

ADMINISTRATIVE OFFICE OF THE COURTS

JULY 1, 2005 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
July 1, 2005 through December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Oklahoma Office of the
State Auditor and Inspector

July 10, 2008

TO THE ADMINISTRATIVE DIRECTOR OF THE COURTS

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Administrative Office of the Courts (specifically the Supreme Court and the District Courts) for the period July 1, 2005, through December 31, 2007. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

The Supreme Court of Oklahoma

Chief Justice James R. Winchester
Vice Chief Justice James E. Edmondson
Justice Steven W. Taylor
Justice Marian P. Opala
Justice Yvonne Kauger
Justice Tom Colbert
Justice Rudolph Hargrave
Justice John F. Reif
Justice Joseph M. Watt

Key Staff for the Administrative Office of the Courts

Michael D. Evans Administrative Director of the Courts
Lin Buchanan..... Chief Fiscal Officer



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Oklahoma Office of the
State Auditor and Inspector

TO THE ADMINISTRATIVE DIRECTOR OF THE COURTS

We have audited the Administrative Office of the Courts (specifically the Supreme Court and the District Courts) for the period July 1, 2005, through December 31, 2007. The objectives of this audit were to determine if:

- The Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Agency complied with the Department of Central Services' Purchase Card Procedures;
- The Agency's corrective actions for reportable conditions noted in prior year's report were implemented.

As part of our audit, we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

June 30, 2008

Background

Administrative services for the Supreme Court and the District Courts are provided by the Administrative Office of the Courts (the 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.

Table 1 summarizes the Supreme Court sources and uses of funds for fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007

Sources:	2006	2007
State Appropriations	\$17,963,559	\$17,933,824
Court Fee for Data Processing	8,306,756	8,713,115
Local Court Funds	37,958,461	39,113,145
Other	<u>452,379</u>	<u>551,139</u>
Total Sources	<u>\$46,717,595</u>	<u>\$48,377,399</u>
Uses:		
Transfers to District Courts and Legal Aid	\$42,564,845	\$39,309,858
Personnel Services	12,229,390	13,890,912
Professional Services	1,582,594	1,262,228
Travel	140,508	176,589
Miscellaneous Administrative	923,504	1,019,190
Rent	251,224	231,182
Office Furniture and Equipment	3,533,375	3,496,486
General Operating Expense	329,044	305,896
Library Equipment- Resources	1,358,928	1,200,900
Bond Indebtedness	0	2,397,828
Other	<u>1,421,093</u>	<u>877,170</u>
Total Uses	<u>\$64,334,505</u>	<u>\$64,168,239</u>

Source: Oklahoma CORE Accounting System.

Table 2 summarizes the District Courts sources and uses of funds for fiscal years 2006 and 2007.

Table 2-Sources and Uses of Funds for FY 2006 and FY 2007

Sources:	2006	2007
State Appropriations	\$45,432,415	\$54,364,441
Court Filing Fee	574,956	1,746,916
Court Fee for Data Processing	<u>0</u>	<u>187,966</u>
Total Sources	<u>\$46,007,371</u>	<u>\$56,299,323</u>
Uses:		
Personnel Services	\$45,937,964	\$52,856,185
Travel	397,649	297,001
Miscellaneous Administrative	95,603	71,535
Other	<u>280,241</u>	<u>196,573</u>
Total Uses	<u>\$46,711,457</u>	<u>\$53,421,294</u>

Source: Oklahoma CORE Accounting System.

