



Judicial Branch Procurement

Although Four Superior Courts We Reviewed
Generally Met Procurement Requirements,
Glenn County Superior Court Needs to
Significantly Improve Its Procurement Practices

January 2023

REPORT 2022-301





CALIFORNIA STATE AUDITOR

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January 12, 2023
2022-301

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by state law, my office conducted an audit of judicial branch entities' compliance with the requirements of the California Judicial Branch Contract Law (judicial contract law), Public Contract Code sections 19201 through 19210. The judicial contract law requires the Judicial Council of California (Judicial Council) to publish a *Judicial Branch Contracting Manual* (judicial contracting manual) that is consistent with the Public Contract Code and that establishes the policies and procedures for procurement and contracting that all judicial branch entities, including superior courts, must follow. For this audit, we reviewed the superior courts in the counties of Glenn, Kern, San Francisco, Tulare, and Ventura.

This report concludes that four of the courts we reviewed—Kern, San Francisco, Tulare, and Ventura—generally adhered to the required procurement and contracting practices that we evaluated. However, we identified multiple weaknesses and a lack of safeguards in how Glenn oversees its purchases and payments, putting the court at significant risk of inappropriate use of public funds. For example, in violation of the judicial contracting manual, Glenn did not retain documentation for many purchases to demonstrate that authorized individuals reviewed and approved them. Specifically, Glenn could not demonstrate that it had properly authorized 20 of the 23 purchases we reviewed, for a total cost of more than \$101,000. Moreover, Glenn does not have key controls that prevent individuals from approving their own payments. We identified four purchases—totaling more than \$4,600—that a former interim court executive officer both incurred and approved for payment, reflecting a lack of internal controls and a failure to ensure appropriate separation of duties. Glenn acknowledges the weaknesses and lack of safeguards we identified and indicated it would implement our recommendations.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Tilden". The signature is written in a cursive, flowing style.

MICHAEL S. TILDEN, CPA
Acting California State Auditor

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Introduction

Background

The California Judicial Branch Contract Law (judicial contract law) went into effect in 2011. It generally requires all judicial branch entities to comply with certain provisions of the Public Contract Code related to the procurement of goods and services. It also requires the Judicial Council of California (Judicial Council)—which is responsible for improving the administration of justice in the State—to publish a *Judicial Branch Contracting Manual* (judicial contracting manual) that is consistent with state law and that establishes policies and procedures for procuring and contracting for goods and services. All judicial branch entities, such as superior courts, must follow the judicial contracting manual.

State law directs the California State Auditor’s Office (State Auditor) to audit five judicial branch entities other than the Judicial Council every two years to assess their implementation of the judicial contract law. This is our sixth such audit report. For a full background description, please refer to Report 2020-301, *Judicial Branch Procurement: Courts Generally Met Procurement Requirements, but Some Need to Improve Their Payment Practices*. Our prior five audits since the judicial contract law went into effect have collectively examined the procurement practices at 29 of the State’s 58 superior courts. For this audit, we reviewed the superior courts in the counties of Glenn, Kern, San Francisco, Tulare, and Ventura.

Audit Results

Four Courts Generally Complied With Procurement Requirements

The judicial contract law directs the superior courts to follow certain requirements regarding procurements, including contracts and payments, to ensure the fair and appropriate bidding of public contracts and use of public funds. As part of these requirements, each court must do the following:

- Adopt its own local contracting manual.
- Authorize purchases of goods and services in advance.
- Approve payments.
- Verify receipt of goods and services before paying vendors.
- Adhere to contracting and competitive bidding requirements in accordance with the judicial contracting manual.
- Report all contracts with a total estimated cost of more than \$1 million to the State Auditor to ensure compliance with state law.

As Table 1 shows, Kern, San Francisco, Tulare, and Ventura generally complied with these contracting and payment requirements. The four courts mostly had suitable policies and supporting documentation, such as invoices and evidence of payment approvals, to demonstrate that they complied with procurement requirements. For example, they appropriately authorized their own purchases in advance. Kern, Tulare, and Ventura also ensured that authorized personnel approved the 10 payments we reviewed at each of those courts.

