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A Review of Financial Controls and Performance Measures at the Courts of Appeals and Other Judicial Branch Agencies

March 1997

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Key Points of Report

A Review of Financial Controls and Performance Measures at the Courts of Appeals and Other Judicial Branch Agencies

March 1997

Overall Conclusion

Controls at several of the appellate courts and agencies audited need improvement to adequately protect state resources. At the 14 courts of appeals there is a lack of consistency in financial controls, use of the case management system, and performance measure information. Improved levels of consistency in the administrative functions of the 14 courts of appeals should result in increased economies of scale and efficiency in the delivery of justice.

Key Facts and Findings

- Financial controls need improvement at several of the appellate courts and agencies audited in the areas of cash receipts, cash disbursements, fixed assets, and payroll and personnel. In some cases, controls were not adequate to protect state resources, and state bidding and purchasing requirements were not met in certain instances.
- Inconsistencies existed among the courts of appeals in the use of the case management system. These inconsistencies prevent economies of scale that could be achieved through consistency.
- Performance measures certified for the 14 courts of appeals were mostly reliable, but performance reporting was not consistent across the courts due to vague performance measure definitions and different interpretations of those definitions.
- The Fifth Court of Appeals had a significantly high turnover rate in the clerk's office, which contributed to its financial and performance measure control weaknesses. For more detailed information, see the individual report section for the Fifth Court of Appeals on page 13. Also see Appendix 5 for the Fifth Court's response beginning on page 66 and our follow-up comment on page 73.
- The State Law Library had significant control weaknesses in its fixed assets area. For more detailed information, see the individual report section, agency response, and our follow-up comment for the State Law Library beginning on page 49.

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Office of the State Auditor

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This review was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0133.

Executive Summary

Controls at several of the appellate courts and agencies audited need improvement to adequately protect state resources. At the 14 courts of appeals, there is a lack of consistency in financial controls, use of the case management system, and performance measure information. Financial controls need improvement at several of the appellate courts and agencies audited. Additionally, inconsistencies were identified among the courts of appeals in the use of the case management system. Finally, performance measures certified for the 14 courts of appeals were mostly reliable, but performance reporting was not consistent across courts.

Improved levels of consistency in the administrative and reporting functions of the 14 courts of appeals should result in increased economies of scale and efficiency in the delivery of justice. In furtherance of its

The following agencies and courts were visited during the audit:

- Supreme Court
- Court of Criminal Appeals
- Fourteen Courts of Appeal
- Office of Court Administration
- State Law Library
- Office of the State Prosecuting Attorney
- Court Reporters' Certification Board
- Comptroller's Judiciary Section and Public Integrity Unit

statutory requirement to assist the judges and clerks in discharging their administrative duties, the Office of Court Administration should develop central guidelines and recommendations. These recommendations would assist the courts in improving consistency in financial controls, the use of the case management system, performance reporting, and other administrative areas. The Office of Court Administration is required to make such recommendations by the Texas Government Code, Section 72.024. The courts should provide input for the development of these guidelines and recommendations. Then

the courts should follow recommendations made by the Office of Court Administration to improve these inconsistencies. The section for the Office of Court Administration, including agency responses, begins on page 45 of this report.

Areas reviewed during this audit of the courts of appeals and judicial branch agencies included review and testing of financial controls, review of controls over performance measure information, and certification of performance measures.

Financial Controls Need Improvement at Certain Appellate Courts and Agencies

Financial controls in the areas of cash disbursements, cash receipts, fixed assets, and payroll and personnel varied significantly from court to court and among the agencies. Some courts and agencies had strong financial controls while others had weak financial controls. For some courts and agencies, financial controls were strong in some areas and weak in others.

Central guidelines on implementing strong financial controls at the courts would assist the courts in improving controls systems and in improving consistency. Centralized training of administrative personnel could also improve consistency of controls at the courts. Additional recommendations for courts and agencies can be found in the individual sections of this report. A chart that summarizes the strength of internal controls at each court and agency, based on the work performed, can be found in Appendix 2 on page 63.

Of particular concern in the area of financial controls was the Fifth Court of Appeals. The

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Fifth Court of Appeals had a significantly high turnover rate in the clerk's office, which contributed to its financial control weaknesses. The Fifth Court of Appeals had weak financial controls in the areas of cash disbursements and purchasing, fixed assets, and payroll and personnel. Similarly, the Fifth Court of Appeals had weak controls over its performance measure information. For more detailed information, see the individual report section for the Fifth Court of Appeals on page 13. Also see the Fifth Court's response on page 66 and our follow-up comment on page 73 in Appendix 5.

The State Law Library had significant control weaknesses in its fixed assets area. These weaknesses are especially significant since maintaining fixed assets (the library collection) is the primary function of the State Law Library. For more detailed information, see the individual report section, agency response, and our follow-up comment for the State Law Library beginning on page 49.

Inconsistencies Exist Among the Courts of Appeals in the Use of the Case Management System

The case management system is the software used by courts to manage and track case information. The appellate courts all use the case management system, but the way the system is used varies from court to court. One inconsistency is that courts categorize and track cases using different codes. Another inconsistency is the different ways the courts track the status of particular cases. Additionally, the courts generated different reports with varying information from the case management system even though the same information was requested by auditors. Some courts were able to produce clearer, more-readable reports than other courts. Two of the

courts categorized cases based on difficulty while the other courts did not. Further, controls over data entry are not consistent among the courts.

This lack of consistency in the case management system does not allow courts to fully benefit from information sharing. For example, one court had a new clerk who was unable to extract information from the system for performance measure certification. The clerk contacted clerks at other courts, but the other clerks could not assist her because their use of the case management system was different.

Performance Measures Certified for the 14 Courts of Appeals Were Mostly Reliable; However, Measure Definitions Need Improvement to Ensure Consistency in Reporting Across Courts

Performance measures at the 14 courts of appeals were all considered reliable (certified or certified with qualification), except the disposition rate was inaccurate at the Fifth Court of Appeals. Reasons for the inaccurate performance measure and for performance measures certified with qualification can be found in the individual agency and court sections of this report. For a table of performance measure results for the 14 appellate courts, see Appendix 3 on page 64. For performance measure certification criteria, see Appendix 4 on page 65.

While the courts' performance measures were considered reliable according to audit certification criteria, performance measure definitions were not specific enough to ensure consistent reporting by all courts. The audit criteria requires that performance measure definitions in the Automated Budget

Executive Summary

Evaluation System (ABEST) be followed. Because the definitions are vague and broad, they are open to interpretation by the various courts of appeals. Therefore, it is possible for courts to report consistently with the performance measure definitions while reporting inconsistently with each other. Specific definitions need to be developed and entered into ABEST to ensure that all courts are consistently reporting their performance.

Summary of Audit Scope, Objective, Methodology

The objective of the audit was to assess the financial controls, performance measure accuracy, and controls and efficiency of the appellate courts and judicial branch agencies.

Financial controls were reviewed in the areas of cash receipts, cash disbursements, fixed assets, and payroll. The scope of the audit included a review of financial controls, performance measures, and efficiency issues at the courts and agencies. Based on risk, different levels of review were conducted at the courts and judicial branch agencies. Performance measures were certified at the 14 appellate courts at the request of the Legislative Budget Board. Performance measures were only certified at the agencies if they were considered a high-risk area, and they had not been recently certified in another audit.

The methodology used consisted of collecting information, performing audit tests and procedures, and analyzing information.

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First Court of Appeals Houston

Section 1:

Financial and Compliance Areas

Issue:

Duties in the Cash-Receipting Process Have Not Been Properly Segregated

Only one employee is responsible for opening the mail. Cash receipts are not recorded in the cash log, and checks are not restrictively endorsed upon receipt. Cash receipts are recorded, deposited, and reconciled by the same employee. These weaknesses increase the risk that errors and irregularities could occur. An effective internal control structure over cash receipts requires that key duties are adequately separated and ensures that all cash is adequately secured, promptly deposited, and properly recorded in the accounting records.