Objective 1 – Determine if the Agency’s internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Agency’s internal controls generally provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records; however, four issues were noted in which the controls need to be strengthened. Additionally, the Agency’s financial operations did comply with applicable finance-related laws.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 (timely deposits);
- Documented internal controls related to the revenue, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if checks were endorsed upon receipt;
 - Determining if the person preparing the deposit was independent of the receipting process;
 - Reviewing deposits from the period to ensure the deposit was supported with the appropriate “Deposit Register/Daily Breakdown Report”;
 - Determining if funds were stored in a secure location prior to deposit;
 - Reviewing 40 deposits to ensure the bank deposit date was within one day of when the funds were received;
 - Reviewing 40 deposits to ensure the deposit was posted into CORE within one day of being deposited at the bank;
 - Reviewing six Office of State Finance (OSF) - Form 11 reconciliations to ensure the preparer and reviewer were independent of each other and the reconciling items were adequately supported and appeared reasonable;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
 - Reviewing 85 expenditure claims (60 from the Supreme Court and 25 from the District Court) to ensure each was properly approved, the correct account code was used, and was reasonable given the Agency’s mission;
 - Determining if there was adequate segregation of duties in the inventory process;
 - Determining an annual physical inventory count was conducted;
 - Determining if surplus property forms were completed and approved;
- Reviewed a CORE deposit report for the period to ensure funds were transferred from the Agency’s clearing account to their revolving funds at least once per month;
- Reviewed an expenditure report for the period and judgmentally selected 20 claims paid from the Law Library Fund to determine compliance with 20 O.S. § 1227. This law sets forth what are considered allowable expenditures of the fund (i.e., all bills due by county law libraries, computer equipment, books, etc.);
- Reviewed two claims paid from the Legal Services Fund to determine compliance with 12 O.S. § 921.1. This law requires the funds to be used in civil legal matters of indigent persons;
- Reviewed nine claims paid from the Lengthy Trial Fund to determine compliance with 28 O.S. § 86. The law allows jurors serving on a trial lasting more than 10 days to receive replacement or supplemental wages up to \$200 per day beginning on the 11th day of service;
- Agreed 10 assets from the inventory listing to the floor to ensure their existence, they were identified as property of the State, and the inventory tag number and serial number agreed to the listing;
- Agreed 10 assets from the floor to the inventory listing to ensure their inclusion on the listing, they were identified as property of the State, and the inventory tag number and serial number agreed to the listing;
- Judgmentally selected eight months from the period and tested the monthly salaries of the Supreme Court Justices to ensure compliance with 20 O.S. § 3.1 and the report issued by the Board on Judicial

Compensation (report issued in accordance with 20 O.S. § 3.4). The report issued by the Board on Judicial Compensation revised the salary amounts identified in 20 O.S. § 3.1;

- Judgmentally selected eight months from the period and tested the monthly salaries of six district judges, one special judge, and one associate judge from each of the eight months to ensure compliance with 20 O.S. § 92.1A and the report issued by the Board on Judicial Compensation (report issued in accordance with 20 O.S. § 3.4). The report issued by the Board on Judicial Compensation revised the salary amounts identified in 20 O.S. § 92.1;
- Tested 30 timesheets from various employees for 10 months throughout the period to ensure the timesheet was signed by the employee and a supervisor.

Observations

Clearing Account Reconciliations Should be Reviewed

An effective internal control system provides for an adequate reconciliation of accounting records with a sufficient level of review. Agency management indicated no independent review of the OSF Form-11 reconciliation is performed. We tested six of the reconciliations in detail by agreeing the amounts presented to supporting documentation and noted the transfer amount on the January 2007 reconciliation was reported incorrectly in one section. This error could have been detected with a formal independent review. Without a formal review, misstatements could occur.

Additionally, the Agency does not formally reconcile their clearing account to CORE records. Without an official reconciliation to CORE, transactions that were inadvertently not posted or posted incorrectly may go undetected.

Recommendation: We recommend:

- Someone independent of the person preparing the reconciliation as well as the receipting process perform a detailed review of the OSF-Form 11 reconciliation. This review should include agreeing the reconciling items to the supporting documentation and verifying mathematical accuracy.
- The Agency develop a formal process for reconciling their clearing account to CORE on a monthly basis. This should include a detailed review by someone other than the preparer.

Views of Responsible Officials: We concur with both recommendations and will implement new procedures to address both concerns.

Inadequate Segregation of Duties Related to Receipts and Expenditures

62 O.S. § 7.1 C. 2. c. states, “All checks received must be restrictively endorsed immediately upon receipt.”

An effective internal control system provides for adequate segregation of duties. Based on conversation with Finance Officer A, she is responsible for the following:

- Endorsing checks received from Finance Officer B or C;
- Posting funds received into a “Deposit Register” log;
- Preparing and delivering the deposit to the bank without review from another employee;
- Posting receipts into the CORE accounting system;
- Posting disbursements into the CORE accounting system, receiving warrants from OSF, and mailing warrants to the vendors.

Without adequate segregation of duties, misappropriation of assets could occur.

Recommendation: We recommend:

- Finance Officer B or C endorse checks upon receipt and sum the receipts by type. The endorsed checks and documentation of the calculated receipt totals should be provided to Finance Officer A for preparation

of the deposit. After the deposit is prepared by Finance Officer A, the Chief Fiscal Officer (CFO) (or other designee) should review the deposit and supporting documentation, compare it to the documentation prepared by Finance Officer B or C, and initial the deposit indicating her formal review. The level of documentation prepared by Finance Officer B or C is at management's discretion but should be sufficient to provide the person conducting the deposit review reasonable assurance what was received was also deposited.

