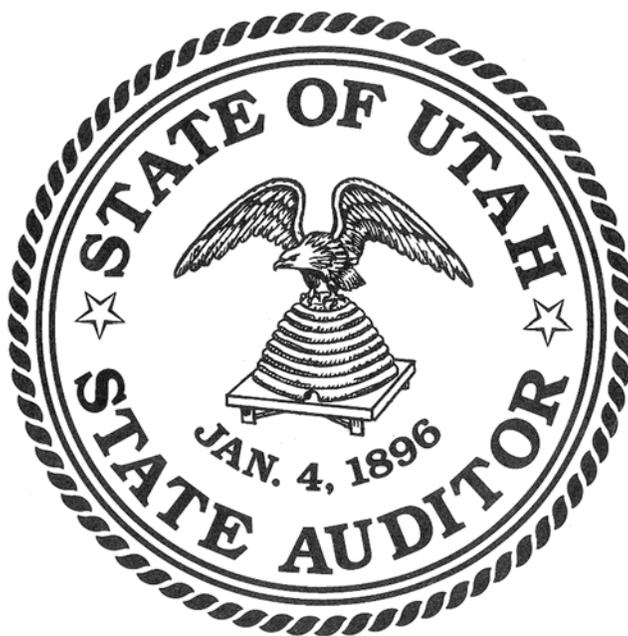


ADMINISTRATIVE OFFICE OF THE COURTS

Departmental Audit
For the Period July 2017 through January 2018

Report No. DEP-18-FP-e



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

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ADMINISTRATIVE OFFICE OF THE COURTS
FOR THE PERIOD JULY 1, 2017 THROUGH JANUARY 2018

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OFFICE OF THE
STATE AUDITOR

May 8, 2018

Rick H. Schwermer, State Court Administrator
Administrative Office of the Courts
450 South State Street
P.O. Box 140241
SLC, Utah 84114-0241

Dear Mr. Schwermer:

In accordance with *Utah Code 67-3-1(4)*, we have performed the procedures described below to certain aspects of the Administrative Office of the Courts' (AOC's) internal control for the period July 2017 through January 2018. The primary focus of our review was to review general financial internal control as well as internal control over any federal programs overseen by the Department, as outlined below:

1. We reviewed the processes for and internal controls over the remittance of surcharges to the State Treasurer's Office.
2. We completed a review of the AOC's separation of accounting duties.
3. We obtained a list of all the AOC bank accounts and reviewed the activity of the accounts. For each bank account with high activity, we reviewed two bank reconciliations. We also agreed the reconciliation balances to FINET.
4. We reviewed a sample of six cash receipts and verified that the AOC is following its established processes and controls.
5. We reviewed a sample of 12 cash disbursements and verified that the AOC is following its established processes and controls.
6. We reviewed 12 payroll samples and verified that the supervisor listed in the State's E-Guide system is the same as that listed in the State's payroll entry system and that the supervisor would have adequate knowledge of the employee's time and efforts.
7. We reviewed the cash management and reporting internal controls associated with the AOC's two federal grants to verify the the AOC had established appropriate controls.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the AOC's internal control or any part thereof. Accordingly, we do not express such an opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we conducted an audit of the effectiveness of the AOC's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that both findings are key internal control weaknesses to the AOC.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance the AOC's personnel extended to us during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Hollie Andrus".

Hollie Andrus, CPA
Audit Director
handrus@utah.gov
801-808-0467

cc: Ray Wahl, Deputy Court Administrator
Julie Wrigley, Internal Audit Director

FINDINGS AND RECOMMENDATIONS

1. NO MONITORING OF SURCHARGE REMITTANCES

Neither the State Treasurer's Office nor the Administrative Office of the Courts (AOC) has established a control to ensure surcharges collected by Utah justice courts are properly calculated and remitted to the State Treasurer. *Utah Code 78A-7-120* requires justice courts to remit to the State Treasurer various surcharges imposed for violations of state law; however, personnel at the State Treasurer's Office do not have information available to determine whether the justice courts have remitted the correct amounts. The AOC has access to the information in CORIS (the accounting system used by Utah courts) but has not previously monitored the surcharges. Since the AOC has access to the information, the AOC should be involved in establishing a control to monitor the surcharge remittances. The lack of internal controls over surcharge remittances have and could continue to result in underpayments to the State.

Recommendation:

We recommend the AOC establish internal controls to ensure the surcharges collected by justice courts are properly remitted to the State Treasurer.

Entity's Response:

We acknowledge the need for the State Treasurer to verify that justice courts are remitting surcharges in the proper amounts. As the amount of surcharge that justice courts should remit to the State Treasurer is obtained from CORIS, we will develop a method for sharing that information with the State Treasurer's office. That way, it will have the information necessary to reconcile amounts expected from surcharge remittance with amounts actually received.

2. INTERNAL CONTROL WEAKNESSES OVER XCHANGE PROGRAM

We identified multiple weaknesses in the processes and internal control structure of the AOC's XChange Program (Program)—a subscription-based clearinghouse of court information.

- a. *Inefficient Online Account Set-up:* In order to access the Program, an interested party must download, print, sign, and submit (via scan/email or fax) his agreement to the *Terms and Conditions* of the Program. Once the agreement is sent, the party must wait for a system-generated email with information on how to set up an account. After the party sets up an account, the AOC's Application Technician sends a second email with payment information. In contrast, many websites offer immediate, online acceptance of terms and conditions and account set up, as well as online payment information and subscription options upon successful account set up.
- b. *Inadequate Separation of Duties:* Currently, six AOC employees who work with the Program have the ability to 1) create user accounts, 2) classify user accounts as "pay" or "free", and 3) edit or adjust accounts—all without an independent review and approval of

the new accounts, the account classification, or any edits or adjustments to accounts. Inadequate separation of duties exists when one person has conflicting user rights with no reviews of system activity and could allow errors and fraud to occur without detection.

- c. *Inadequate Controls over Cash Receipting*: The AOC does not perform an independent review of expected Program receipts. Without an independent review of the expected receipts, the Application Technician—who creates and sends the payment information email after an account is established—has the ability to misdirect payments without detection.

Recommendations:

We recommend the AOC:

- a. **Consider updating the Program’s website capabilities to offer immediate, online acceptance of terms and conditions and account set up, as well as online payment information and subscription options;**
- b. **Limit Program user access so those employees who create accounts cannot apply payments or make adjustments to accounts; and**
- c. **Create 1) required reviews and approvals within the Program’s software of all key edits and adjustments to accounts (including fee waivers) and 2) independent reviews of expected receipts, all by someone with no data entry access.**

Entity’s Response:

We acknowledge the need to strengthen the internal controls in the XChange program. We will begin the following tasks to correct the weaknesses identified:

1. *We will evaluate the account setup process to find and implement solutions that incorporate all pertinent account setup and remittance information in an electronic system generated notice.*
2. *We will evaluate the security roles of each person in the XChange process to ensure better internal control over each aspect of the process.*
3. *We will determine the best solutions to create the necessary independent reviews over adjustments and expected receipts.*