Recommendation:

Designate two employees to open the First Court of Appeals' (First Court) mail. Restrictively endorse checks and record cash receipts in the cash log immediately upon receipt. The cash-receipting duties of recording and depositing should be segregated. Someone other than the preparer of deposits should perform the reconciliations.

Court's Response:

The Court plans to implement the auditor's recommendation to designate two employees to open the court's mail. These employees will endorse checks and record cash receipts in the cash log immediately upon receipt. The duties of recording and depositing receipts will be segregated. The preparer of the deposits will no longer perform the reconciliations. Because the Court will fully staff the clerk's office this fiscal year, this recommendation will be easily implemented.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Based on the review of control structures and on the tests performed, controls over fixed assets, cash disbursements, and payroll and personnel appeared adequate. The First Court appeared to be in substantial compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, state travel guidelines, and riders reviewed in the General Appropriations Act.

Section 2:

Performance Measures

Both performance measures reviewed (“Disposition Rate” and “Number of Cases Disposed”) were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of July 1996 was reviewed, and control procedures were tested for cash disbursements, fixed assets, and payroll and personnel. The cash-receipting process was observed. In addition, the First Court’s efficiency was examined, and compliance with certain state laws and regulations was tested.

Second Court of Appeals Fort Worth

Section 1:

Financial and Compliance Areas

Issue 1:

Leave Requests Were Not Consistent With Time Reports

Leave records reflected leave taken based on employees' leave requests. Records were not updated when employees did not actually take requested leave. As a result, leave records were not always accurate and conflicted with time reports. The lack of accurate records increases the risk that employees may take unearned leave or be denied leave earned. An effective internal control system over leave records includes updating leave requests to reflect leave actually taken and reconciling leave requests with corresponding time reports. Leave requests should indicate the type of leave requested by employees.

Recommendation:

Update leave records regularly to reflect leave actually taken. Reconcile leave requests to time reports on a monthly basis.

Court's Response:

According to the auditor's suggestions, leave requests were not being updated when employees requested leave and later decided not to take it. We concur with this suggestion, and have adopted new measures to correct this oversight. Leave requests are now filed according to the month leave is requested. When leave is posted each month, the leave requests are pulled and checked against the employees' time sheets to determine whether leave was actually taken. If leave was not taken, the leave requests are destroyed.

Issue 2:

Cash Has Not Been Safeguarded From Theft and Loss

The lock box for checks and cash is not always locked, and it is stored in an unlocked drawer. The box is only locked during lunch and at the end of each day. Everyone in the Second Court of Appeals (Second Court) appeared to have access to the checks and cash before they were deposited. There are 10 employees in the Clerk's office and 7 justices at the Second Court. Deputy clerks place cash receipt copies into the lock box after information is entered into the case management system. Access to cash and checks should be limited and controls should ensure protection from theft and loss.

Recommendation:

The Second Court should ensure that the box is locked at all times. The lock box should be maintained by the person responsible for preparing the deposits. Deputy clerks should not place the cash receipt copies in the lock box. Instead, receipt copies should be given to the accountant for reconciliation to the validated deposit slip.

Court's Response:

We concur with the auditor's suggestion that our cash was not properly safeguarded. We have adopted the auditor's recommendations and now keep the lockbox containing checks and cash locked at all times. All checks, cash and receipts are now given directly to our accountant who maintains control over the lockbox.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Based on the review and testing performed, controls over fixed assets and cash disbursements appeared adequate. The Second Court appeared to be in compliance with the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, travel regulations, and bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of August 1996 was reviewed, and fiscal year 1995 control procedures were tested for cash receipts, cash disbursements, fixed assets, and payroll and personnel. In addition, the Second Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Third Court of Appeals Austin

Section 1:

Financial and Compliance Areas

There Were No Significant Findings in Financial and Compliance Areas Reviewed

Financial controls appeared to be adequate in the following areas: cash disbursements, cash receipts, fixed assets, and payroll. The Third Court of Appeals (Third Court) appeared to be in compliance with General Appropriations Act riders reviewed, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, travel regulations, and bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of August 1996 was reviewed for cash receipts, cash disbursements, fixed assets, and payroll. Control procedures over cash disbursements and payroll were tested for fiscal year 1995. In addition, the Third Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

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Fourth Court of Appeals San Antonio

Section 1:

Financial and Compliance Areas

Issue:

Checks Were Not Restrictively Endorsed Immediately Upon Receipt

Checks were endorsed by the clerk when deposits were made every two to three weeks. The unendorsed checks were retained in the Fourth Court of Appeals' (Fourth Court) safe until deposited. At least four employees had access to the safe. There is a risk that someone could endorse the checks and cash them. Immediate restrictive endorsement of checks received is a control which would reduce the risk that theft could occur.

Recommendation:

Restrictively endorse all checks as soon as they are received so that unendorsed checks are not retained in the Fourth Court's safe. Restrictive endorsements should include the words "For Deposit Only" followed by the endorsement itself. Access to the checks should be limited to the person making the deposits.

Court's Response:

The Fourth Court of Appeals concurs in your recommendation to restrictively endorse all checks as soon as they are received by this agency. This practice is now in place and being carried out as of the date of this letter.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Based on the review and testing performed, controls over fixed assets and cash disbursements appeared adequate. A review of controls over payroll and personnel and cash receipts did not identify any significant control weaknesses. The Fourth Court appears to be in compliance with the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, travel regulations, and bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed (“Disposition Rate” and “Number of Cases Disposed”) were certified.

Scope of Audit

The accuracy of and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of September 1996 was reviewed, including the controls for cash receipts, cash disbursements, fixed assets, and payroll and personnel. Control procedures over cash disbursements and fixed assets were tested for fiscal year 1995. The cash-receipting process was observed. In addition, the Fourth Court’s efficiency was examined, and compliance with certain state laws and regulations was tested.

Fifth Court of Appeals Dallas

Section 1:

Cross-Cutting Issue: Financial, Compliance, and Performance Measures Areas

Issue:

High Turnover at the Fifth Court of Appeals Has Contributed to Weak Control Systems

The Fifth Court of Appeals (Fifth Court) has significantly high turnover in the clerk's office and in its business administration function. The Fifth Court has had three different clerks since the beginning of fiscal year 1996. Additionally, four of seven deputy clerks left the court during fiscal year 1996. The business administrator and the Accountant III also left the Fifth Court during fiscal year 1996.

Classified positions at the Fifth Court had a turnover rate of 57.14 percent in fiscal year 1996. There were 8 terminations of 14 full-time classified employees. During the audit, the clerk and other staff members indicated that turnover problems were being resolved; however, prior to the completion of the audit, the clerk, who held the position for approximately six months, left the Fifth Court.

Due to high turnover, there appeared to be general confusion with regard to performance measure information in the case management system, purchasing, and fixed assets. Control weaknesses were found in the financial areas of cash disbursements and purchasing, fixed assets, and payroll. This turnover has also contributed to significant delays in entering case data into the case management system. High turnover and lack of cross-training of staff members increases risks of inadequate safeguarding of state resources and assets and can reduce efficiency of operations in the clerk's office.

Recommendation:

The Fifth Court should determine the cause for the high turnover and take action to reduce the turnover. Reduction of turnover should increase stability and allow the Fifth Court to implement needed controls in administrative areas. Clerk's office personnel should be cross-trained so that at least two people can perform each job. When an employee leaves the Fifth Court, other personnel should know the job functions well enough to train newly hired employees.