- Someone other than Finance Officer A receive the warrants from OSF, match them to the appropriate invoice/ purchase order, and mail them to the vendors.
- Someone other than Finance Officer A review the mathematical accuracy and account codes assigned to claims prior to their formal approval. This could be performed on a random basis since the volume of claims produced by the Agency is high.

Views of Responsible Officials: We concur with the three recommendations and will implement new procedures to address each concern.

Inadequate Segregation of Duties Related to Inventory Process

An effective internal control system provides for periodic physical inventories of Agency assets as well as appropriate segregation of duties. Based on conversation with staff, the following was noted:

- The Certified Procurement Officer (CPO) is responsible for making purchases on behalf of the Agency as well as maintaining the non-technology related equipment inventory records;
- A physical count of the Agency's inventory (both non-technology and technology related) does not occur.

Deficiencies such as these may lead to misappropriation of assets.

Recommendation: We recommend a physical inventory count be conducted by an employee(s) independent of the purchasing process. Documentation of the count should be maintained, signed and dated by the employee(s) performing the count as well as signed and dated by management to indicate their formal approval. Due to the size of the Agency and the number of assets in use, we realize it may not be reasonable to conduct a full count; however, management should, at a minimum, implement procedures to conduct random, unannounced counts of inventory on a sample basis. This should include items assigned to the District Courts as well.

Additionally, if the Agency wishes to continue maintaining two sets (non-technology and technology) of inventory records, the CPO should not maintain either of the lists.

Views of Responsible Officials: We concur with the recommendation and will implement appropriate procedures to improve inventory records.

Incorrect Account Codes Appear to Have Been Used

The Office of State Finance's procedures manual – Chapter 100 – Fund Structure and Accounting Codes- Section A3 states in part,

2213 PURCHASE OF FOOD AND LODGING – AGENCY DIRECT

Payment for food, lodging and other expense by state agencies authorized to contract for such travel related purchases for employees under 74 O. S. § 500.2...

74 O.S. § 500.2 E. 4. states in part, "State agencies are authorized to enter into contracts and agreements for the payment of food and lodging expenses as may be necessary for employees attending an official course of instruction or training conducted or sponsored by any state agency..."

The Office of State Finance's procedures manual – Chapter 100 – Fund Structure and Accounting Codes- Section A3 states in part,

3611 MEETING REFRESHMENTS

Payment for purchase of light food and drink items (e.g. doughnuts, cake, coffee, tea, soft drink, etc.) used as refreshments and required in connection with meetings or similar type activities held/conducted for and in the interest of the general public...

68 O.S. § 1356 states in part, “There are hereby specifically exempted from the tax levied by Section 1350 et seq. of this title: 1. Sale of tangible personal property or services to the...State of Oklahoma...”

Of the 85 expenditures tested (60 from the Supreme Court and 25 from the District Court), the following was noted:

- One claim had state sales tax included in the total;
- Seven claims appeared to have the wrong account code charged;
 - One claim was coded as 3611 (light food and drinks); however, lunch was served.
 - Four claims were coded as 2213 (food for employees in travel status attending training); however, this was a committee of non-state employees interviewing candidates for district and associate judge positions;
 - Two claims were coded as 2213 (food for employees in travel status attending training); however, this was a committee of non-state employees attending training.

Expenditure accounting records presented by account code may be misstated.

Recommendation: We recommend management exercise diligence when approving expenditure claims to ensure sales tax is not paid and the appropriate account code is used.

Views of Responsible Officials: We have consistently coded food purchases according to the directives of the Office of State Finance. If they need to expand their coding nomenclature, we will encourage them to do so. Your concerns involved groups that we hosted for training and/or judicial meetings who either work for the judiciary or perform voluntary services on its behalf. These individuals are not state employees.

We concur that sales taxes were paid on one claim inadvertently.

Auditor’s Response: Because the Agency operates in a unique environment, we recommend management initiate communication with Office of State Finance officials regarding the possibility of creating new account codes which would accommodate certain expenditures encountered by the Agency.

Statutes Related to Justices and District Judges Should be Clarified

20 O.S. § 3.1 states, “Except as otherwise provided by the Board on Judicial Compensation, the following judicial officers shall receive compensation for their services, payable monthly as follows:

1. The Chief Justice of the Supreme Court shall receive an annual salary of One Hundred Seventeen Thousand Five Hundred Seventy-one Dollars (\$117,571.00); and
2. An Associate Justice of the Supreme Court shall receive an annual salary of One Hundred Thirteen Thousand Five Hundred Seventy-one Dollars (\$113,571.00).”

