



ADMINISTRATIVE OFFICE OF THE COURTS

Management Letter
For the Year Ended June 30, 2006

Report No. 06-14

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



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REPORT NO. 06-14

December 12, 2006

Daniel J. Becker, Court Administrator
Administrative Office of the Courts
450 South State Street
P.O. Box 140241
SLC, Utah 84114-0241

Dear Mr. Becker:

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2006. Our report thereon, dated October 27, 2006, was issued under separate cover. We have not yet completed the statewide federal compliance audit for the year ended June 30, 2006. Our report on the statewide federal compliance audit for the year ended June 30, 2006 should be issued by April 2007.

In planning and performing our audits, we considered the Administrative Office of the Court's (AOC) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the State's financial statements and not to provide assurance on internal control. We noted a certain matter involving the AOC's internal control over financial reporting that we consider to be a reportable condition. This condition is identified in the accompanying finding and recommendation and is not believed to be a material weakness.

Reportable conditions are defined as matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements in accordance with the applicable requirements of laws, regulations, contracts and grants.

This report by its nature focuses on exceptions, weaknesses, and problems. This should not be understood to mean there are not also various strengths and accomplishments. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, particularly since our review was based on our audit of the State as a whole.

This report is intended solely for the information and use of the AOC and is not intended to be and should not be used by anyone other than this specified party.

We appreciate the courtesy and assistance extended to us by the personnel of the AOC during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Joe Christensen, Deputy State Auditor, at (801) 538-1354.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Gordon Bissegger, Director of Administrative Services
Robert Parkes, HR Director

ADMINISTRATIVE OFFICE OF THE COURTS

FINDING AND RECOMMENDATION FOR THE YEAR ENDED JUNE 30, 2006

SEPARATION OF DUTIES WEAKNESS (Reportable Condition)

Federal Agency: **DHHS**

Federal Award Number: **93.586**

CFDA Number and Title: **G-0401UTSCIP**

Questioned Cost Amount: **\$0**

Pass-through Entity: n/a

As part of our annual audit of State payroll expenditures, we reviewed the reports associated with 43 payroll expenditures to ensure that they were properly reviewed, approved, and retained. For the four expenditures we selected from the Administrative Office of the Courts (AOC), we noted the following:

- a. For one of the four expenditures, the 3rd District Court did not properly document the review and approval of the "Time Entered After Cutoff," "Payroll Results Edit," and "Time Edit" report. State Accounting Policies and Procedures (FIACCT 11-17.00) require the AOC to generate, review, approve, and retain certain payroll reports each pay period to ensure the accuracy and document approval of the payroll transactions entered into the SAP Payroll System (the System). Noncompliance with the policy could allow errors or misappropriations related to payroll expenditures to occur without detection.
- b. For one of the four expenditures, an individual at the 3rd District Court had the ability to enter time into the System and also reviewed and approved the payroll reports. A separation of duties weakness exists when the same individual has the ability to enter time into the System and also reviews and approves required payroll reports. FIACCT 11-17.00 requires a manager or supervisor other than the time entry operator(s) to review and approve the payroll reports each pay period. Inadequate separation of duties could allow errors or misappropriations related to payroll expenditures to occur without detection.

Recommendation:

We recommend that the Administrative Office of the Courts follow State Accounting Policies and Procedures by:

- a. **Generating, reviewing, approving, and retaining required payroll reports each pay period to document that payroll transactions entered into the System are accurate and approved.**
- b. **Ensuring that payroll reports are reviewed and approved by managers or supervisors who do not have the ability to enter time into the System.**

ADMINISTRATIVE OFFICE OF THE COURTS

FINDING AND RECOMMENDATION FOR THE YEAR ENDED JUNE 30, 2006

Administrative Office of the Courts' response:

Both non-compliance sample items (a) and (b) are the responsibility of staff in Third District Court.

- a. All payroll reports are generated, reviewed, approved and retained.*
- b. Payroll report and approval is performed by an employee who does not have access to update the payroll entry system.*

In addition, on December 1, 2006 FIAACT 11-17.00 Payroll Review and Approval Process requirements were reviewed with court executives. This information is beneficial for court employees responsible for performing payroll review procedures statewide.

*Contact Person: Vanessa Benedict, Support Services Coordinator, (801) 238-7341
Correction Date: December 2006*