



ADMINISTRATIVE OFFICE OF THE COURTS

Management Letter
For the Year Ended June 30, 2008

Report No. 08-21

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

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REPORT NO. 08-21

January 15, 2009

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 as of and for the year ended June 30, 2008 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report thereon, dated December 4, 2008, is issued under separate cover. We have not yet completed the statewide federal compliance audit for the year ended June 30, 2008. Our report on the statewide federal compliance audit for the year ended June 30, 2008 should be issued in February 2009. Any additional findings relating to the Administrative Office of the Courts (AOC) which result from the completion of the federal compliance audit will be issued to you as a supplement to this letter.

In planning and performing our audit we considered the AOC's internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinions on the State's financial statements and on the State's compliance with the requirements of its major programs, but not for the purpose of expressing an opinion on the effectiveness of the AOC's internal control. Accordingly, we do not express an opinion on the effectiveness of the AOC's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements or noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to 1) initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or 2) administer a federal program such that there is more than a remote likelihood that a misstatement of the entity's financial

statements or that noncompliance with a type of compliance requirement of a federal program that are more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements or that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

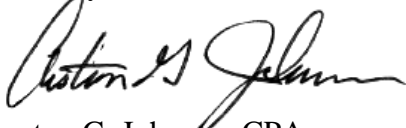
Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. This deficiency is described in the accompanying finding and recommendation.

This communication is intended solely for the information and use of management and others within the AOC and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

The AOC's written response to the finding and recommendation identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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,

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, written over a light blue horizontal line.

Auston G. Johnson, CPA
Utah State Auditor

cc: Fred E. Jayne, Management Services Director
Myron K. March, Deputy Court Administrator
Heather Mackenzie-Campbell, Audit Manager

ADMINISTRATIVE OFFICE OF THE COURTS

FINDING AND RECOMMENDATION FOR THE YEAR ENDED JUNE 30, 2008

NONCOMPLIANCE WITH PAYROLL POLICY AND SEPARATION OF DUTIES WEAKNESS (Repeat Finding) (Significant Deficiency to State Financial Statements and Federal Program)

Federal Agency: **various**
CFDA Number and Title: **various**
Federal Award Number: **various**
Questioned Costs: **\$0**
Pass-through Entity: N/A

As part of our annual audit of State payroll expenditures, we reviewed the reports associated with 60 payroll expenditures to ensure that they were properly reviewed, approved, and retained. For the five expenditures we selected from the Administrative Office of the Courts, we noted the following:

- a. For one of the five expenditures, the 2nd District Court did not properly document the review and approval of the “Payroll Results Edit” and the “Time Entered After Cutoff” report. State Accounting Policies and Procedures (FIACCT 11-17.00) require the Department 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 five expenditures, an individual at the 2nd 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.**

Response from 2nd District, Weber County District Court

- a. *The 2nd District court executive will ensure the review of the “Payroll Results Edit” and the “Time Entered After Cutoff” reports are performed to detect and correct errors or identify*

ADMINISTRATIVE OFFICE OF THE COURTS

FINDING AND RECOMMENDATION FOR THE YEAR ENDED JUNE 30, 2008

misappropriations related to payroll expenditures. The court executive will implement monitoring procedures to verify the required approval is on file for each pay period.

- b. A supervisor, who does not have the ability to enter time into the payroll system, will review and approve payroll reports.*

Contact Person: Sylvester Daniels, Court Executive, 801-395-1107

Anticipated Correction Date: 1/16/09 after entry – Time Edit report after preliminary payroll; after final payroll runs review 1/20/09 Time Summary, Payroll Results Edit, Time Entered After Cutoff. This process will be followed for all future pay periods.

Response from Administrative Office of the Courts:

The Administrative Office is taking steps to ensure improved compliance statewide as follows:

- Distributed the State of Utah Payroll Review and Approval Process (FIACCT 11-17.00) to all court executives, requesting compliance with the policies and procedures;*
- Will add a link to FIACCT 11-17.00 in the Utah State Courts Accounting Manual;*
- Will revise the Separation of Duties Form adding the Payroll Review duty and process.*