmer explored different methods of correcting the distribution as well, and fortunately was able to put in place the ability for the Court's case management system to assess a "per conviction" fine payable to the State Criminalistic Laboratory Fund effective July 2006.

Auditor's Comment

We reviewed the test case printouts provided by the Courts. The test case identified the distribution to the State Criminalistic Laboratory Fund based on conviction.

**State Audit
Finding 9**

The Superior Courts automated accounting system did not distribute fines, penalties and fees collected in accordance with applicable laws. Additionally, collections made on installment payments were inequitably prorated.

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**Internal Audits
Follow Up**

We performed testing of various cases identified by the State with erroneous distributions. We found the system to be properly collecting and distributing the fees for the cases cited (DUI, Proof of insurance, proof of dismissal, etc).

**Internal Audits
Finding 3**

Although fines are properly collected and distributed, we noted the system continues to have a deficiency on installment payments allocation. We selected various cases with installment priority distributions. Of those cases, we found that ledger distributions with high priority (A, B and C) as determined by State guidelines are properly allocated a portion of collections on installment payments.

However, we found that ledgers in the lower category D distribution, are not always allocated a prorated share of collection on installment payments. We noted that after all A, B and C category ledgers are paid, only certain D ledgers receive a percentage of funds, whereas other D ledgers receive nothing.

**Internal Audits
Recommendation 4**

We recommend the Courts take the necessary steps to verify that all ledgers in category D receive an equal prorated share of collections on installment payments.

Management's Reply

Concur. All priorities were reviewed recently by the Court's internal audit team and any inconsistencies were corrected.

Auditor's Comments

We reviewed the sample case printouts provided by the Courts; distributions were made to all ledgers. The identification of the ledgers was recently changed from alpha to numeric characters 1, 2, 3 and 4.



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Superior Court of
California
County of Riverside

DATE: July 25, 2006
TO: Auditor-Controller
Audits and Specialized Accounting Division
FROM: **Marita C. Ford, Chief Deputy Court Executive Officer**
SUBJECT: Reply to Draft Audit Report

ACO Recommendation Number 1 (Re: State Finding #1):

We recommend that the Courts compute or estimate the amounts due to or receivable from each entity (County restricted funds, Cities and State) from errors on red light violation fee distributions from July 2002 through November 2005. The computations should include a recalculation of the annual 50% excess distribution of the realignment account for fiscal years 2003, 2004 and 2005.

Management position concerning the recommendation:

Concur / Corrected

Comments:

The distribution for the Red Light fines indicated in this finding have been corrected. Sample case prints are attached per your request.

In their final December 2003 final report, the SCO indicated that no prior period adjustments were necessary; however, the Court has considered the possibility of recalculating fiscal years 2003, 2004 and 2005 per the County's request. Unfortunately, the extent of programming expertise needed requires the Court to contract with an outside programming firm and will also require excessive court staff time dedicated to ensure the recalculations. Expending the costs for programming and staff time would not be fiscally prudent considering the SCO did not require this in its final report. Should, in the future, Court staff determine the recalculation to be feasible within the state's case management system, the

Court will proceed. In addition, the Court would need to receive official direction from the State Administrative Office of the Court to commit court resources to such a project.

Recommendation Number 2 (Re State Finding #6): See Recommendation Number 1 above.

Recommendation Number 3 (Re State Finding #8):

We recommend the Courts make distribution to the State Criminalistic Laboratory Fund based on conviction in accordance with Health and Safety Code Section 11372.5.

Management position concerning the recommendation:

Concur / Corrected Disagree

Comments:

Originally, the extent of programming expertise needed required the Court to contract with an outside programming firm for the correction. While the Court was waiting for the programming correction; an internal programmer explored different methods of correcting the distribution as well, and fortunately was able to put in place the ability for the Court's case management system to assess a "per conviction" fine payable to the State Criminalistic Laboratory Fund effective July 2006. Test case prints attached.

Recommendation Number 4 (Re State Finding #9):

Although fines are properly collected and distributed, we noted the system continues to have a deficiency on installment payments allocation. We selected various cases with installment priority distributions. Of those cases, we found that ledger distributions with high priority (A, B and C) as determined by State guidelines are properly allocated a portion of collections on installment payments.

However, we found that ledgers in the lower category D distribution, are not always allocated a prorated share of collection on installment payments. We noted that after all A, B and C category ledgers are paid, only certain D ledgers receive a percentage of funds, whereas other D ledgers receive nothing.

Management position concerning the recommendation:

Concur / Corrected Disagree

Comments:

All priorities were reviewed recently by the Court's internal audit team and any inconsistencies were corrected. Sample case prints are attached per your request.