

OPERATIONAL AUDIT

ADMINISTRATIVE OFFICE OF THE COURTS

For the period January 1, 2008 through March 31, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary Jones, CPA, CFE

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

**For the Period
January 1, 2008 through March 31, 2011**



Oklahoma State Auditor & Inspector

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TO THE ADMINISTRATIVE DIRECTOR OF THE COURTS

This is the audit report of the Administrative Office of the Courts for the period January 1, 2008 through March 31, 2011. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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Background

Administrative services for the Supreme Court and the District Courts are provided by the Administrative Office of the Courts (Agency). The Supreme Court is comprised of nine justices appointed by the governor and operates under 20 O.S. § 1 through 24. There are 77 District Courts with multiple judges governed by 20 O.S. § 91.1 through 127.

The Supreme Court of Oklahoma:

Steven W. Taylor	Chief Justice
Tom Colbert.....	Vice-Chief Justice
Douglas L. Combs.....	Justice
James E. Edmondson	Justice
Noma Gurich.....	Justice
Yvonne Kauger.....	Justice
John F. Reif.....	Justice
Joseph M. Watt	Justice
James R. Winchester.....	Justice

Table 1 summarizes the Supreme Court’s sources and uses of funds for state fiscal years 2010 and 2009 (July 1, 2008 through June 30, 2010).

Table 1 – Sources and Uses of Funds for FY 2010 and FY 2009

	2010	2009
Sources:		
State Appropriations	\$ 18,682,383	\$ 15,369,628
Court Fee for Data Processing	18,658,084	16,787,928
Local Court Funds	40,184,446	36,280,494
Other	675,448	597,489
Total Sources	\$ 78,200,361	\$ 69,035,539
Uses:		
Personnel Services	\$ 24,002,123	\$ 17,280,061
Professional Services	2,497,628	1,800,498
Travel	391,178	310,924
Miscellaneous Administrative	1,246,988	1,159,281
Rent	335,943	261,423
Office Furniture	5,451,664	2,776,523
General Operating	461,947	362,104
Library Equipment - Resources	1,478,770	1,346,839
Bond Indebtedness	3,420,285	2,817,267
Other	1,269,590	1,337,210
Total Uses	\$ 40,556,116	\$ 29,452,130

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

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Table 2 summarizes the District Courts' sources and uses of funds for state fiscal years 2010 and 2009 (July 1, 2008 through June 30, 2010).

Table 2 – Sources and Uses of Funds for FY 2010 and FY 2009

	2010	2009
Sources:		
State Appropriations	\$ 53,836,469	\$ 55,088,094
Court Filing Fee	1,353,076	1,196,851
Court Fee for Data Processing	-	43,564
Total Sources	\$ 55,189,545	\$ 56,328,509
Uses:		
Personnel Services	\$ 57,978,579	\$ 57,462,396
Professional Services	6,000	5,483
Travel	357,739	411,917
Miscellaneous Administrative	130,148	137,373
Rent	17,121	32,389
Office Furniture	-	174
General Operating Expenses	5,578	14,382
Other	21,519	153,282
Total Uses	\$ 58,516,684	\$ 58,217,396

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's Office (SA&I) to audit the books and accounts of all state agencies whose duty it is to collect, disburse or manage funds of the state, as well as 12 O.S. § 1801, which requires SA&I to audit the dispute resolution system fund.

The audit period covered was January 1, 2008 through March 31, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform

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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. 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.

Objective - Determine whether the Agency's internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records, and financial operations complied with 20 O.S. § 1315 B., 20 O.S. § 1227, 12 O.S. § 921.1 F, 28 O.S. § 86, 20 O.S. § 3.1, 20 O.S. 92.1A, and 20 O.S. § 3.4.

Conclusion

The Agency's internal controls:

- Generally provide reasonable assurance that inventory was accurately reported in the accounting records. However, certain areas could be strengthened.
- Do not provide reasonable assurance that revenues and expenditures (excluding payroll) were accurately reported in the accounting records.

The Agency is responsible for processing the district courts' payroll which accounted for approximately 75% of the \$250 million in personnel services during the audit period. Because these offices are managed independently by local elected officials, Agency management believes their authority over them is limited. As a result of this structure, we did not conclude on internal controls over payroll expenditures.

