

OFFICE OF AUDITS & ADVISORY SERVICES



COURT REVENUE AUDIT

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

March 4, 2016

TO: Ronald J. Lane, Deputy Chief Administrative Officer
Public Safety Group

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: COURT REVENUE AUDIT

Enclosed is our report on the Court Revenue Audit. As there are no findings and recommendations in the report, no audit response is required.

Thank you for the courteousness and cooperation extended to the Office of Audits & Advisory Services during the course of the audit.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:BTN:aps

Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Michael Roddy, Executive Officer, Superior Court of California, County of San Diego
Jeffrey Gately, Chief Financial Officer, Superior Court of California, County of San Diego
Eunice C. Ramos, Group Finance Director Public Safety Group

INTRODUCTION

Audit Objective The Office of Audits & Advisory Services (OAAS) completed an audit of the Court Revenue collected by the Superior Court of California on behalf of the County of San Diego. The objective of the audit was to evaluate the accuracy of revenue distributions and determine factors contributing to declining revenues.

Background The County of San Diego (County) receives certain revenues collected by the Superior Court of California (Court). The amount and source of these revenues varies depending on numerous legislative provisions, but they are used to budget for and fund different County operations and facilities. Penalty assessment revenues are used for the construction and maintenance of County criminal justice and court facilities and to support Emergency Medical Services. Revenue from court fees and fines are used by the County to make statutorily required payments, including the Maintenance and Effort pursuant to Government Code §77201.3 and the Court Facilities Payment pursuant to Government Code §70353.

During the audit scope period FY 2009-10 to FY 2014-15, collections from penalty assessments fell from \$13,749,562 to \$7,910,885 (42% decline). During the same period, collections from court fees and fines declined from \$30,880,726 to \$26,345,547 (15% decline).

Periodic audits performed by the State of California (State) have previously uncovered errors resulting in erroneous remittances of revenue by the Court and County. But none of the findings identified by the State would have caused the kind of prolonged decline experienced by the Court and County during those years.

Audit Scope & Limitations The scope of the audit included fiscal years 2009-10 through 2014-15 and was completed in accordance with the provisions of the Memorandum of Understanding executed December 30, 2014 between the Court and the County.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology OAAS performed the audit using the following methods:

- Interviewed key Court and County personnel about collections and distribution processes.
- Reviewed State-issued audit reports regarding revenue distributions and collections reports documenting collection methods and performance measures for each county.

- Tested monthly revenue reports and individual citations for accuracy, and verified system controls over distribution formulas.
- Collected and analyzed case filing statistics to identify trends.

AUDIT RESULTS

Summary

Within the scope of the audit, OAAS evaluated the accuracy of revenue distributions and obtained reasonable assurance that financial information is reported accurately to the County each month. No exceptions were noted.

In addition, OAAS evaluated various factors that could be contributing to declining court revenues. While unable to pinpoint the direct cause of declining revenues, OAAS has identified the following observations as possible contributing factors.

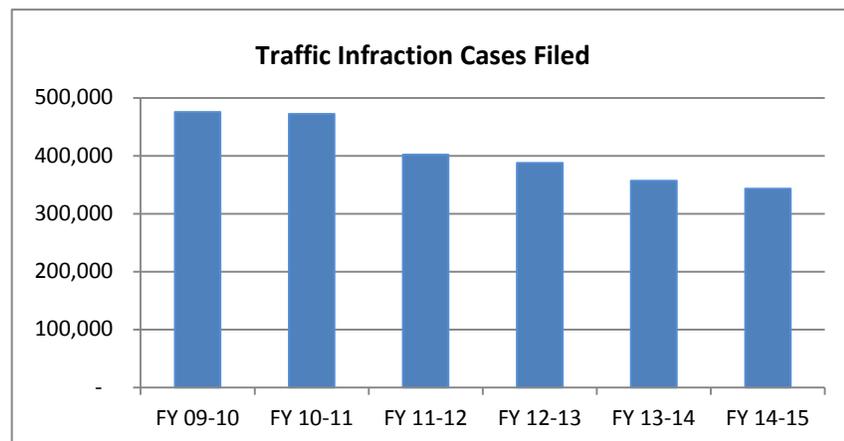
Observation I:

Declining Case Filings

OAAS reviewed case filing statistics to determine whether the decline in court revenue could be driven by a decline in revenue-generating cases being filed.

Traffic infractions are the most filed case type in the County. The following chart shows the number of traffic infraction cases that were filed each fiscal year during the scope of the audit.