Section 2:

Financial and Compliance Areas

Issue 1:

Control Weaknesses Exist in the Areas of Cash Disbursements and Purchasing

Instances were found where bidding requirements were not followed, the Fifth Court had no formal system to review purchases, and duties were not adequately separated:

- Formal bids were not obtained and documented for a purchase of a new glass entrance to the Fifth Court at a cost of \$6,655. According to state bidding requirements at the time of the purchase, three formal bids were required prior to the purchase of an item costing more than \$5,000
- Informal bids for purchases over \$1,000 but less than \$5,000 were not obtained as required by General Services Commission Bidding Requirements for a purchase of computer-related supplies.
- The Fifth Court had no formal system to review purchases. There was no purchase order system to ensure that all purchases were reviewed and approved. Without formal review of purchases, there is a risk that purchases could be made without proper bidding requirements, for the wrong items, at the wrong time, for an excessive amount, or for the wrong quantity.

Recommendation:

Follow state bidding and purchasing requirements by obtaining formal and informal bids as necessary according to those requirements. Implement a system to review and approve purchases to ensure proper bidding requirements are followed, that the purchase is for the correct items, at the correct time, for the correct amount, and that the item being purchased is needed by the Fifth Court.

Issue 2:

Controls Over Fixed Assets Should Be Improved to Safeguard State Property

Computer equipment purchased in December 1995 did not have inventory tags as of July 1996. The previous business manager did not tag the equipment when it arrived. Equipment should be tagged and logged into the inventory immediately upon receipt and prior to placing it into use. Old computer equipment was still in storage at the time of the audit, but had been published for sale in the *State Surplus Property Listing*. Additionally, a computer printer listed on the inventory with a value of \$2,118 could not be located. The Fifth Court's fixed assets inventory is 83 percent of total assets.

Recommendation:

Controls over the purchase, use, and disposition of assets should be improved to ensure that state assets are safeguarded from loss or theft. Upon receipt of fixed assets, the Fifth Court should immediately tag those assets and log them into its inventory prior to placing the assets into use.

Issue 3:

Adequate Separation of Duties Regarding Payroll and Personnel Functions Have Not Been Established

At the time of the audit, only one employee was responsible for both payroll and personnel functions. Personnel, timekeeping, and payroll preparation functions were performed by the same employee, and there was no supervisory review by a different employee. The duties should be separated among different staff members. Without adequate separation of duties, there is a risk that state resources will not be safeguarded, since theft or loss could occur and not be detected. This risk is significantly increased when only one employee performs all functions.

Recommendation:

Separate the duties so that different staff members perform the payroll and personnel duties of personnel changes, timekeeping, and payroll preparation. Designate a person with release authority in the Uniform Statewide Payroll System who does not prepare the payroll or make any changes to pay rates. A supervisor should review and reconcile any payroll changes with the prior month. This review should be documented each month.

Section 2:

Performance Measures

Of two performance measures reviewed for accuracy, one was inaccurate and the other was certified with qualification.

- The “Disposition Rate” was inaccurate. The number reported was 77 percent; the actual disposition rate was 48 percent. The inaccuracy occurred when the number was submitted for entry into ABEST. The correct number can be found in the Fifth Court’s case management system.
- The “Number of Cases Disposed” was certified with qualification. The Fifth Court has had very high turnover during the past year in the clerk’s office. As a result, there is no cross training of positions. Fifth Court staff could not provide the information needed from the case management system to certify the measure and could not discuss the controls over data entry. The information needed to review the accuracy of performance measures reported was finally obtained from the Office of Court Administration.

The clerk and other staff members were unable to discuss the control structure for the performance information reported by the Fifth Court of Appeals. To ensure accuracy of performance measure information, it is important that staff members understand the controls over the information systems used for calculating numbers reported. Staff should also be able to operate the case management system to provide a list of all cases. Minor discrepancies were found between the list of cases on the Fifth Court's database and the Fifth Court's activity report. With high turnover, adequate cross-training is imperative. Review controls over information entered into the case management system were not adequate.

Recommendation:

The Fifth Court should designate a person (other than the person entering the data) to review and reconcile performance measure data in the case management system on a regular (monthly) basis. The Fifth Court should designate a person, other than the person who submits performance measure information, to review and reconcile performance numbers reported with the information in the case management system. Fifth Court staff members should be trained to understand the control structure of the Fifth Court's information systems and to effectively operate the case management system. Cross training and reduction of turnover would improve the Fifth Court's ability to ensure adequate controls over the case management system and performance measure information reported.

(For the Fifth Court's response and State Auditor's follow-up comments, see Appendix 5, pages 66 and 73, respectively.)

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of July 1996 was reviewed, and control procedures over cash disbursements, fixed assets, payroll and personnel, and the case management system were tested. The cash-receipting process was observed. In addition, the Fifth Court's efficiency was examined, and compliance with certain state laws and regulations was tested. Due to the high turnover at the Fifth Court, documentation related to turnover was reviewed.

Sixth Court of Appeals Texarkana

Section 1:

Financial and Compliance Areas

Issue 1:

Controls Over Cash Receipts and Balances Should Be Improved to Adequately Protect Assets and Prevent or Detect Errors and Irregularities

The validated deposit slips have not been reconciled to the receipt log, and separation of cash-receipting duties was not adequate. For example, one employee is responsible for delivering the deposit, posting the deposit to the Sixth Court of Appeals' (Sixth Court) records, reconciling the accounting records to the bank statements, and maintaining the undeposited receipts. This employee also has cash disbursement responsibilities. The Sixth Court has some compensating controls in place, but these could be enhanced by reallocating a few duties among existing staff members.

Recommendation:

To properly account for and safeguard cash receipts, the Sixth Court should reallocate cash-receipting duties. An employee independent of receipting should prepare the deposit, and an employee independent of the mail opening and deposit preparation should deliver the deposit. Reconciliations to the receipt log and bank statement should be performed by someone independent of receipting, cash disbursement, and purchasing responsibilities. An employee independent of recording and reconciling duties should review these reconciliations. Undeposited cash and checks should be maintained by an employee independent of receipting, cash disbursement, record keeping, and purchasing responsibilities.

(The Sixth Court's response follows the recommendation for Issue 2.)

Issue 2:

Controls Over Cash Disbursements Should Be Improved to Adequately Protect Assets and Prevent or Detect Errors and Irregularities

Duties have not been adequately separated in the cash disbursements area. Cash disbursement responsibilities were divided between two employees. These employees were not independent of the purchasing or cash receipting functions. The Sixth Court had some compensating controls in place, but these could be enhanced by reallocating duties among existing staff.

Recommendation:

The Sixth Court should reallocate the responsibilities of comparing warrants or checks to supporting documentation and mailing the warrants. These responsibilities should be given to an employee independent of the purchasing and accounts payable functions.

Court's Response:

In response to recommendations concerning financial controls, we will make every effort to comply with the suggestions made by the auditors. In some cases our court, being a small agency, may not have sufficient personnel to precisely comply with the suggestions, but every effort will be made to comply with the spirit of the suggestions.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Controls over payroll and personnel appeared adequate to protect assets and prevent or detect errors and irregularities. The related prior-audit recommendation has been implemented. The Sixth Court appeared to be in compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*.

