



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427



J. TYLER McCaULEY
AUDITOR-CONTROLLER

February 5, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley *J. Tyler McCauley*
Auditor-Controller

SUBJECT: CONDEMNATION AND INTERPLEADER AUDIT RESPONSE

On January 22, 2001, we forwarded to you an independent audit of Superior Court's Condemnation and Interpleader accounts which was performed by Vasquez Farukhi & Company. The auditors made eleven recommendations identifying areas where the Superior Court and Auditor-Controller could improve internal controls over these accounts.

Both the Superior Court and Auditor-Controller have reviewed the recommendations and are in general agreement with them. The attached responses indicate corrective actions that will be taken.

If you have any questions, please call me or have your staff call Pat McMahon at 974-0301.

MLG: PTM
Attachments

C: Honorable James Bascue, Presiding Judge, Superior Court
David E. Janssen, Chief Administrative Officer
John A. Clarke, Executive Officer, Superior Court
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427



J. TYLER McCAULEY
AUDITOR-CONTROLLER

February 5, 2001

TO: Patrick McMahon
Assistant Auditor-Controller

FROM: Maria M. Oms 
Assistant Auditor-Controller

SUBJECT: **Response to Audit of Superior Court's Condemnation and Interpleader Accounts**

We are responding to the recommendations made by Vasquez Farukhi & Company relative to the audit of the Superior Court's Condemnation and Interpleader Accounts. Our response pertains to two of the eleven recommendations, numbers 5 and 11. The remaining nine recommendations pertain to the Superior Court and are being separately addressed by the Court.

Recommendation No. 5

Requisition for Trust Warrant and Memorandum of Special Warrant form should carry two signatures as specified on the form.

Response

We agree. In February 2001, the Auditor-Controller will reemphasize to all County departments existing policy that requires Warrant Requisitions to contain two authorized signatures. Additionally, by April 1, 2001, Auditor-Controller staff will begin rejecting Warrant Requisitions that do not contain two authorized signatures.

Recommendation No. 11

We suggest that fund SK5 be accounted for by having a detail of the interest accrued for each depositor. We believe this would strengthen control and facilitate Court ordered payments.

Response

We agree with the intent of the recommendation and will pursue implementation of alternate measures to strengthen controls as described below.

We do not believe it is currently practicable to maintain the accrued interest details for each depositor. There are separate accounting systems that account for court deposits and accrued interest. The two systems are administered and maintained by the Superior Court and Auditor-Controller, respectively. The Auditor-Controller will meet with the Superior Court to discuss the future possibility of integrating the two systems in conjunction with other strategies that pertain to the replacement of legacy accounting systems.

As an alternate measure to strengthen controls, the Auditor-Controller will work with the Superior Court to conduct an annual evaluation and assessment of the estimated accrued interest owed to depositors of record. The purpose of such an annual evaluation would be to ensure the adequacy of funds available for the eventual distribution of interest to depositors.

MO:JN-leh
Response-c&I audit

c: Alf Schonbach, Superior Court

The Superior Court

JOHN A. CLARKE
EXECUTIVE OFFICER/CLERK

111 NORTH HILL STREET • LOS ANGELES • CALIFORNIA 90012

January 29, 2001

Pat McMahon, Chief
Audit Division
Auditor-Controller
320 W. Temple Street, room 380
Los Angeles, California 90012

Response To Audit Of Condemnation & Interpleader Trust Fund

Dear Mr. McMahon:

The Los Angeles Superior Court has reviewed the findings and recommendations contained in the December 12, 2000 audit of the Court's Condemnation & Interpleader Trust Fund, as completed by Vasquez Farukhi and Company.

Please find attached the Court's responses to the audit's recommendations. Please note that the Accounting Division of the Auditor-Controller will respond to recommendation number 11, as previously agreed upon by the two departments.

In addition, the Court points out that Note 2: Fund Notes To Financial Statements, as written in the audit report, contains a misrepresentation. The last sentence of Note 2 indicates that disbursements of interpleader deposits may be made without an authorizing court order. This is not correct; all disbursements from the Condemnation & Interpleader Trust Fund must be so ordered by the Court.

Please let me know if you have any questions, or call Mr. Alf Schonbach of my staff at (213) 974-5972.