Financial operations complied with the following statutes:

- 28 O.S. § 86 – Lengthy Trial fund;
- 20 O.S. § 3.1 – Limitations on the justices' salaries;
- 20 O.S. § 92.1A- Limitations on the district court judges' salaries;
- 20 O.S. § 3.4 – Limitations on the court of civil appeals judges' salaries;
- 12 O.S. § 921.1 F - Legal Services fund.

With respect to the items tested, financial operations:

- Did not comply with 5 of 29 claims paid in accordance with 20 O.S. § 1315 B - Limitations on expenditures paid from the Oklahoma Courts Information Systems (OCIS) revolving fund.
- Complied with 20 O.S. § 1227 – Limitations on expenditures paid from the Law Library revolving fund.

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Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls¹ related to the receipting, expenditure, and inventory processes through discussions with Agency personnel, observation, and review of documents.
- Tested inventory controls which included:
 - Determining the person responsible for recordkeeping is independent of initiating the transaction (purchasing, transferring, or deleting).
 - Determining periodic inventory counts were performed.
 - Agreeing seven haphazardly selected high appeal² items from each of five judgmentally selected district court/county court clerk (district court) inventory reports³ to ensure the item was present and its description, asset tag number and serial numbers agreed to the inventory report. The same procedures were performed for 35 judgmentally selected items from the floor.
 - Randomly selected 10 employees from the Oklahoma City office and requested their “ERN” (Equipment Relocation Notice) forms. After receiving the “ERN” forms, we judgmentally selected one high appeal item from each and ensured the item was present and its description, asset tag number and serial numbers agreed to the inventory records. The same procedures were performed for 10 judgmentally selected items from the floor.
- Reviewed 29 claims (25 randomly selected and four judgmentally selected) totaling \$7,158,910 paid from the OCIS Fund to determine compliance with 20 O.S. §1315B.
- Reviewed 25 randomly selected claims totaling \$122,562 paid from the Law Library Fund to determine compliance with 20 O.S. §1227.
- Reviewed all 10 claims totaling \$8,190 which were paid from the Lengthy Trial Fund to determine compliance with 28 O.S. § 86.
- Obtained and reviewed independent audit reports for the two organizations that received funding from the Legal Services Fund to determine funds were used in accordance with 12 O.S § 921.1F.
- Reviewed all district court, supreme court, and court of civil appeals judges’ salaries to ensure they did not exceed the maximum amount set forth by law.

¹ This included consideration of the dispute resolution system fund in accordance with 12 O.S. 1801.

² High appeal items were defined as easily convertible to personal use or susceptible to theft.

³ The five selected offices were Seminole County (Wewoka), Payne County (Stillwater), Pontotoc County (Ada), Grady County (Chickasha), and Custer County (Arapaho). We did not have a feasible method of identifying the complete inventory population.

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Observation

Inaccurate Inventory Records

To protect against errors or irregularities, the internal control system should provide reasonable assurance that inventory records are accurate and reliable by requiring periodic physical inventory counts, as well as having written policies and procedures in place to ensure all inventory items are accurately recorded in the Agency's accounting records.

The following was noted as a result of procedures performed:

35 items judgmentally selected from the inventory listing (district court)

- Two scanners (OCIS# 118735 and OCIS# 118201 – Pontotoc County) could not be located.
- One scanner (OCIS# 115212) was surplused from Payne County and reassigned to Garfield County. Inventory records were not updated to reflect the transfer.

35 items judgmentally selected from the floor (district court):

- The serial number on one printer (OCIS# 118215 – Pontotoc County) did not agree to the inventory listing.
- One scanner (OCIS#118195 – Pontotoc County) was not identified on the inventory listing.

10 items judgmentally selected from the inventory listing (Oklahoma City)

- The serial number on one laptop (OCIS #121668) did not agree to the inventory listing.

10 items judgmentally selected from the floor (Oklahoma City)

- One laptop (OCIS #122921) did not have a serial number identified on the inventory report.

Although the Agency has a process in place for periodic inventory counts, they do not appear to have been completely effective. Misappropriation of assets could occur and not be detected in a timely manner. Without written policies and procedures, the process may not be effective in detecting possible errors within the inventory records.

Recommendation

Management should establish written policies and procedures related to the inventory process, including conducting physical inventory counts, to ensure inventory items are accurately recorded in the Agency's records.