Section 2:

Performance Measures

Both performance measures reviewed for the Sixth Court of Appeals ("Disposition Rate" and "Number of Cases Disposed") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of the time of the audit was reviewed for cash receipts, cash disbursements, fixed assets, and payroll and personnel. Based on the risk factor that 72 percent of the total expenditures are salaries, wages, and payroll-related expenses, control procedures over payroll and personnel were tested for fiscal year 1995. In addition, the Sixth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Seventh Court of Appeals Amarillo

Section 1:

Financial and Compliance Areas

There Were No Significant Weaknesses in Financial and Compliance Areas Reviewed

Based on review of controls and observation, it appeared the Seventh Court of Appeals (Seventh Court) had adequate controls over cash receipts and cash disbursements. Based on the review and testing performed for fiscal year 1995, controls over fixed assets and payroll and personnel appeared adequate. The Seventh Court appeared to be in compliance with riders reviewed in the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, travel regulations, and bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of September 1996 was reviewed, including the controls for cash receipts, cash disbursements, fixed assets, and payroll and personnel. Control procedures over payroll and personnel and fixed assets were tested for fiscal year 1995. The processes of cash disbursements and cash receipts were observed. In addition, the Seventh Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

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Eighth Court of Appeals El Paso

Section 1:

Financial and Compliance Areas

Issue:

Cash Disbursement Responsibilities Were Not Adequately Separated

Existing controls only partially compensated for the lack of separation of duties at the Eighth Court of Appeals (Eighth Court). The accountant performed purchasing and receiving duties in addition to data entry of transactions. The accountant had release authority in the Uniform Statewide Accounting System (USAS), compared warrants to a disbursement log, and mailed warrants to vendors. Purchasing, receiving, cash disbursing, and accounting and recording duties should be performed by different employees. Employees performing data entry functions in USAS should not have the ability to release transactions for posting in USAS. Also, an employee independent of the purchasing and accounts payable functions should compare warrants to disbursement lists and mail warrants to vendors. The lack of separation of duties increases the risk that errors and irregularities could occur and go undetected.

Recommendation:

Reallocate cash disbursements responsibilities among existing personnel to adequately separate duties. One possible solution for reallocation of duties follows: Receiving responsibilities could be assumed by the deputy clerks in general. Also, the Deputy Clerk II could enter the warrant information on the voucher and mail the warrants to the vendors since she already compares warrants to the warrant register. These two responsibilities would not add significantly to the workload of the deputy clerks. In addition, USAS release authority should be limited to a minimum. The person with data entry responsibilities should not have the ability to release batches of transactions.

Court's Response:

The auditor has recommended that cash disbursement responsibilities be separated to insure more adequate controls. We acknowledge these recommendations; however, our current limited funding and FTEs make it infeasible to comply with them at this time.

State Auditor's Follow-Up Comment:

The Eighth Court has five positions in the clerk's office. We believe this is an adequate number of FTEs to implement the recommendation. The Deputy Clerk II is already comparing the warrants to the warrant register. It would be feasible for the Deputy Clerk II to also enter the warrant information on the voucher and mail the warrants to vendors. The accountant should not have access to the warrants because she is custodian of all accounting records and does all data entry. Currently, the accountant has access to warrants.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Controls over cash receipts, and balances, fixed assets, and payroll and personnel appeared adequate to protect assets and prevent or detect errors and irregularities. The Eighth Court was in compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, state travel regulations, and state bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") for the Eighth Court of Appeals were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. Internal controls over fixed assets, payroll, cash receipts, and cash disbursements were reviewed as of the time of the audit. Cash disbursement controls were tested for fiscal year 1995. In addition, the Eighth Court's efficiency was examined, and compliance with certain related state regulations and guidelines was tested.

Ninth Court of Appeals Beaumont

Section 1:

Financial and Compliance Areas

There Were No Significant Findings in Financial and Compliance Areas Reviewed

Controls appeared adequate in the areas of cash receipts, cash disbursements, fixed assets, and payroll. The Ninth Court of Appeals (Ninth Court) appeared to be in compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, state travel regulations, and state bidding requirements.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of July 1996 was reviewed, and control procedures over cash receipts, cash disbursements, fixed assets, and payroll and personnel were tested for fiscal year 1995. In addition, the Ninth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

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Tenth Court of Appeals Waco

Section 1:

Financial and Compliance Areas

Issue 1:

Two Instances of Noncompliance Were Identified in the Payroll and Personnel Area

Security officers at the Tenth Court of Appeals (Tenth Court) were not accruing benefits in proportion to the number of hours worked. As part-time employees, the security officers should accrue sick leave and vacation in proportion to the number of hours worked. According to Section 8, Article IX, of the General Appropriations Act, the accrual of sick leave and vacation benefits are an entitlement of all state employees.

Another employee, the accountant, was earning compensatory time at an hour-for-hour basis, but no determination of Fair Labor Standards Act (FLSA) exempt status was documented in the personnel file. FLSA requires that employees who are nonexempt either receive pay at 1.5 times the normal rate or receive compensatory time at 1.5 hours for every hour worked over 40 hours per week. A determination of exempt or nonexempt status should be documented in the personnel file.

Recommendation:

Accrue sick leave and vacation benefits for these employees in proportion to the number of hours worked each month. Credit account balances for employee benefits which have already been earned. Determine whether the employees are eligible for benefit replacement pay. If eligible, provide benefit replacement pay to employees as appropriate.

Determine and document whether the accountant meets any exemptions to FLSA. Follow FLSA guidelines for compensating the employee for hours worked in excess of 40 per week.

Court's Response:

With reference to your concerns in the payroll/personnel area, we are studying available options for possible implementation. We will advise you in detail after we select appropriate solutions.

Issue 2:

Fixed Assets Have Not Been Tagged Immediately Upon Receipt

Assets were tagged later as part of the annual physical inventory. There is a greater risk of loss and/or theft when assets are not tagged immediately upon receipt.

Recommendation:

Record on the inventory and tag fixed assets immediately upon receipt to reduce the risk of theft or loss.

Court's Response:

We have implemented procedures to rectify your concerns about fixed assets and separation of duties.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

The Tenth Court appeared to be in substantial compliance with the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, and travel regulations.

Section 2:

Performance Measures

Both performance measures reviewed ("Number of Cases Disposed" and "Disposition Rate") were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of the time of the audit was reviewed. Control procedures over cash receipts, cash disbursements, fixed assets, and payroll were tested. In addition, the Tenth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Eleventh Court of Appeals Eastland

Section 1:

Financial and Compliance Areas

Issue 1:

Controls Over Fixed Assets Were Not Adequate to Safeguard State Resources

The Eleventh Court of Appeals (Eleventh Court) has not kept the State Property Accounting (SPA) system fixed asset inventory list updated. The Eleventh Court certified on its annual *Certification of Physical Inventory* that it would update the SPA system by October 31, 1995. As of June 14, 1996, however, the SPA system had not been updated. Also, one high-risk inventory item was on the Eleventh Court's internal fixed asset list but was not on the SPA list. State Property Accounting system policies and procedures require the accumulation, classification, and summarization of fixed assets transactions. Outdated fixed asset lists hinder the Eleventh Court's ability to efficiently perform a physical inventory and certify the fixed asset inventory balance.

Recommendation:

Follow up on discrepancies and keep inventory lists current. This will facilitate conducting future physical inventories and reconciling the physical inventories to fixed asset lists.

(The Eleventh Court's response follows Issue 4.)

Issue 2:

Controls Over Payroll and Personnel Were Not Adequate to Protect Assets and Prevent or Detect Errors and Irregularities

The Eleventh Court did not have documentation to support the employees' rates of pay, and time cards for part-time employees had been discarded. Personnel files should include support for the rate of pay. Records of leave taken and accrued should be maintained by the Eleventh Court. Due to the lack of supporting documentation, we could not verify the accuracy of pay rates, time worked, and leave balances. The lack of supporting documentation also increases the risk that errors or irregularities could occur and not be detected.

Recommendation:

Maintain documented support for rates of pay, time worked, and leave taken. These records should be kept for the length of time recommended by the State's records retention guidelines.

(The Eleventh Court's response follows Issue 4.)

Issue 3:

Controls Over Cash Disbursements Were Not Adequate to Protect Assets and Prevent or Detect Errors and Irregularities

Cash disbursement duties were not adequately separated. One employee, the clerk, performed many of these duties. Disbursement, data entry, and reconciliation duties should be separated among different employees. While complete separation of duties may not be practical with a clerk's office staff of three or four people, at a minimum approval of disbursements should be separated from voucher preparation and purchasing functions. Additionally, compensating controls, such as supporting documentation for purchases, are needed. The Eleventh Court lacked sufficient documentary evidence of the purchasing process.