Very truly yours,



Debbie Lizzari, Deputy Executive Officer
DL:ads/audit/c&i

Attachment

c: Hon. James A. Bascue, Presiding Judge
Hon. Robert A. Dukes, Assistant Supervising Judge
John A. Clarke, Executive Officer
Alf Schonbach, Court Administrator

Recommendations From Audit of Condemnation & Interpleader Trust Fund

- I. The Court's Historical Trust Record/Zero Balance Report should be reconciled with the County's records for the Condemnation & Interpleader C & I) Trust Fund and adjustments made to bring the two into balance.

Court Response: The Court agrees with this recommendation. The Court notes that it does already compare its records of individual deposits and disbursements to the County's general ledger on a monthly basis. However, the Court acknowledges that this recommendation further strengthens internal controls and provides for the County general ledger not to be understated.

- II. The Court's Historical Trust Record/Zero Balance Report should be produced more frequently than twice a year.

Court Response: The Court agrees with this recommendation. Necessary programming enhancements have already been made to allow the Court to process this report as often as necessary. It is the Court's intent to run this report on a monthly basis, in order to be able to reconcile the report's monthly totals with the County general ledger (see recommendation no. 1).

- III. Periodically the Court should confirm the general ledger balance in the C & I Fund with the Auditor-Controller in writing.

Court Response: The Court agrees with this recommendation.

- IV. The Request For Interest Payment form should require two signatures for approval.

Court Response: The Court agrees with this recommendation.

- V. The "Requisition for Trust Warrant and Memorandum of Special Warrant" form should carry two signatures as specified on the form.

Court Response: The Court agrees with this recommendation.

- VI. Requisitions for Trust Warrants should include the applicable case number.

Court Response: The Court agrees with this recommendation.

- VII. A copy of the original court order for deposit should be kept in the case file. Case files should be reviewed for completeness of data in them.

Court Response: The Court agrees in principle with this recommendation. However, there are certain types of deposits made with the Court, particularly from parties in interpleader actions, that are not based on or do not require court orders. In such instances there are no court orders available to include in the case files. In addition, there are frequent occurrences in which no deposits are made to the Court despite the presence of court orders to do so, due to settlement, continuation, or dismissal of the cases. The Court believes there is some risk in placing dependence on an order to deposit if in fact no deposit was ever made. In effect, an order to deposit is not always available or relevant, and should not be considered as an absolute requirement of the case file.

However, the Court does agree that its case files should be reviewed for completeness of all applicable financial data.

- VIII. Hard copies of journal vouchers affecting the C & I Trust Fund should be made and retained. Hard copies of journal vouchers affecting the C & I Trust Fund which originate from other departments should also be maintained.

Court Response: The Court agrees with this recommendation. On-line journal vouchers are performed when outlying district facilities of the Court receive C & I deposits; transfer of the funds from the districts to the Treasurer-Tax Collector is expedited by the use of on-line journal vouchers. The Court notes that only a few pre-approved members of the Court's accounting staff have been authorized by the Auditor-Controller and have been given clearance to perform such journal vouchers; no staff from the Court's districts or other Departments are permitted to perform these tasks.

- IX. The Court should ensure that the fund balances in all its trust funds, not just the C & I fund, are kept in agreement with the general ledger balances carried by the County.

Court Response: The Court agrees with this recommendation.

- X. Dormant account balances in the Condemnation & Interpleader Trust Fund should be segregated from the current balances. This will lead to improved control over them.

Court Response: The Court agrees in principle with this recommendation.

It is common for condemnation and /or interpleader cases to last three to four years or longer in length. It is therefore difficult to define what a “dormant” case is. In addition, eminent domain cases may experience lags for extended periods of time between scheduled court appearances or appeals; these cases are not considered dormant by the trial judge, attorneys, or litigants.

The Court suggests that, as an alternative recommendation, it segregate cases which have been formally terminated from those cases still considered to be “open”. In order to implement this recommendation the Court requires an interface between its courtroom operation function and its accounting office; such an interface will allow the courtroom to notify the accounting office of the “disposed” status of particular cases. On an interim basis the Court will implement a manual system whereby courtroom clerks will notify the Accounting Office of the “disposed” status of cases for which deposits were held in trust by the Court. The Court will seek to eventually automate this process as it considers fully-integrated case management systems.