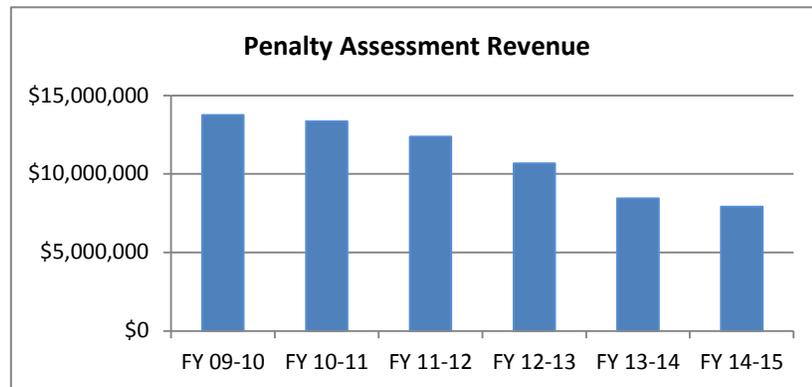
Chart 1. Traffic Infraction Case Filings



Filing data provided by the Superior Court of California

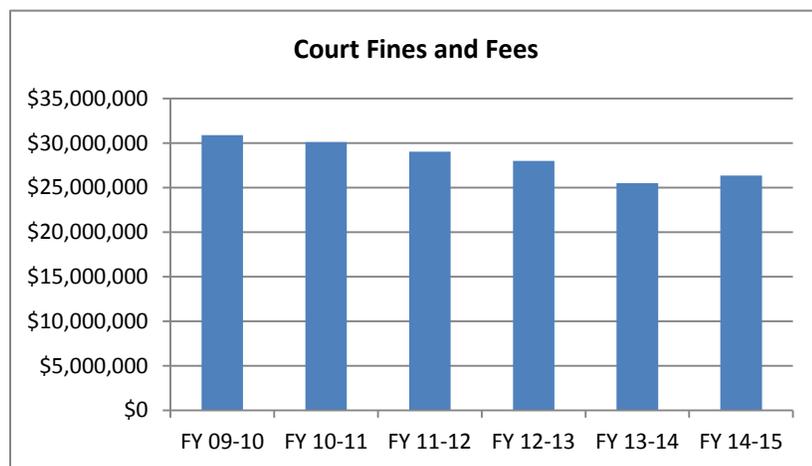
For reference, the following charts show the annual revenue received by the County for penalty assessments and court fines and fees.

Chart 2. County Penalty Assessment Revenue Received



Penalty assessment data provided by the County of San Diego's Public Safety Group.

Chart 3. Court Fines and Fees Received



Fines and fees data provided by the County of San Diego's Public Safety Group.

Traffic case filings have declined over the period reviewed, and this has likely impacted revenue streams. If a case is never filed, revenue will not be generated. Thus, case filings have a direct impact on court revenues, and any trends in case filing numbers will likely contribute significantly to revenue trends. Comparing declining case filing statistics (especially traffic-related filings) with declining court revenue statistics supports this notion.

Observation II: Declining Collections/Receivables Performance

OAAS reviewed annual data published by the Judicial Council of California in its *Report to the Legislature on the Statewide Collection of Delinquent Court-Ordered Debt*. The report provides information about best practices used by courts and counties as well as performance measures for their collections programs.

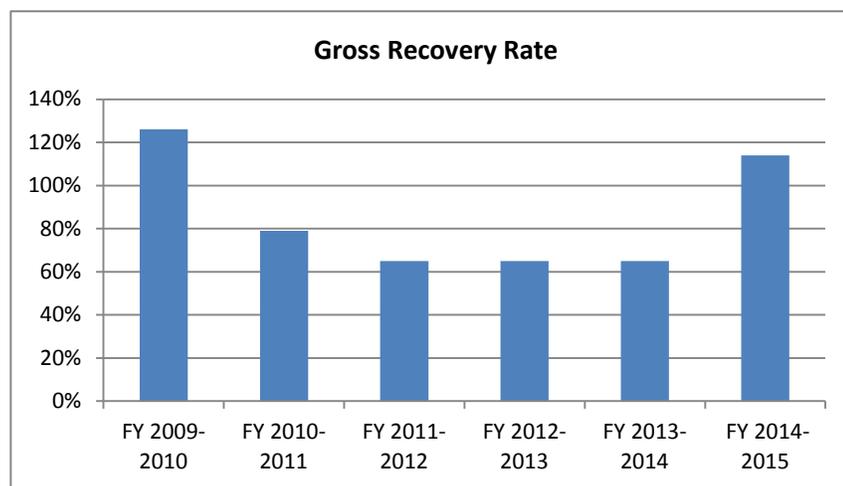
For best practices, the number of recognized best practices being utilized by each court and county is presented. San Diego routinely employs most or all of the recognized best practices for collections.