The lack of segregation of duties increases the risk that errors and irregularities could occur and go undetected. Without complete and accurate supporting documentation, compliance with state rules and regulations and entity policies and procedures cannot be determined.

The Eleventh Court's accountant position was vacated in September 1995. The employee who filled this position until then took over the clerk's position upon the retirement of the previous clerk. The current clerk is performing accounting duties in addition to clerk duties because the accounting position has not been filled. Filling the vacant accounting position will provide the Eleventh Court with sufficient personnel to separate key duties in the purchasing, cash disbursing, petty cash, and accounting functions.

Recommendation:

Fill the vacant accounting position with a qualified person. When filled, reallocate duties among staff to ensure proper separation. The Eleventh Court should maintain documentary evidence of its purchasing process and approvals for all purchased goods and services.

(The Eleventh Court's response follows Issue 4.)

Issue 4:

Controls Over the Petty Cash Account Were Not Adequate to Protect Assets and Prevent or Detect Errors and Irregularities

Four checks written on the petty cash account for fiscal year 1995 contained only one signature. However, four people were authorized to sign checks on the petty cash account. Additionally, bank reconciliations were not initialed and dated by either the preparer or reviewer.

The Eleventh Court's policy required two signatures on checks. The Eleventh Court maintained a balance of \$1,000 in its petty cash fund. This fund was reimbursed from the Eleventh Court's appropriations whenever the balance fell below \$1,000. Since the account is replenished as needed, much more than \$1,000 is at risk.

Recommendation:

Enforce the Eleventh Court's policy requiring two signatures on all checks. Reducing the number of people authorized to sign checks from four to three would also reduce the risk of irregularities. Finally, reconciliations should be initialed and dated by both the preparer and reviewer to strengthen the controls over this high risk asset.

Court's Response:

We have reviewed the findings and recommendations you listed in the report. Please be advised that we concur with your recommendations and are implementing procedures to ensure that these are carried out. We are in the process of filling the vacant accountant position, which will remedy the problem arising from lack of segregated duties. Also, supporting documentation on purchases will be maintained when necessary. A stronger control of the fixed assets inventory will be enforced.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

The Eleventh Court appeared to be in substantial compliance with the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, and travel regulations.

Section 2:

Performance Measures

Both performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") for the Eleventh Court of Appeals were certified.

Scope of Audit

The accuracy of and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of the time of the audit was reviewed. Control procedures over cash receipts, cash disbursements, fixed assets, and payroll were tested for fiscal year 1995. In addition, the Eleventh Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Twelfth Court of Appeals Tyler

Section 1:

Financial and Compliance Areas

Issue 1:

Duties in the Cash Disbursements Process Were Not Adequately Separated

One employee was responsible for entering, verifying, and correcting cash disbursements information. This employee also compared warrants to supporting documentation and mailed warrants to vendors. Furthermore, four individuals had signature authority on the Twelfth Court of Appeals' (Twelfth Court) petty cash account, including the accountant who had cash disbursing responsibilities. An effective control system over cash disbursements includes adequate separation of duties. Duties should be separated such that different employees perform data entry/correction and data verification. The employee responsible for comparing warrants to supporting documentation should be independent of purchasing and accounts payable responsibilities. Signature authority on the petty cash account should be limited to employees independent of cash disbursing and recording responsibilities. Allowing a large number of authorized signers on a checking account increases the risk that resources may be mismanaged. Without adequate segregation of duties, there is an increased risk that errors and irregularities could go undetected.

Recommendation:

Separate cash disbursements responsibilities so that the employee responsible for comparing the warrants to supporting documentation and mailing the warrants does not have purchasing or cash disbursing responsibilities. Separate the duties of data entry/correction and data verification between at least two employees. Limit signature authority on the petty cash account to employees independent of cash disbursing and recording duties.

Court's Response:

The area of focus regarding segregation of duties consists of four employees, the Clerk of the Court, two Deputy Clerks and one accountant. Following the on-site audit, duties and responsibilities of these employees were monitored and evaluated, and then recommendations that had been made by the visiting auditors were considered. Even though there were no discrepancies or irregularities found upon review of cash disbursement and cash receipt actions and procedures, the Clerk's Office has realigned certain duties to ensure a better system of checks and balances.

Cash Disbursement Responsibilities

- *Accountant performs data entry into USAS, runs print-outs and attaches to warrants/vouchers*
- *Clerk reviews and initials USAS print-outs and compares with warrants/vouchers*
- *Chief Deputy Clerk compares warrants/vouchers with invoices*
- *Clerk is responsible for purchases (single item purchases more than \$500 are first approved by the Chief Justice)*

(Accountant's signature authority on the Court's Petty Cash Account will be revoked. Authorized signatures will be those of the Chief Justice, the Clerk, and the Chief Deputy Clerk.)

The measures that have been implemented will provide a more effective control system over our cash disbursements, cash receipts, and the Court's petty cash account.

Issue 2:

Cash-Receipting Duties Have Not Been Adequately Separated

One employee prepares, posts, delivers, and reconciles the deposits. The same employee also has disbursement responsibilities. Duties should be separated such that different employees handle receipting, deposit preparation, recording of the deposit, deposit delivery, reconciliations, and reviews of the reconciliations. Reconciliations should be performed by someone independent of cash disbursing and purchasing responsibilities. Without adequate separation of duties, there is an increased risk that errors and irregularities could go undetected.

Recommendation:

Segregate cash receipts responsibilities. Reallocate the duty of reconciling deposit slips to the receipt log to an employee other than one responsible for preparing the deposits and cash receipts. This employee can also perform the reviews of the bank statement reconciliations and reconciliations to the Comptroller of Public Accounts' statements. The employee responsible for preparing and posting the deposit should be independent of receiving, depositing, and disbursing responsibilities. Reviews of the deposit slip reconciliation should be conducted by an individual independent of cash receipts and cash disbursements responsibilities.

Court's Response:

The area of focus regarding segregation of duties consists of four employees, the Clerk of the Court, two Deputy Clerks and one accountant. Following the on-site audit, duties and responsibilities of these employees were monitored and evaluated, and then recommendations that had been made by the visiting auditors were considered. Even though there were no discrepancies or irregularities found upon review of payroll, personnel, cash disbursement, and cash receipt actions and procedures, the Clerk's Office has realigned certain duties to ensure a better system of checks and balances.

Cash Receipts Responsibilities

- *Two (2) employees, Chief Deputy Clerk and Deputy Clerk, sort and open mail and receive checks*
- *Accountant prepares deposits*
- *Chief Deputy Clerk or Deputy Clerk carries deposits to the bank*
- *Accountant handles the rest of the accounting procedures, including reconciliation of the cash log to deposits*
- *Clerk reviews and initials print-outs of these accounting procedures*

The measures that have been implemented will provide a more effective control system over our cash disbursements, cash receipts, and the Court's petty cash account.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

The Twelfth Court appeared to be in substantial compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*.

Section 2:

Performance Measures

Both Performance Measures Reviewed ("Disposition Rate" and "Number of Cases Disposed") Were Certified with Qualification for Fiscal Year 1995

The qualification occurred because there was lack of adequate review of data entry into case management system. Several duplications were found in counting cases disposed

where cases were listed more than once. However, these errors did not affect accuracy more than our error threshold of 5 percent.

Recommendation:

The performance measure numbers should be reviewed by an employee other than the preparer of the information. Reviews should occur after data is entered into the case management system to ensure accuracy of information. Reviews should also occur once the information is entered into ABEST prior to completion. Dispositions should not be counted more than once.