Views of Responsible Officials

Management agrees to establish written policies and procedures related to the inventory process, including conducting physical inventory counts, to ensure that inventory items are accurately tracked. We will also work to enhance local inventory training to help increase the accuracy and integrity of this process. Finally, we are in the process of purchasing new inventory software which should assist us with this issue.

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Observation

Inadequate Segregation of Duties in the Revenue Reconciliation Process – Repeat Finding

To protect against errors or irregularities, the internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating duties as well as ensuring an adequate reconciliation of accounting records.

Finance officer “A” is responsible for receipting the majority of funds received into the Agency’s accounting system as well as preparing and delivering the deposit to the bank. A monthly clearing account reconciliation is performed by the chief financial officer (CFO); however, it is prepared with data created by finance officer “A”.

We did consider that management attempted to design other controls to prevent and detect the unauthorized use of funds. However, it was determined the risks were not reduced.

Management did not consider the lack of segregation of duties to be a risk. Errors or irregularities could occur in the receipting and reconciliation process and not be detected in a timely manner.

Recommendation

Management should develop procedures to ensure the CFO, when performing the clearing account reconciliation, obtains the necessary internal receipting records independent of finance officer “A” or other personnel who may be responsible for the receipting functions.

Currently, the Agency’s receipting system does not record adjustments made after the initial entry. Management should consider modifications to the system to allow this information to be recorded. Assuming this occurs, the CFO should consider and investigate, as necessary, adjustments to the receipting system reports while preparing the clearing account reconciliation.

Views of Responsible Officials

Management agrees to adopt new procedures which will ensure that our Chief Financial Officer obtains internal receipting records independent of other staff. We will also consider appropriate modifications to our system if they are cost effective.

Observation

Inadequate Segregation of Duties Related to Expenditures – Repeat Finding

The United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*⁴ states in part, “Key duties and responsibilities need to be...segregated among different people to reduce the risk of error or fraud....No one individual should control all key aspects of a transaction...”.

Finance officers A, B, C, and D are each responsible for:

⁴ Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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- Posting disbursements into the PeopleSoft accounting system;
- Receiving warrants from the State Treasurer's Office; and
- Mailing warrants to the vendors.

Management did not consider the lack of segregation of duties as a risk. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

Management should ensure that employees responsible for posting invoices into the PeopleSoft accounting system are not responsible for receiving the related warrants.

Views of Responsible Officials

Management will ensure that the employees responsible for posting invoices are not responsible for receiving related warrants.

Observation

Decentralized Payroll Process

20 O.S § Rule 2⁵ indicates the district judge is responsible for the supervision of the district court personnel.

There are 96 district court offices located throughout Oklahoma. The district offices' and the Agency's personnel services totaled approximately \$250 million during the audit period with the district courts accounting for approximately 75% of this total. The Agency processes the district offices' payroll each month under the assumption that everyone should be paid for the entire month unless notified otherwise. Timesheets or leave requests are not submitted to the Agency. Because the district courts are managed independently by local elected officials, Agency management believes their authority over them is limited. As a result of this structure, we were unable to obtain an understanding of the internal controls related to payroll expenditures. Misappropriation of assets could occur and not be detected.

Recommendation

We recommend management consider the risks associated with this process and develop controls to address them. For example, each month, the Agency could require each district judge to provide a listing of their employees and identify their hours worked. The listing could be signed and dated by the district judge stating the information is true to the best of their knowledge.

Views of Responsible Officials

Management must depend upon local elected officials to supervise their own district court personnel. These personnel are unclassified employees who are under the direct supervision and control of their elected employers or their employers' assignees.

These elected officials are frequently reminded by the Administrative Office of the Courts of their duty to supervise their employees' leave accrual and usage and to maintain adequate timesheets and/or leave records.

⁵ See additional portions of 20 O.S § Rule 2 in the Appendix of this report.

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Observation **Dispute Resolution System Fund – Policies and Procedures – Repeat Finding**

Control activities are the policies and procedures that help ensure management's directives are carried out. Control activities, whether automated or manual, are applied at various organizational and functional levels.

Policies and procedures to ensure that payments to the community-based mediation centers (centers) are appropriate have not been developed. Based on discussion with program personnel:

- Centers are not required to submit supporting invoices with their written reimbursement of expenditure request; however, most choose to do so. Staff relies upon each center's system of internal control related to expenditures to ensure accuracy and validity of the reimbursement request;
- Centers are visited periodically and an informal review is performed. However, a formal monitoring document is not completed;
- There is not a formal monitoring schedule for the centers. When a monitoring review does occur, documentation identifying the results is not retained.

