



COMPLIANCE AND CONTROL AUDIT REPORT

Judicial Branch

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
September 2002**

Legislative Post Audit Committee

Legislative Division of Post Audit

The **Legislative Post Audit Committee** and its audit agency, the **Legislative Division of Post Audit**, are the audit arm of Kansas government. The programs and activities of State government now cost about \$9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by **Legislative Post Audit** helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the **Legislative Post Audit Committee**.

The **Legislative Post Audit Committee** is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the **Division** is charged with meeting the requirements of the **Legislative Post Audit Act** which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's **Division of Accounts and Reports**, are audited by a certified public accounting firm under contract with the **Legislative Division of Post Audit**. The firm is selected by the **Contract Audit Committee**, which comprises three members of the **Legislative Post Audit Committee** (including the Chairman and Vice-

Chairman), the Secretary of Administration, and the **Legislative Post Auditor**. This audit work also meets the State's audit responsibilities under the federal **Single Audit Act**.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures. These compliance and control audits are conducted by the **Division's** staff under the direction of the **Legislative Post Audit Committee**.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative James Garner
Representative Dean Newton
Representative Dan Thimesch

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Barbara J. Hinton, Legislative Post Auditor

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September 23, 2002

To: Members, Legislative Post Audit Committee

Senator Lynn Jenkins, Chair
Senator Anthony Hensley
Senator Dave Kerr
Senator Derek Schmidt
Senator Chris Steineger

Representative Lisa Benlon, Vice-Chair
Representative John Ballou
Representative Jim Garner
Representative Dean Newton
Representative Dan Thimesch

This report contains the findings, conclusion, and recommendation from our completed compliance and control audit of the Judicial Branch.

The report includes one recommendation for the Office of Judicial Administration. We would be happy to discuss the recommendation or any other items in the report with any legislative committees, individual legislators, or other State officials.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: Has the Judicial Branch Established Adequate Financial-Management Practices To Ensure That the District Courts Collect Moneys They Should and Deposit Those Moneys Appropriately in the State Treasury?

The Judicial Branch generally has established adequate financial-management practices to ensure that district courts handle moneys properly, but its monitoring efforts need improvement. We visited 8 district courts and reviewed a sample of civil, criminal, and traffic violation cases. All but one of the district courts we tested were sending the correct amounts to the State Treasury. During our file review at the Shawnee County Court, we found that the County hadn't remitted nearly \$108,000 that was owed to the State. County officials told us the underpayment was caused by a programming error in the County's computer system. They indicated the error had been corrected, and that the money they owed to the State would be paid back.

..... page 3

The Office of Judicial Administration does some monitoring of district court activity, but it has no systematic way of ensuring that district courts are doing what they're supposed to do. An official at the Office told us that limited funding and staff make it difficult to provide more oversight. However, a periodic approach to monitoring district court procedures could help reduce the risk of courts making more errors in collecting and remitting moneys owed to the State.

This audit was conducted by Kate Watson, Rodney Ferguson, and LeAnn Schmitt. Randy Tongier was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Watson at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Judicial Branch

The Legislative Division of Post Audit has conducted compliance and control audit work at the Judicial Branch. Compliance and control audits can identify noncompliance with applicable requirements and poor financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Judicial Branch, through the Office of Judicial Administration, ensures that moneys are properly collected by the district courts and deposited appropriately in the State Treasury. The audit addresses the following specific question:

1. **Has the Judicial Branch established adequate financial-management practices to ensure the district courts collect the moneys they should and deposit those moneys appropriately?**

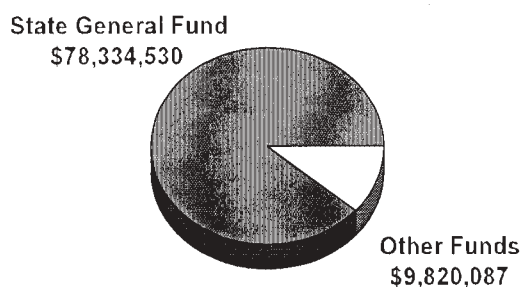
To answer this question, we reviewed applicable statutes and standard financial-management practices. We also reviewed the Office's written procedures, interviewed appropriate judicial personnel and visited 8 district courts to review their procedures and a sample of files and records. This audit work covers fiscal year 2001.

In conducting this audit, we followed all applicable government auditing standards.