Court's Response:

***Regarding Performance Measures** - Statistical reports generated through the Court's Case Management system are generally the responsibility of the Chief Deputy Clerk and Deputy Clerk. The Court utilizes a method of checks and balances for case management reports whereby statistical data and reports are reviewed and compared with other data and information that is independent of the Court's case management system. These reports are closely scrutinized and compared on a consistent basis by more than one court member (generally by the Chief Justice, other Justices, the Clerk, and the Chief Staff Attorney, combined.)*

State Auditor's Follow-Up Comment:

Any reviews of performance measure information were not adequate to prevent duplicate counting of certain cases. These duplicate counts were included in numbers reported to ABEST. Future reviews should occur to ensure that information entered into the Case Management System is accurate and that duplicate counting does not occur. The information should be reviewed for correct counting and calculations, and for consistency with the measure definition.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of the time of the audit was reviewed. Control procedures over cash receipts, cash disbursements, fixed assets, and payroll were tested. In addition, the Twelfth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Thirteenth Court of Appeals Corpus Christi

Section 1:

Financial and Compliance Areas

Issue 1:

Controls Over the Cash Disbursements Process Were Not Adequate

Duties were not adequately separated in this area. One employee was responsible for purchasing, receiving, and cash disbursing functions. This employee, who also had signature authority for the Thirteenth Court of Appeals' (Thirteenth Court) petty cash account, was responsible for comparing the warrants or checks to supporting documentation and mailing them. Duties should be separated so that different employees perform purchasing, receiving, and cash disbursing functions. An employee independent of the purchasing and cash disbursements functions should be responsible for comparing the warrants or checks to supporting documentation and then mailing them. Signature authority on a petty cash account should be limited to individuals independent of cash disbursements and purchasing responsibilities.

State purchasing procedures were not followed in two instances. Of 10 expenditures tested, 5 required informal or formal bids under the state purchasing guidelines. These five expenditures resulted in two purchases not in compliance with state purchasing procedures. Both purchases were over \$1,000 and less than \$5,000. Complete competitive pricing was not obtained and documented for these two purchases. According to state law, three informal bids are required when the amount of the purchase exceeds \$1,000 but is less than \$5,000. The bid amounts, companies contacted, and decision-making criteria should be documented.

Recommendation:

Separate duties so that different employees are responsible for purchasing, receiving, and cash disbursing. Designate an employee independent of the purchasing and accounts payable functions for comparing the warrants or checks to supporting documentation. Follow state bidding and purchasing requirements when processing purchase orders. Document and retain informal and formal bidding information received including companies contacted, pricing information, and decision-making criteria.

Court's Response:

The Court will attempt to comply with this recommendation by making another employee responsible for comparing the warrants/checks to supporting documentation and mailing. With regard to the petty cash signature authority, we believe that there is sufficient control in this area since dual signatures are required on all petty cash disbursements. We will follow state bidding and purchasing requirements on all purchases.

State Auditor's Follow-Up Comment:

Of the three employees with petty cash signature authority, two of them perform all purchasing and disbursing responsibilities. The third authorized signer is the Chief Justice. As a practice, the Chief Justice gives only verbal approval for small purchases and does not sign petty cash checks. Under these circumstances, we do not believe dual signatures are an adequate compensating control.

Issue 2:

Controls Over the Cash Receipts Process Were Not Adequate

One employee was responsible for receipting cash, preparing deposits, mailing the deposits, and reconciling deposit slips with the deposit vouchers and log sheet. This employee also had access to checks not yet deposited. These weaknesses increase the risk that errors and irregularities could occur and go undetected.

Recommendation:

The Thirteenth Court should reallocate its cash receipts duties so that different employees are responsible for mail opening, deposit preparation, deposit delivery, posting, and reconciliation of validated deposit slips to the cash receipts log. These reconciliations should be reviewed by someone independent of the reconciliation and accounting functions.

Court's Response:

As a result of previous audits, we currently have two employees responsible for opening the mail. Each cash receipt is restrictively endorsed and posted to the cash receipts log upon receipt. Because of other work demands and a shortage of personnel, it is not always possible that one of the individuals opening the mail is someone other than the employee responsible for deposit preparation, etc. We will, however, attempt to comply with this recommendation by assigning another employee the responsibility of reconciliation.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Controls over payroll and personnel and fixed assets appeared adequate to protect assets and prevent or detect errors and irregularities. The Thirteenth Court appeared to be in compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*.

Section 2:

Performance Measures

Both performance measures reviewed (“Disposition Rate” and “Number of Cases Disposed”) for the Thirteenth Court were certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place at the time of the audit was reviewed. Control procedures over cash receipts, cash disbursements, fixed assets, and payroll were tested for fiscal year 1995. In addition, the Thirteenth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

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Fourteenth Court of Appeals Houston

Section 1:

Financial and Compliance Areas

Issue:

Control Weaknesses Were Identified in the Cash Disbursement Process

During testing, the following weaknesses were noted:

- Informal bids for a sofa purchased for \$1,991.42 were not adequately documented. Only the first name and fax number of the agent contacted at one vendor was documented. At another vendor, only the name of the agent and fax number were documented. At a minimum, complete names of agents, names of businesses, and telephone numbers should be documented for informal bids. While a historically underutilized business (HUB) was used for this purchase, documentation did not note the HUB status of each vendor.

- The Fourteenth Court of Appeals (Fourteenth Court) paid one disbursement of \$2,295.58 in penalties and interest to the Internal Revenue Service (IRS). According to a letter from the IRS, the penalties and interest accrued because of late income tax withholding payments for the period ended June 30, 1994. Controls were not adequate over cash disbursements to ensure that payments were made in a timely manner to the IRS and that penalties were avoided. This problem should not occur in the future due to the Fourteenth Court's use of the Uniform Statewide Payroll System.

Recommendation:

Maintain complete supporting documentation of bids received and awarded. For informal bids, documentation should include at a minimum the name of each company contacted, the name of each agent contacted, the telephone number of each company, and the HUB status of each company.

Court's Response:

In the future we will provide a more thorough description of the bidding process to include HUB information, name of company contacted, name of person contacted and telephone number.

The disbursement in the amount of \$2,295.58 in penalties and interest to Internal Revenue was due because the necessary withholding payments were deposited late. This was handled by our former accountant and I do not have any reason as to why

this could have happened. We were not informed of the penalty due until after he resigned. It has always been our practice to make all such deposits on a timely basis in the past and have continued to deposit on a timely basis up to the time these duties were assumed by the State Comptroller's Office, such are now deposited electronically by USAS.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Based on review of control structures and testing performed, controls over fixed assets and payroll and personnel appeared adequate. The Fourteenth Court appeared to be in substantial compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*.

Section 2:

Performance Measures

Both Performance measures reviewed ("Disposition Rate" and "Number of Cases Disposed") were Certified.

Scope of Audit

The accuracy and controls over certain key performance measures were assessed for fiscal year 1995. The internal control structure in place as of the time of the audit was reviewed. Control procedures over cash receipts, cash disbursements, fixed assets, and payroll were tested for fiscal year 1995. In addition, the Fourteenth Court's efficiency was examined, and compliance with certain state laws and regulations was tested.

Supreme Court

Financial and Compliance Areas

Issue 1:

Leave Records Were Not Consistent With the Supreme Court's Informal Leave Policy and Were Not Accurate for Two Employees Tested

For one of six leave reports tested, five leave requests were not approved and signed by an appropriate official. Leave reports did not match the corresponding leave requests submitted by employees for two of six reports tested. Leave requests were not in compliance with the Supreme Court's informal leave policy, which requires that all leave requests be approved and signed by an appropriate official. The policy also requires that leave requests be matched with the corresponding leave reports. In addition, leave reports were not accurate for two employees tested.

Recommendation:

Assign someone to review leave reports for accuracy other than the preparer of the reports. Leave reports should be reconciled with leave requests to ensure their information is consistent. Document and formally approve the leave policy, and circulate it among staff. Strictly enforce the leave policy requirements for the approval and signature of leave requests and the matching of leave requests to leave reports.