Recommendation Management should develop a review schedule for periodic monitoring of each center. To ensure that consistent review procedures are being performed, a formal document should be developed for use in this process and retained by program personnel. This monitoring document should include a review of the expenditure supporting documentation that was not previously submitted to the Agency in a sampling of categories and/or amounts of expenditures as determined by the program personnel. Once a base-line is established, consideration may be given to monitoring on a risk-based approach. For example, more frequent visits to centers with noted issues or a higher percentage of expenditures.

Views of Responsible Officials Management agrees to develop a process to periodically monitor each center, and to develop a system that includes a review of each center's expenditure supporting documentation. The ADRS director will require that all monthly claims for reimbursement submitted by the local sponsors of the Early Settlement Mediation programs include supporting documents regarding claimed expenditures for the programs. The ADRS director will continue to verify the claims for accuracy by comparing the summary invoice with the supporting documents before approving the claims for reimbursement by initialing and dating those claims before forwarding them for payment.

The ADRS director conducts periodic visits to the centers and engages in regular monitoring activities with the centers which include oversight of expenditures, case load, training, staffing, and performance. During these periodic visits, the ADRS director will compare documents on file in the local offices with the documentation that was submitted by mail, and will document the monitoring schedule as well as the monitoring activities. The ADRS director will require a written explanation of discrepancies, if there are any, and will retain that documentation as part of the expenditure claims files. If a plan of correction is required, that plan will also be retained.

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Observation

Unallowable Expenditures

20 O.S. §1315 B. states in part, "...Monies...may be expended...for the acquisition, operation, maintenance, repair, and replacement of data processing equipment and software..."

Of the 25 claims tested from the OCIS fund, one claim was for food. We selected the remaining four claims paid from this fund with account code 536170 (food and catering service) and noted they were also for food.

Because the food was purchased for a technology related meeting, management believed the costs were allowable. Unallowable expenditures were paid from the OCIS fund.

Recommendation

Management should exercise diligence when approving claims to ensure the expenditure is allowable based on the statute that created the fund.

Views of Responsible Officials

The Supreme Court has been authorized and directed by the legislature to provide the judiciary and others with data processing services for case tracking, accounting, auditing, and financial reporting. The Administrative Office of the Courts (AOC) works under the direct supervision and control of the Chief Justice and Supreme Court. The AOC has been directed to develop and implement a new statewide unified case management system.

Dozens of day-long and multi-day meetings have been held to conduct very detailed work on the acquisition, design, operation, maintenance and replacement of the new case management system. A significant number of judges and their staff from all over the state have been attending these meetings and working on this project.

As a branch of government, the judiciary has the right to develop policies and procedures for conducting its official business. To reduce travel costs and other expenses, the AOC has occasionally elected to provide working lunches for these intensive meetings. These occasional working lunches serve a public purpose, are necessary to accomplish these detailed discussions in the limited time available and are directly related to our authorization to acquire, design, and implement the data processing equipment and software.

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APPENDIX

20 O.S § Rule 2 States in part,

“B. Subject only to the rules, orders, and directives of the Supreme Court, the Chief Justice, or the Presiding Judge, the Chief Judge of each district court judicial district shall be responsible for the supervision of all district court personnel in the judicial district. If there is no Chief Judge in the judicial district, then the district judge shall be responsible for the supervision of the district court personnel...

C. Subject only to the rules, orders, and directives of the Supreme Court or the Chief Justice, the Presiding Judge shall have general administrative authority and supervision over all courts within the district...

1. ...to establish work schedules for district court personnel and to make such other administrative directives as the Presiding Judge deems appropriate for effective and efficient management of the district court personnel within the judicial administrative district.
2. ...ensure appropriate staff management and record keeping practices are in place for the district court personnel in the judicial administrative district.
3. ...for implementing and enforcing the administrative orders and directives of the Chief Justice and may issue such orders and directives necessary to assure adherence to statewide court objectives and policies...

E. ...issue such directives and orders as are necessary to manage the assignment, duties, and performance of district court personnel; to establish work schedules and other personnel policies applicable to district court personnel; to suspend, furlough or terminate individual district court personnel; and to make such other administrative directives...”



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