



ADMINISTRATIVE OFFICE OF THE COURTS

Operational Audit

For the period July 1, 2016 through June 30, 2022

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Administrative Office of the Courts**

**For the Period
July 1, 2016 through June 30, 2022**



January 12, 2023

TO THE ADMINISTRATIVE OFFICE OF THE COURTS

We present the audit report of the Administrative Office of the Courts for the period July 1, 2016 through June 30, 2022. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Administrative Office of the Courts (AOC) is responsible for the administrative services, including payroll, budget, human resources, and purchasing, for the Supreme Court, the District Courts, and effective November 1, 2021, the Court of Criminal Appeals.

The Supreme Court is composed of nine justices appointed by the governor and operates under 20 O.S. §§ 1 through 25. There are 26 District Courts with multiple judges governed by 20 O.S. § 91.1 through 130.

Supreme Court Justices as of December 2022 are:

Chief Justice Richard Darby
Vice-Chief Justice M. John Kane IV
Justice.....Yvonne Kauger
Justice.....James R. Winchester
Justice.....James E. Edmondson
Justice.....Douglas L. Combs
Justice.....Noma Gurich
Justice.....Dustin P. Rowe
Justice.....Dana Kuehn

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The following table summarizes the Supreme Court and the District Court's uses of funds for fiscal years 2021 and 2022 (July 1, 2020 through June 30, 2022).

Supreme Court Sources and Uses of Funds for FY 2021 and FY 2022

	2021	2022
Sources:		
Local Court Funds	\$ 29,536,864	\$ 33,282,963
Court Fee for Data Processing	11,596,233	11,161,425
Net Appropriations	(8,487,640)	(3,490,549)
Federal Grants-In-Aid	308,896	539,887
Sale of Service	156,201	156,726
Court Fees and Other Revenues	37,740	44,453
Total Sources	\$ 33,148,294	\$ 41,694,905
Uses:		
Personnel Services	\$ 20,746,364	\$ 21,353,806
Property, Furniture, Equipment	5,110,433	4,327,687
Administrative Expenses	4,416,176	4,308,071
Professional Services	1,956,927	1,897,728
Assistance, Payments to Local Govn'ts	1,112,355	1,108,164
Travel	56,677	177,712
Total Uses	\$ 33,398,932	\$ 33,173,168

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

District Court Sources and Uses of Funds for FY 2021 and FY 2022

	2021	2022
Sources:		
Appropriations	\$ 64,632,718	\$ 68,238,806
Court Administrative Fees	3,151,178	3,069,468
Court Filing Fee	957,804	921,881
Total Sources	\$ 68,741,700	\$ 72,230,155
Uses:		
Personnel Services	\$ 67,078,648	\$ 66,611,039
Travel	170,367	245,330
Administrative Expenses	100,160	122,263
Professional Services	-	5,550
Total Uses	\$ 67,349,175	\$ 66,984,182

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period of July 1, 2016 through June 30, 2022. To assess risk and develop our audit objectives, we held discussions with management, distributed surveys to AOC personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the statewide accounting system and information gathered from AOC personnel to assess the related financial processes and trends for any notable risks.
- Analyzing top vendors and expenditures by dollar amount and reviewing a selection of miscellaneous expenditure claims and supporting documents in detail.
- Reviewing a selection of county and law library revenue reconciliations that occurred during the audit period.
- Reviewing a selection of payroll approval documentation for payroll changes that occurred during the audit period.
- Reviewing pertinent statutes and regulations and assessing related risks.
- Assessing the Lengthy Trial fund, Law Library fund, and the Alternative Dispute Resolution fund revenue and expenditure activity for any notable risks.

One objective related to inventory was developed, as discussed in the next section. No other significant risks or findings were identified as a result of these procedures.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE Determine whether inventory counts are conducted and approved by personnel independent of maintaining inventory records, in accordance with the prior audit finding recommendation and GAO *Standards for Internal Control*.

Conclusion Inventory counts were not conducted and approved by personnel independent of maintaining inventory records, in accordance with the prior audit finding recommendation and GAO *Standards*.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the inventory processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Inventory Count Results Require a Formal Review

Repeat Finding

AOC’s Management Information Systems (MIS) asset management team is responsible for maintaining IT inventory records in the Cherwell Database and conducting IT inventory counts for the Supreme Court and District Courts. IT inventory counts were conducted in person from the period of July 2016 through December 2020 and were conducted over the phone with the assistance of the county clerks at each district location from January 2021 through June 2022. The counts have been tracked using a digital map of all the Oklahoma counties; at the time of our procedures 66 of 77 counties had reportedly been inventoried during the previous year. The entity does not conduct non-IT inventory counts but does plan to do so in the future.

The inventory technician conducts IT inventory counts and has the capability to make changes in the Cherwell Database. This creates the opportunity for someone in this position to make errors or potentially misappropriate items without detection. The inventory counts are not formally reviewed or approved by management to ensure errors have not occurred and the inventory items purchased have been accounted for.

In June 2021 the entity hired an IT manager, and since that point efforts have been made to clean up inventory records and improve the overall inventory processes. There have also been systems put in place to electronically track and verify IT inventory connected to the network. The IT manager is also in the process of writing formal policies and procedures, as the entity has not had them in the past.

The GAO *Standards for Internal Control* state that in order to safeguard vulnerable assets, “Such assets should be periodically counted and compared to control records.” They also state that management should design control activities to achieve objectives and respond to risks, implement those control activities through policies, and remediate identified internal control deficiencies on a timely basis.

Recommendation

We recommend:

- Management should ensure a comprehensive, in person inventory count of IT and non-IT items is performed to ensure the records are complete and accurate. All inventory counts, whether they be physical or electronic, should be documented, including when and by whom the count was performed. The individual responsible for performing the count should not have access to modify inventory records.
- After a full inventory count has been performed as recommended above, physical counts should be conducted as appropriate to confirm the inventory listing is complete and accurate and reconciles to purchasing and asset disposal records. Items being tracked electronically over the network should receive visual verification on at least a rotating basis and procedures should confirm that the non-network IT items are listed appropriately, and no non-AOC assets are listed in error.
- The results of each inventory count, and any resulting modifications to inventory records, should be reviewed and approved by a knowledgeable individual separate from those maintaining inventory records and conducting inventory counts. The review of the count results should be formally documented, and the documentation should be retained for audit purposes.
- Management should update the entity’s written policies and procedures to include the approved process.

Views of Responsible Officials

Management is looking to hire an individual who will be primarily responsible for the inventory records of non-IT assets. Management will ensure a baseline inventory of non-IT assets is performed by the end of June 2023 at the Judicial Center, Denver Davidson Building, and the 201 Center in Tulsa. No non-IT assets reside in the counties. A recurring annual physical review of non-IT assets will be performed and documented.

For IT assets, a physical review will be conducted in all 77 counties as new computers are rolled out to all users over the next 12-14 months. A physical review of IT assets in the Judicial Center, Denver Davidson Building, and the 201 Center in Tulsa will be conducted by the end of June 2023. A recurring annual physical review of IT assets in these buildings will be performed and documented.

Once the baseline inventory in the 77 counties is created, a physical review of all IT assets will be performed in the counties on a rotating three-year cycle. On-site court clerk staff will be utilized, and a formal documentation process will be implemented.

IT assets will continue to be monitored electronically. Discrepancies will continue to be investigated and the reconciliation process will be documented.

With the hiring of a new employee, segregation of duties for all inventory tasks will be maintained. Process and procedure documents will also be updated and maintained.

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