Judicial Branch AT A GLANCE

- Authority:** Created by the Constitution of the State of Kansas in Article 3, and gives the supreme court general administrative authority over all courts in the State.
- Staffing:** The Judicial branch has 1,816 full-time equivalent positions. District court operations account for over 1,666 of these positions.
- Budget:** Over 97% of the Judiciary's State General Fund budget is dedicated to salary costs. This is because 99% of the district court non-salary operating expenditures are funded by the 105 counties.

FY 2001 Funding Sources



FY 2001 Expenditures

Type	Amount	% of Total
Salaries/Wages	\$82,683,531	93.8%
Contractual Services	\$2,290,588	2.6%
Commodities	\$363,864	0.5%
Capital Outlay	\$1,090,744	1.2%
State Aid to Local Units	\$472,350	0.5%
Other Assistance	\$1,253,535	1.4%

Total Funding: \$88,154,612

Total Expenses: \$88,154,612 100%

Source: The Governor's Budget Report for fiscal year 2003
Kansas Legislative Research Department's Budget Analysis, Fiscal Year 2003

Question 1: Has the Judicial Branch Established Adequate Financial-Management Practices to Ensure the District Courts Collect Moneys They Should and Deposit Those Moneys Appropriately?

Through the Office of Judicial Administration, the Judicial Branch generally has established adequate financial-management practices for district courts to follow when handling money that's owed to the State. While the Office generally does a good job of providing guidance to the district courts, it doesn't adequately monitor whether district courts follow that guidance, or whether the appropriate amount of money is being remitted to the State. During our file reviews at a sample of courts, we found that the Shawnee County Court hadn't remitted nearly \$108,000 to the State Treasurer. County officials told us the underpayment was caused by a programming error in the County's computer system. Periodic monitoring of district court procedures by the Office of Judicial Administration could help minimize the risk of this kind error occurring. These and other findings are discussed in further detail in the following sections.

The Judicial Branch Generally Has Established Adequate Financial-Management Practices To Ensure That District Courts Handle Moneys Properly, But Its Monitoring Efforts Need Improvement

District courts collect a variety of fines and docket fees associated with traffic, criminal, and civil cases. The Office of Judicial Administration is responsible for helping ensure that district courts collect the appropriate amount of fees and fines and remit the proper amount to the State Treasury.

To fulfill its responsibility, the Office of Judicial Administration should provide guidance to the district courts about appropriate ways to handle moneys owed to the State. A well designed system should include the following:

- developing written procedures for district courts to follow
- distributing written procedures to the district courts
- educating district court officials about those procedures.

In addition to providing guidance to the district courts, the Office of Judicial Administration should monitor whether district courts are following the guidance and whether the appropriate amount of money is going to the State. A well-designed monitoring system should include the following:

- providing resources needed for monitoring activities (staff, funds, time, etc.)
- setting a monitoring schedule (regular, random, or spot checks)
- developing and implement a monitoring plan (monitor a sample

- of courts and, perhaps, target specific functions to test)
- recording monitoring results
- recommending corrective actions for district courts to take for areas that need improvement
- doing follow-up reviews to ensure that corrective actions are implemented.

To determine the Judicial Branch's practices in these areas, we interviewed officials at both the Office of Judicial Administration and some district courts. We also reviewed the guidance provided by the Office to the district courts. Finally, we visited 8 district courts where we reviewed and tested accounting records for a sample of civil, criminal, and traffic violation cases to see if appropriate amounts of fines and docket fees were sent to the State.

The Office of Judicial Administration provides adequate guidance to the district courts about handling moneys owed to the State. The Office's procedures include the 3 best practices listed above. Its guidance specifically includes the following:

- distributing a "clerks manual" to each district court that provides guidance about all court procedures
- distributing an accounting manual to each district court that provides guidance about processing moneys owed to the State
- providing district court officials with information at least annually about procedural changes
- maintaining a "help desk" that district court officials can call when they have procedural questions.

The Office of Judicial Administration doesn't adequately monitor whether district courts follow the guidance provided to them, or whether the appropriate amount of money is being remitted to the State. The Office generally hasn't incorporated the monitoring best practices listed above. It does some monitoring of district court activity, but has no systematic way of ensuring that district courts are doing what they're supposed to do. Monitoring activity currently conducted by the Office includes the following:

- reviewing financial statements from district courts that are scheduled to have a new computer program installed called the "Full Court System" to ensure that the accounts balance prior to conversion. This is the only time financial statements are reviewed. So far, the conversion has occurred in 4 district courts and 7 more currently are scheduled for conversion. The remaining 94 district courts have yet to be scheduled.