Court's Response:

Leave Reports. The requirements of the Court's leave policy are well known. Both occasional failures to have a supervisor's approving signature and failure to identify the defect are due to haste and lack of care. Leave forms will be monitored regularly to insure that an approving signature is present. New USPS leave accounting procedures should help insure that categories of leave taken are accurately recorded.

Issue 2:

Authorized Pay Rates and Employment Authorizations Were Not Documented in All Personnel Folders

There was no documentation to verify that payroll expenses were authorized. Also, there was no documentation supporting the amount each employee should earn. Authorized pay rate and employment authorization should be documented. Without such documentation, there is a risk that errors or irregularities could occur and go undetected.

Recommendation:

Establish a policy requiring documentation for employment and pay rate authorization. The policy should be enforced on all the existing and new employees.

Court's Response:

Authorized Pay Rates and Employment Authorizations. Personnel records are being audited for omissions of documentation on salaries. Special attention will be given to ensure the Court's policy requiring the filing of such documentation.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

The financial areas reviewed included cash receipts, cash disbursements, fixed assets, and payroll. Other than payroll compliance issues identified, the Supreme Court appeared to be in substantial compliance with the General Appropriations Act, the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*, travel regulations, and bidding requirements.

Scope of Audit

The internal control structure in place as of August 1996 was reviewed, and control procedures over cash receipts, cash disbursements, fixed assets, and payroll and personnel were tested. The Supreme Court's compliance with certain state laws and regulations was tested. Performance measures were not reviewed, since they had been audited in a recent performance measures audit. See *An Audit Report on Performance Measures at 20 State Agencies and 1 Educational Institution* (SAO Report No. 96-071, July 1996).

Court of Criminal Appeals

Financial and Compliance Areas

Issue:

Controls Over Fixed Assets Were Not Adequate to Protect Assets and Prevent or Detect Errors and Irregularities

The Court of Criminal Appeals has not kept the State Property Accounting (SPA) system fixed asset inventory list updated. The Court of Criminal Appeals certified on its annual Certification of Physical Inventory that it would update the SPA system by November 1, 1995. As of June 27, 1996, the SPA system had not been updated. This was a significant control weakness because the Court of Criminal Appeals relied solely on the SPA system for monitoring its inventory and did not have an internal inventory system. The property manager indicated that they were beginning to clean up the SPA system, create an internal inventory list, and create a document that would assign responsibility for assets to users. Auditors observed that some items which needed to be removed, though not all items necessary, had been removed from the SPA system. However, there was no evidence of an internal inventory system or assignment of property responsibility at the time of our review.

SPA system policies and procedures require the accumulation, classification, and summarization of fixed assets transactions. Outdated and inaccurate inventory lists increase the risk that errors and irregularities could go undetected. The inventory listed in SPA should include all assets in use that are valued over \$1,000, and sensitive assets in use valued under \$1,000. An internal system for monitoring inventory serves as an added control to ensure that errors and irregularities will be detected.

Recommendation:

Continue to update the State Property Accounting system to include only assets in use valued over \$1,000 and sensitive assets in use valued below \$1,000. Consider implementing an internal inventory system to increase controls over assets. An internal inventory system should include the asset's description, dollar value, location, and inventory number. Additionally, the internal system should include all assets listed in SPA, as well as any other assets the Court of Criminal Appeals identifies as important to track. The Court of Criminal Appeals should keep both the internal and SPA lists current, updating them whenever additions or deletions of assets occur. It should also reconcile these two systems regularly to ensure consistency and accuracy. This will facilitate the physical inventory process.

Court's Response:

In response to your memo of February 11, 1997, please be advised that the Court is currently working on controls to correct irregularities between the Court's inventory and the State Property Accounting System.

The following procedures have been implemented:

- 1. All items valued \$1000 or less are being deleted from SPA. Sensitive assets valued below \$1000 will not be deleted from SPA.*
- 2. An internal inventory system has been implemented showing assets description, dollar value, location and inventory number. See attachment.*
- 3. Steps are being taken to reconcile the SPA system with the Court's internal system.*

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Controls over cash disbursements appeared adequate to protect assets and prevent or detect errors and irregularities. The Court of Criminal Appeals appeared to be in substantial compliance with the Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports*.

Scope of Audit

The internal control structure in place as of August 1996 was reviewed, and control procedures over cash disbursements, fixed assets, and payroll and personnel were tested. In addition, compliance with certain state laws and regulations was tested. Performance measures were not reviewed, since they had been audited in a recent Performance Measures Audit. See *An Audit Report on Performance Measures at 20 State Agencies and 1 Educational Institution* (SAO Report No. 96-071, July 1996).

Office of Court Administration

Cross-Cutting Issue: Financial Controls, Performance Measures, and Case Management Systems

Issue:

The Office of Court Administration Could Coordinate Efforts Among the Courts of Appeals to Improve Consistency

While the Office of Court Administration (Office) has taken certain steps to address coordination and consistency issues, including some of those described below, those efforts should be strengthened. There is a lack of consistency among the 14 courts of appeals in the use of the case management system, in the interpretation of performance measure definitions, and in the strength of financial records.

The appellate courts all use the case management system, but the way the system is used varies from court to court:

- The courts categorize and track cases with different codes that have the same meaning.
- The courts track the status of particular cases inconsistently.
- Controls over data entry are not the same from court to court.

This lack of consistency in the use of the case management systems does not allow courts to fully benefit from information sharing. For example, one court had a new clerk who was unable to extract information from the system for performance measure certification. The clerk contacted clerks at other courts, but they could not help her because they used their systems differently.

Performance measure definitions were not specific enough to ensure consistency in reporting by the 14 appellate courts. While most of the courts were in compliance with the performance measure definitions, they were not reporting the information consistently with other courts. Performance measure definitions should be specific and clear enough to ensure that information is reported in the same manner by all 14 courts of appeals.

Financial controls in the areas of cash disbursements, cash receipts, fixed assets, and payroll and personnel varied significantly from court to court. Some courts had strong financial controls while other courts had weak financial controls. For some courts, financial controls were strong in some areas and weak in others. Central guidelines on implementing strong financial controls at the courts would assist the courts in improving controls and consistency. Centralized training of administrative personnel could also improve consistency of controls.

The Office could assist the courts in achieving consistency in the case management system and in financial control areas through coordination and establishment of guidelines. The Office could also assist the courts in achieving consistency in performance measures reporting by assisting the courts in development of specific and clear performance measure definitions. The Office has provided the courts with other similar services and appears to be in a logical position for such coordination.

Consistency among the courts could increase benefits of economies of scale. More consistency should:

- Reduce the need for retraining staff members when they are hired by another court.
- Improve the courts' ability to share information.
- Increase the impact of sharing information.

Consistent controls for financial areas could improve adequacy of control structures at all courts and could improve consistency of control structures among the courts. More specific performance measure definitions should improve consistency of performance measure information reported by the courts to the Legislature. More consistent information would be more useful for comparing performance of the various courts.

Recommendation:

Assist the courts in achieving consistency in the case management system and in financial control areas. Coordinate with the courts to determine the most effective methods for using the case management system. Once the most effective methods are determined, assist the courts in establishing consistent category names for case types and case status, consistent tracking methods, and consistent and adequate control structures.

Assist the courts in developing specific and clear performance measure definitions. Specifically define all terms in the definitions to ensure consistency in reporting by the courts. Ensure that the specific definitions are entered into the Automated Budget and Evaluation System of Texas (ABEST).

Coordinate with the courts to establish written guidelines for consistent financial controls. Provide assistance with implementation of consistent and adequate financial control systems at the courts.

Agency's Response:

The following comments are intended to respond to your recommendations for strengthened efforts of the Office to address coordination and consistency issues among the courts in the following areas: (1) use of the case management system; (2) interpretation of performance measure definitions; and, (3) strength of financial controls. In general terms, we concur with your recommendations and these comments include proposed actions or strategies to address those recommendations.