Table 1
Four of the Five Courts We Reviewed Generally Complied With Procurement Requirements

CRITERIA	SUPERIOR COURTS				
	GLENN	SAN FRANCISCO	KERN	TULARE	VENTURA
Properly pre-authorized purchases?	X	✓	✓	✓	✓
Properly approved payments?	X	X	✓	✓	✓
Adhered to contracting and competitive bidding requirements?	X	✓	✓	✓	✓
Implemented a local contracting manual?	X	✓	✓	✓	✓

X	The court did not comply
✓	The court generally complied

Source: Analysis of payment and contract records at the superior courts in the counties of Glenn, San Francisco, Kern, Tulare, and Ventura.

However, we did identify specific areas for improvement at San Francisco pertaining to approval authority. The court does not have a formal documented invoice payment approval policy that lists the employees authorized to approve payments and the dollar amounts they are authorized to approve as the judicial contracting manual requires. Although San Francisco indicated that it has an informal practice whereby a manager, director, or executive approves payments, it did not follow this practice for one of the 13 payments we reviewed. For this payment, *San Francisco allowed a staff member, rather than a manager or higher-level employee, to approve a payment of \$22,038* for therapy services pertaining to its Family Treatment Court program. Although the nature of this expense appears appropriate, the court did not follow its informal practice when it authorized the payment. San Francisco's chief financial officer acknowledged that the invoice should have been approved by a previous program director. The chief financial officer indicated that the court will formalize its payment approval policies and that the policies will identify the positions allowed to approve invoices for payment. San Francisco also lacks policies in its local contracting manual for establishing levels of approval authority for entering into contracts. The chief financial officer agreed to add this provision to the local contracting manual.

Glenn Lacks Key Controls Over Purchases, Leaving It at Risk of Inappropriate Use of Public Funds

As Figure 1 shows, we identified multiple weaknesses in how Glenn oversees purchase authorization and payment approval. The judicial contracting manual instructs courts to follow the Judicial Council's *Trial Court Financial Policies and Procedures Manual* (procedures manual) when processing payments. According to the procedures manual, court staff can pay an invoice only if it is supported with appropriate documentation, which generally consists of a three-point match between the purchase authorization, documentation of receipt and acceptance of the goods or services, and the invoice. The procedures manual also requires a separation of duties among the court staff involved in the procurement process so that different employees are responsible for authorizing purchases and approving payments. Finally, state law and the judicial contracting manual require each judicial branch entity to create and implement a local contracting manual that is consistent with state law and identifies individuals with responsibility and authority for purchasing activities. Because Glenn has not created a local contracting manual for staff to follow prescribed purchase authorization and payment practices, it cannot ensure and demonstrate that its payments are always appropriate. These deficiencies place the court at significant risk of inappropriate use of public funds.

Glenn Cannot Demonstrate That It Appropriately Preauthorized Purchases

Glenn did not retain documentation for many purchases to demonstrate that authorized individuals reviewed and approved a purchase request, such as a purchase order, as the procedures manual requires. For 20 of 23 payments that we reviewed—which totaled more than \$101,000—Glenn could not demonstrate that it had properly preauthorized the purchases. In fact, Glenn did not have any purchase orders recorded in its accounting system from July 2021 to June 2022—the period

Figure 1
Glenn Did Not Always Ensure That It Properly Authorized Purchases, Increasing the Risk of Improper Payments



No Preauthorization Documentation

20 of 23 payments did not have documentation showing that the purchases were properly reviewed and approved by the court before they were initiated.



Insufficient Payment Approval Documentation

7 credit card transactions and 4 payments lacked evidence that payments were appropriate because the court did not maintain required documentation, such as invoices and receipts.



Inappropriate Payment Approvals

4 of 23 payments were approved for payment by the same staff member who incurred the costs, which indicates a lack of separation of duties and increases the risk of misuse of funds.

Source: Glenn's purchasing and payment records.

we reviewed—suggesting that preauthorization of purchases may not be occurring. When it does not authorize purchases in advance, Glenn heightens its risk of staff making purchases that are inappropriate or not in the court's best interest.

In a 2019 audit, the Judicial Council reported a similar finding and made a recommendation to resolve this issue; however, Glenn did not take corrective action. Further, Glenn's current court executive officer (court executive), who started in August 2022, raised the same concern. She stated that she recently implemented an informal practice of preapproving and setting aside funds for purchases in the court's accounting system and that she plans to develop formal policies to fully address this deficiency by early 2023.