For performance measures, the Judicial Council adopted the Gross Recovery Rate and the Success Rate to measure and compares each program's progress from year to year.

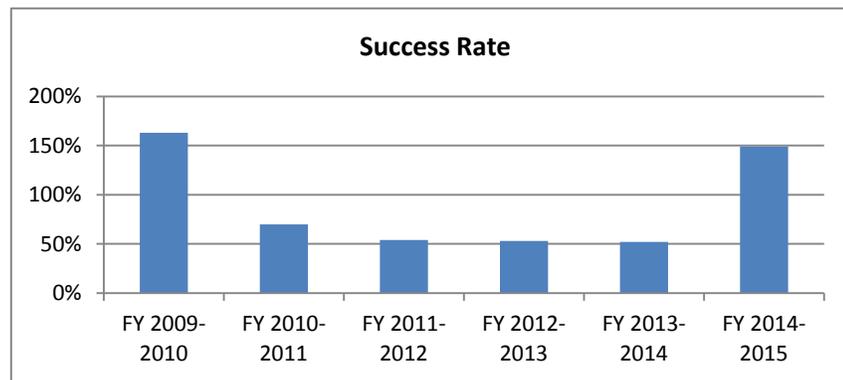
- **Gross Recovery Rate** – Measures a program's ability to resolve delinquent court-ordered debt and calculates revenue, adjustments, and discharges against total referrals (newly established debt) for the period. A benchmark of 34 % was established statewide.
- **Success Rate** – Measures the amount of delinquent revenue collected by a program, and calculates revenue against total referrals for the period after adjustments and discharges are made. A benchmark of 31 % was established statewide.

The Judicial Council reports performance measures based on combined statistics it receives from both the Court and County. The following charts show only the Court's gross recovery and success rates. For audit scope purposes, collections data from the County's Office of Revenue and Recovery is excluded.

Chart 4. Court Recovery Rate



Recovery rate statistics provided by the Superior Court of California.

Chart 5. Court Collections Success Rate

Success rate statistics provided by the Superior Court of California.

Collection efforts in San Diego County satisfy best practice methods and achieve success rates that greatly exceed benchmarks set forth by the State. However, despite best practices, collection performance declined (along with County revenue streams) over the time period covered. The Court cited the overall economy as a reason for declining performance.

Reported collections data is helpful but not conclusive with regard to declining revenue. Reporting of these statistics began in FY 2008-09, and numerous changes have been made since then to refine the data.

Observation III:

Changes in Laws Affecting Revenue Collection and Distribution

OAAS reviewed State revenue distribution schedules and changes to State and local laws. OAAS did not identify any changes made to State revenue distribution schedules that would have significantly impacted penalty assessments and court fines and fees. The only notable change made to State and/or local regulations was the discontinuation of the use of red light cameras by jurisdictions around the County.

While other factors weighed in favor of removing the red light cameras, the County likely experienced a material decrease in revenue when those citations stopped. As noted, traffic-related violations produce the highest volume of citations each year.

Observation IV:

Case Dispositions

In an effort to determine whether more defendants were opting for non-financial penalties (i.e., community service) or simply not paying the penalties assessed, OAAS requested case statistics detailing the following:

1. Percentage and total number of defendants who opted for case settlements other than paying an assessed fine.
2. Percentage and total number of cases that were sent to collections as a result of failure to pay.

3. Percentage and total number of citations that were dismissed (regardless of reason) before settlement.

Unfortunately, due to system limitations, the Court was unable to provide this information. The statistics requested by OAAS are not captured by current Court case management or financial management systems. As a result, OAAS could not determine the extent to which defendant and/or judicial discretion have impacted the decline of court revenues.

According to Court management; however, the Court is currently implementing a new system that will combine its decades-old financial and case management systems into one. System implementation started in August 2015 but will proceed in phases. For instance, traffic case management system implementation is estimated for October 2016, but implementing Criminal and Civil will likely consume the greater part of 2017 through 2019. The new system should present opportunities to query and access current data base platforms that do not currently exist.

Office of Audits & Advisory Services

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VALUE