- occasionally reviewing audits of the district courts that are conducted annually by the county. District courts are supposed to send a copy of the audit report to the Office. An official at the Office told us they don't always receive a copy of the report and, although they probably should, they don't enforce this reporting procedure. Further, the county audits may not include specific reviews of court procedures.
- reviewing procedures at the district courts when problems are identified by county audit reports, phone calls from court staff regarding problems, or by detecting a significant change in monthly or annual district court activity. When an accounting problem is identified at one of the district courts, Office staff contact the court to make sure the problem has been corrected.

Our 1998 compliance and control audit found that, at one time, Office of Judicial Administration staff monitored procedures used by the district courts to ensure proper procedures were being followed. However, the Office had stopped monitoring because of limited resources. Our earlier audit recommended that the Office should return to its past practice of doing periodic monitoring, and that if resources were limited monitoring could be limited in frequency and focused on only those courts with problems. An official at the Office told us that they would like to provide more oversight to the district courts, but there isn't enough funding and staff to conduct such activities.

A periodic, but more systematic approach to monitoring district court procedures could help minimize the risk of district courts making errors in collecting and remitting fee and fine moneys to the State.

The Shawnee County Court hadn't remitted nearly \$108,000 that was owed to the State because of a programming error in its computer system. During our visits to 8 district courts, we reviewed a sample of civil, criminal, and traffic violation cases. We tested a total of 239 cases closed in fiscal year 2001 to see if the State's portion of the fees and fines that district courts collected for those cases were appropriately deposited with the State Treasurer.

All but one of the district courts we tested were sending the correct amounts to the State. During our file review at the Shawnee County Court, we found that the County was retaining \$10 instead of the \$5 allowed by law from docket fees for small limited civil action cases. After the County retains its portion, the docket fee balance is to be remitted to the State.

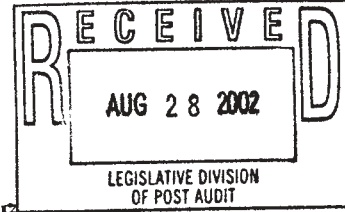
When the docket fee for these types of cases was changed on July 1, 2000, the district court's computer programmer told us she inadvertently made the \$5 error while programming the changes. The error resulted in the County retaining money during fiscal years 2001 and 2002 that was owed to the State. The Shawnee County District Court Administrator told us the error has now been corrected, and the money they owed to the State would be paid back.

<p><i>Recommendation</i> To better ensure that district courts are collecting and remitting the appropriate amount of moneys owed to the State, the Office of Judicial Administration should develop and implement a periodic approach to monitoring district court procedures. If resources are limited, monitoring could be restricted to district courts with problems or district courts that collect the most money where more significant errors may occur.</p>
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APPENDIX A

Agency Response

On August 23, 2002 we provided copies of the draft audit report to the Office of Judicial Administration. Its response is included as this Appendix.



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HOWARD SCHWARTZ
Judicial Administrator

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August 28, 2002

Barbara J. Hinton
Legislative Division of Post Audit
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800 Southwest Jackson Street, Suite 1200
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Dear Ms. Hinton:

I have reviewed the draft copy of your completed compliance and control audit of the Judicial Branch. Thank you for the opportunity to respond to the findings in your audit report.

We appreciate your acknowledgment that the Office of Judicial Administration (OJA) provides adequate guidance to the district courts on accounting for moneys submitted to the State. The report suggests it would be best to follow several detailed and specific monitoring practices, which include providing staff, funds, and time for regularly scheduled monitoring, as well as recommending corrective action and doing follow-up reviews to be certain that action is implemented.

Unfortunately, the Judicial Branch has suffered from a severe and chronic level of underfunding for some time, and the problem has become increasingly dire over the past few fiscal years. Because, as your report recognizes, the Judicial Branch budget is nearly 97% salaries, the court system's ability to devote staff and resources to do the kind of best practice monitoring you have suggested has been severely curtailed. If a more reasonable level of funding were available, many desirable goals, such as the monitoring techniques your report suggest, could be considered for implementation. In the meantime, we will continue our current efforts to provide oversight to the extent possible.

Your report indicates only one district court location where an error was discovered in the amount of revenue submitted to the State. That problem was the result of a computer programming error by a county employee. The problem has since been corrected.

Sincerely,

Howard Schwartz
Judicial Administrator

HS:mr