Because It Has Not Always Retained Documentation, Glenn Cannot Demonstrate That Its Payments Were Appropriate

For 11 of the 23 payments we reviewed, Glenn did not retain proper forms of documentation, such as invoices and receipts, to support the appropriateness of goods or services for which it paid. As a result, the court could not demonstrate that it performed the required steps to approve these transactions—which totaled about \$37,000—for payment. Seven of these payments were purchase card transactions. The other four payments were related to lease and monthly utility expenses for the court's resource center, temporary help, and other administrative expenses. The court could not demonstrate that it properly approved these payments. Glenn acknowledged this deficiency and plans to implement processes by early 2023 to require staff to review and maintain documentation to support the appropriateness of payments.

Glenn's Lack of Internal Controls Over Purchase Card Transactions Resulted in Excessive Expenditures That It Did Not Properly Authorize

Compounding the risk of unauthorized use of public funds, Glenn's former interim court executive officer (former interim executive)—who filled this role from September to December 2021—made some purchases with a CAL-Card that were not sufficiently supported. CAL-Cards are state-administered purchase cards that are available to all superior courts. The judicial contracting manual specifically states that they may not be used to circumvent established procurement procedures. Before a court pays for charges incurred using a purchase card, the court must verify the purchase authorization and receipt of the goods just as it should with purchases made through any other procurement method. Because of Glenn's lack of controls and the weaknesses that we describe in the previous sections, we included eight purchase card transactions among the 23 transactions we reviewed at this court.

We found that Glenn did not retain complete documentation to support its payments for seven of the purchase card transactions we reviewed. For example, the court could not provide documentation that it preauthorized four purchases the former interim executive made from September through November 2021 using a purchase card. These purchases, which totaled more than \$4,600, included lodging and a laptop for herself. Glenn also did not have receipts for the lodging purchases to demonstrate that it determined that the purchases were reasonable or appropriate before paying them. Glenn was able to provide us only with the former interim executive's unsigned offer of employment, which described that the court agreed to reimburse her for necessary lodging expenses while she fulfilled her interim duties because of the distance between her residence and the court's location. However, the lodging expenses she incurred exceeded the allowed nightly rate authorized in the unsigned agreement and state court financial policies. *The absence of additional documentation justifying the excess amount paid casts doubt on the court's ability to ensure that it is using public funds appropriately.*

Moreover, Glenn's former interim executive inappropriately bypassed established procedures for these purchases by approving payment for them despite having initiated the purchases for herself. The current court executive acknowledged that Glenn does not have a formal written policy that requires separation of duties, but she explained that its informal practice is that the presiding judge—who oversees the court executive—should have approved the former interim executive's purchases. The current court executive also asserted that Glenn plans to implement a formal written policy by early 2023 and that the policy will prohibit staff from approving payments for their own purchases. Having a formal written policy will enable the court to enforce the policy's requirements and to demonstrate that it complies with state requirements.

Glenn Has Not Created and Implemented the Use of a Local Contracting Manual as State Law Requires

Many of the deficiencies we identified at Glenn are likely at least in part the result of its failure to create and implement the use of a local contracting manual. State law and the judicial contracting manual require judicial branch entities to adopt a

local contracting manual that is consistent with certain state laws and substantially similar to the provisions contained in the *State Administrative Manual* and *State Contracting Manual*. The law requires the establishment and use of a local contracting manual to ensure that courts identify the individual positions that have responsibility and authority for their procurement and contracting activities. The judicial contracting manual also recommends that courts include in their local contracting manuals certain policies and procedures specific to their court.

The absence of a local contracting manual is concerning because *Glenn does not maintain complete information about its population of contracts and has not accounted for contract funding in its financial information system*. Consequently, we were unable to identify all of the court's active contracts or review some of its contracting practices, namely whether Glenn could demonstrate that it consistently followed required competitive bidding and contract award requirements. Glenn's court executive acknowledged that the court currently does not have a system for maintaining its contracts and is presently seeking guidance on state laws and regulations to develop a contracting process.