20 O.S. § 92.1A states “Except as otherwise provided by the Board on Judicial Compensation, the following judicial officers shall receive compensation for their services, payable monthly as follows:

1. A judge of the district court shall receive an annual salary of One Hundred Two Thousand Five Hundred Twenty-nine Dollars (\$102,529.00);
2. An associate district judge shall receive an annual salary of Ninety-four Thousand Eight Hundred Thirty-nine Dollars (\$94,839.00); and

3. A special judge shall receive an annual salary of Eighty-seven Thousand One Hundred Fifty Dollars (\$87,150.00).

20 O.S. § 3.4 states in part, “For purposes of this act, the State Judiciary for which the Board on Judicial Compensation shall review and set compensation shall be as follows:

1. The Chief Justice of the Supreme Court;
2. The Associate Justices of the Supreme Court...
7. The district court judges;
8. The associate district court judges; and
9. The special district court judges.”

In November 2005, the Board on Judicial Compensation (Board) issued a letter documenting their determination that the salaries of the Supreme Court justices and the district court judges (including special and associate) should be increased. However, the above-mentioned statutes were not revised to reflect the new salaries nor were the salaries posted in another conspicuous location.

Recommendation: We recommend management seek updates to Legislation setting the salaries identified in 20 O.S. § 3.1 and 20 O.S. § 92.1A.

Views of Responsible Officials: We disagree with this recommendation. The compensation of justices and judges is set by the Board on Judicial Compensation (Board) unless such compensation is rejected or amended by law passed by a majority vote of each house of the Legislature. See 20 O.S. § 3.2. Although our office provides staff assistance to the Board, the Board is an independent executive branch agency.

The legislation creating the Board does not require that the Board post or publish its bi-annual findings. However, the Board does voluntarily furnish its findings to the Governor, President Pro Tempore of the Senate, and the Speaker of the House.

I will ask the Supreme Court to consider posting the compensation schedules of the Board on our web-site.

Objective 2 – Determine if the Agency complied with the Department of Central Services’ (DCS) Purchase Card Procedures.

Conclusion

Based on the procedures performed, the Department was generally in compliance with the DCS Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed DCS’ Purchase Card Procedures;
- Reviewed seven purchase card transactions.

Observations

Section 3.10 of DCS's Purchase Card Procedures states, "Entity p/card administrators...authorized signers, approving officials, and cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards..."

Section 6.1.3 of DCS's Purchase Card Procedures states, "The Entity p/card administrator shall maintain the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement..."

Section 6.7.1 of DCS's Purchase Card Procedures states in part, "...The receiving document should be annotated "Received" and signed and dated by the receiving employee..."

Section 6.6 of DCS's Purchase Card Procedures states in part, "State entity purchases are exempt from the State of Oklahoma sales tax. Cardholders should exercise care to ensure that they are not being charged nor paying such tax..."

Based on procedures performed on seven transactions and conversation with management, the following was noted:

- The Agency's four cardholders did not sign and/or maintain the State of Oklahoma Purchase Card Employee Agreement;
- Seven transactions' receiving documents were not annotated "received";
- One transaction included state sales tax.

Recommendation: We recommend the p/card holders and the p/card approving official review the DCS Purchase Card Procedures to ensure they are familiar with the requirements. Additionally, the Agency's four p/card holders should read, sign, and maintain the State of Oklahoma Purchase Card Employee Agreement.

Views of Responsible Officials: We concur with the recommendation regarding our four p/card holders.

Objective 3 – Determine if the Agency's corrective actions for reportable conditions noted in prior year's report were implemented.

Conclusion

The Office of the State Auditor issued two reports (Supreme Court and District Court) on August 7, 2006. The Supreme Court report included two findings (endorsement of checks upon receipt and incorrect account codes assigned) which were considered significant to this engagement. Findings related to both issues were noted in this engagement as well. There were no findings noted in the previous District Court report.

Methodology

To achieve our objective, we performed the following:

- Documented internal controls related to the revenue and expenditure process (procedures were performed under Objective 1 of the report);
- Tested controls which included:
 - Determining if checks were endorsed upon receipt (procedures were performed under Objective 1 of the report);
 - Reviewing 60 expenditure claims to ensure each was properly approved, the correct account code was used, and was reasonable given the Agency's mission (procedures were performed under Objective 1 of the report);

Observations

Observations for the above procedures are presented under Objective 1.



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896**

WWW.SAI.STATE.OK.US