The Judicial Council's 2019 audit of Glenn recommended that the court establish a local contracting manual. However, as of late November 2022, Glenn still had not done so. Glenn's court executive stated that she is unsure why her predecessors had not developed a manual before her arrival. She explained that from 2017 to 2021, Glenn had multiple court executive officers and that the position was vacant from December 2021 to August 2022. It is possible that turnover in leadership contributed to the lack of prioritizing the development of a contracting manual, resulting in many of the deficiencies we identified. Glenn's court executive stated that she is in the process of developing a local contracting manual that the court plans to implement within the first quarter of 2023.

Recommendations

San Francisco County Superior Court

- To ensure that payments are appropriate, San Francisco should, by July 2023, document and implement formal procedures for approving invoices—including appropriate levels of approval—and require staff to follow these procedures.
- To ensure that it follows contract requirements, San Francisco should add a policy to its local contracting manual by July 2023 that establishes levels of approval authority for entering into contracts.

Glenn County Superior Court

- To ensure that purchase requests are appropriate and authorized, Glenn should, by July 2023, implement a formal process for obtaining and documenting prior authorization before agreeing to make purchases. This process should include completing purchase order forms and requiring staff to adhere to these procedures.
- To ensure that payments are properly approved and supported, Glenn should, by July 2023, develop and implement a formal written policy that requires the court to prepare and maintain documentation to support all payments and related approvals.
- To ensure that payments are appropriate, Glenn should, by July 2023, develop and enforce policies for approving payments. The policy should require separation of duties to prevent staff from approving their own purchases.
- To reduce the risk of improper use of purchase cards, Glenn should, by July 2023, revise its purchase card processes to specify the appropriate uses of a purchase card and to require the review of documents that support the transaction before approving a payment.
- To comply with state law and to strengthen its procurement practices, Glenn should create a local contracting manual and implement its use as required by July 2023.
- To demonstrate that it follows competitive bidding and contract award requirements, Glenn should, by July 2023, develop and implement a process for ensuring that its contracting practices meet requirements in state law. The court should also maintain complete information and documentation about its population of contracts.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code section 8543 et seq. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



MICHAEL S. TILDEN, CPA
Acting California State Auditor

January 12, 2023

Appendix

Scope and Methodology

We conducted this audit pursuant to the audit requirement contained in the judicial contract law. Our audit focused on the superior courts in Glenn, Kern, San Francisco, Tulare, and Ventura counties. The table below lists the audit objectives and the methods we used to address them.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant state law and the judicial contracting manual, as well as each court's policies and procedures.</p>
<p>2 Based on risk factors specified in the judicial contract law, identify five judicial branch entities excluding the Judicial Council for audit to assess their implementation of the judicial contract law.</p>	<p>For this audit, we selected and reviewed the superior courts in Glenn, Kern, San Francisco, Tulare, and Ventura counties. We selected the courts based on factors such as the amount of time since they were last audited and previous audit internal control findings, their degree of management turnover, their complexity and size, and their percentage of procurements in relation to other judicial branch entities.</p>
<p>3 For the five courts selected for this audit, perform the following:</p> <ul style="list-style-type: none"> a. Determine whether each court has developed its own local contracting manual, and assess its conformance to the judicial contracting manual. b. Assess each court's compliance with key internal controls over contracting and procurement in the judicial contracting manual and its local contracting manual, including those related to competitive bidding, sole-source contracting, and payment and deliverable review and oversight. 	<ul style="list-style-type: none"> • Obtained each court's local contracting manual, if available, that was applicable during fiscal year 2021–22. We assessed whether the local contracting manuals conformed to the judicial contracting manual's requirements and recommendations. • Based on factors including contract value and type of goods or services procured, judgmentally selected contracts from each court that were active in fiscal year 2021–22 using the Judicial Council's Annual Report on Contracts for the Trial Courts (annual report) for fiscal year 2021–22. • Based on factors including payment value, judgmentally selected payments for each court using a fiscal year 2021–22 payment report provided by each court. • To gain assurance that data used to select payments and contracts were complete, traced source documents to the reports we used for selection. We determined that the payment reports were generally complete. We found that Glenn had maintained neither a list of all of its contracts nor complete contract documentation, limiting our ability to identify all of its active contracts and fully test its contracting practices. The other four courts we reviewed did not accurately and completely report all active contracts to the Judicial Council. However, we performed additional procedures to complete this objective. • For each court, reviewed a selection of contracts and an initial selection of 10 payments against key requirements and safeguards identified in our review of the judicial contracting manual, local contracting manual, and other relevant policies and procedures. We tested three contracts at Glenn, 22 at Kern, 24 at San Francisco and Tulare, and 14 at Ventura. • If exceptions in the 10 payment items warranted further review of a court's payment processes, we reviewed additional items. We reviewed 18 payments for Glenn, 13 payments for San Francisco, and 10 payments each for Kern, Tulare, and Ventura. • For each court, used the annual report to identify any new or amended contracts valued at more than \$1 million in fiscal year 2021–22. For any such contracts, we reviewed the contracts and courts' documentation of notifications sent to our office. In cases where the courts did not notify us of the contracts as required, we interviewed court staff to obtain information about why we were not notified.

continued on next page . . .

AUDIT OBJECTIVE	METHOD
<p>3 c. Evaluate each court's contracts to determine whether it may have inappropriately split contracts to avoid obtaining necessary approvals or complying with competitive bidding requirements.</p> <p>d. Review the appropriateness of each court's CAL-Card or other court-issued purchase card transactions when those transactions exceed a total of \$100,000 or 10 percent of all reported procurement payments for a one-year period.</p>	<ul style="list-style-type: none"> • Used the annual report to identify instances when courts may have split contracts. For the identified instances, we evaluated additional information, such as payment reports and contract documents, to identify whether a court entered into contracts with the same vendor for similar goods or services during the same time frame for the purposes of avoiding competitive bidding. Because Glenn did not have a complete list of contracts, we could not perform this step for that court. We determined that there was no evidence indicating that any of the other four courts split contracts. • Determined whether each court used purchase cards and reviewed monthly purchase card statements for transactions that appeared questionable based on the amount or vendor. Based on factors including transaction amount and purchase justification, we reviewed a judgmental selection of five transactions apiece at Kern and Glenn, as well as three other purchase card payments at Glenn that were part of our initial payment selection. For the selected transactions at these two courts, we reviewed purchase requisitions and receipts and interviewed court staff to assess any transactions that appeared questionable. We found that all purchases we reviewed at Kern were appropriately supported. We determined that the other three courts did not meet our threshold for review due to the low dollar value of their fiscal year 2021–22 purchase card transactions.

Source: Audit workpapers.



Superior Court of California, County of Glenn
526 West Sycamore Street • Willows CA, 95988
Diana Baca, Court Executive Officer / Jury Commissioner
530-934-6382

California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814
Attn: Michael S. Tilden

Dear Mr. Tilden;

The Court has reviewed the draft of the audit provided by your firm and agrees with the assessments. The Court will work to implement the recommendations.

It was a pleasure working with you and your team.

Thank you,

Handwritten signature of Diana Baca.

Diana Baca
Court Executive Officer

SUPERIOR COURT OF CALIFORNIA COUNTY OF SAN FRANCISCO

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MARK CULKINS
INTERIM COURT EXECUTIVE OFFICER

December 27, 2022

Michael S. Tilden
Acting California State Auditor
State Auditor's Office
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Michael Tilden:

In connection with the State Auditor's Office draft audit report 2022-301 dated January 2023 (received December 21, 2022), the Superior Court of California, County of San Francisco concurs with the audit findings for the San Francisco Court (the 'Court'):

San Francisco Court generally complied with procurement requirements for the following criteria:

- Properly pre-authorized purchases
- Adhered to contracting and competitive bidding requirements
- Implemented a Local Contracting Manual

Per the Audit Recommendations, the Court will make the following corrective actions:

- Recommendation 1: To ensure that payments are appropriate, by July 2023, San Francisco should document and implement formal procedures for approving invoices—including appropriate levels of approval—and require staff to follow these procedures.
- Recommendation 2: To ensure that it follows contract requirements, by July 2023, San Francisco should add a policy to its local contracting manual establishing levels of approval authority for entering into contracts.

Sincerely,

Mark Culkins

Mark Culkins
Interim Court Executive Officer

CC: Katrina Solorio, Team Leader, State Auditor's Office
Sue Wong, CFO, San Francisco Superior Court