As we address these issues, we will concurrently take into consideration the recent performance review of our office by the Legislative Budget Board (LBB) staff. One of the key findings of the review was that 92% of appellate court respondents to a survey conducted by LBB staff indicated that OCA needs additional staff to improve the agency's assistance effort for the courts. One of the key recommendations of the review was that the Office should develop strategies for improving its responsiveness to the appellate courts on a consistent basis statewide, and that the strategies should include the agency working closely with its users to define agency duties and responsibilities within the limits of the Office's resources.

The Office has for a number of years provided training for the case management software developed for use of the various courts. To the extent that this training enhances consistency and efficiencies in the collection and reporting of court activity data, this training program will be continued and enhanced as the software program is modified. As we begin preparations for publishing the 1997 Annual Report of the Texas Judicial System, we intend to establish user groups to develop strategies for enhancing the report and the data it presents. In this regard, appellate courts will be represented on our user groups and specific inquiries will be made of the need for more standardization of data collection and reporting procedures within the courts for the development of data reported to this agency for inclusion in our annual report. In all of our data collection efforts, while we strive for uniformity and standardization of data collection and reporting procedures, we are always careful not to intrude on the independent discretion of the courts in the conduct of their hearing, deliberation, and/or disposal of cases.

This office is currently facilitating and will continue to facilitate discussions, as necessary and appropriate, of a staff working group including staff of the Legislative Budget Board, Governor's Budget and Planning Office, and State Auditor's Office for the purpose of developing clearer, more specific definitions and methodologies for calculating performance measures of the appellate courts. In consultation with the Chief Justices and Clerks of the appellate courts, we will continue to develop strategies to improve the performance measure process to the extent that data can be more efficiently and uniformly collected, fairly reported, and easily understood, interpreted, and verified by all users of these measures. The importance of the performance measure process has been underscored by specific recommendations of the Commission on Judicial Efficiency and we will address this issue in close coordination with the courts and budget authorities.

As evidence of the importance this office places on financial controls in the appellate courts, the agency has annually developed a special instruction guide to assist the appellate courts in developing their annual financial reports for submission to the Comptroller of Public Accounts and the other budget authorities. We will continue our practice of holding periodic meetings and issuing certain communications to the courts on budgeting, personnel, purchasing, and other business practices. We will identify additional strategies, within the resources and authority available to us, to assist the courts in assuring that the best possible financial controls are in place and are based on good planning and risk management techniques. As appropriate and necessary, we may call upon the assistance of the State Auditor's Office to facilitate our communications, perhaps through additional training seminars and instructional devices, about the essential elements and practices necessary for establishing and improving the best available financial practices, including accountability control systems, in the courts.

There Were No Significant Findings in Financial and Compliance Areas Reviewed

Based on review and observation, controls over fixed assets, payroll and personnel, cash disbursements, and cash receipts appeared adequate. Property and other assets were properly safeguarded. The agency appeared to be in substantial compliance with the General Appropriations Act and the Comptroller of Public Accounts' *Reporting Guidelines for Annual Financial Reports*.

Agency's Comment:

We acknowledge and appreciate that you have no significant findings in our financial and compliance areas.

Scope of Audit

Due to a recent performance measure audit for fiscal year 1995, measures were not reviewed for accuracy during this audit. See *An Audit Report on Performance Measures at 20 State Agencies and 1 Educational Institution* (SAO Report No. 96-071, July 1996). Due to a recent efficiency audit, which included review of the financial control structure, limited follow-up work was conducted in the financial areas rather than a complete review. The Office's compliance with certain state laws and regulations was tested. The Office's position to coordinate efforts of the courts was reviewed.

Texas State Law Library

Financial and Compliance Areas

Issue:

Significant Control Weaknesses Exist for Fixed Assets at the Texas State Law Library

Controls over fixed assets were not adequate to protect assets and prevent or detect errors or irregularities. These control weaknesses are especially significant since maintaining fixed assets (the library collection of books, periodicals, etc.) is the primary function of the Texas State Law Library (Library). The Library listed a Library Books and Microfiche balance of \$2,999,639 in the State Property Accounting System and in its *Annual Financial Report* for fiscal year 1995. The accuracy of this number is questionable, because it has not been verified, and it only reflects additions, not deletions. The following weaknesses were identified in the Library's controls over fixed assets:

- There was no complete list of all items in the Library's collection. The Library purchased a computer system to track the items in its collection. In fiscal year 1993, the Library began entering information for collection-related purchases into this system. While the system allows for a cost to be associated with each item, this information has not been entered. Additionally, the system has not been updated with items purchased before fiscal year 1993.
- The Library has updated the total dollar value of its collection every year by adjusting the beginning balance for any additions to the collection during the year; however, deletions were not reflected.
- The Library has not conducted a complete physical inventory of its library collection in over five years.

An effective internal control structure over fixed assets at the Texas State Law Library would include:

- A current list of all items in the Library's collection including the description, dollar value, and call number of each collection item
- A valuation method for collection items that considers both additions and deletions
- A physical inventory conducted at least once a year by someone independent of the purchasing, receiving, and custodial functions

- Investigation of inventory discrepancies by an individual independent of the physical inventory process

These weaknesses increase the potential that errors and irregularities could occur and go undetected. They also increase the risk that damages and/or losses could occur that would otherwise not occur if adequate controls were in place.

Recommendation:

The Library should fully implement its computerized inventory process. To complete the implementation, the Library should:

- Update the computer system with a description, dollar value, and call number of all collection items. Individual books may be valued as a group when they are part of the same reference set or the same reference subscription.
- Continuously update the collection list in the computer system to reflect both purchases and deletions. These updates will assist in assessing an accurate current value of the Library's collection.
- Conduct a physical inventory of the library collection at least once a year. The physical inventory should be conducted by someone independent of the purchasing, receiving, and custodial functions. Consider hiring a temporary employee to conduct the inventory.
- Investigate discrepancies found during the physical inventory. Investigations should be conducted by someone independent of the physical inventory process.

Agency's Response:

The management of the State Law Library agrees that improvement needs to be made in the area of inventory control and valuation of the book collection. The State Law Library staff had previously advised the auditor's office about this situation on numerous occasions. Prior to getting the current integrated library system there was no practical way to track the monetary value of the many deletions that occur due to superseded items being removed from legal sets. The library did not have the staff to do the tracking manually and had requested guidance from the auditor's office as to a temporary course of action. Now that the integrated library system is in place, we hope to have this control in place and functioning completely within two years. This is a very time consuming process and thus necessitates the two year time-frame.

With this overview, we will turn to a discussion of certain specific points in the draft report:

“There was no complete listing of all items in the SLL’s collection” - while there is not one list, there are various lists, mail check-in cards, and payment records that collectively show what the library has in its collection.

“While the system allows for a cost to be associated with each item, this information has not been entered” - Some cost information has been entered; we are currently developing an procedure for getting this done in the most efficient way.

“Additionally, the system has not been updated with items purchased before fiscal year 1993” - Some items have been added that were purchased before FY 93.

“The SLL has not conducted a complete physical inventory of its library collection in over five years” - The library has not had the staff to do this or the money to hire temporary staff in the past. We now believe we are in a position to do this.

We concur with the recommendations made and are actively working toward these goals, as we have been over the last two years. We will have to determine at the time if we have funding available to hire temporary employees to conduct the book inventory. If we do not have funding, we will try to insure that there are cross-checks to insure that the inventory is accurate and that all discrepancies are noted and investigated.

State Auditor’s Follow-Up Comment:

Our files indicate that there has been no written correspondence from the State Law Library to the State Auditor’s Office requesting assistance. Additionally, we are unaware of any verbal or written requests for assistance. However, we would be happy to provide any needed assistance to this agency upon request.

There Were No Significant Findings in Other Financial and Compliance Areas Reviewed

Internal controls over cash disbursements appeared adequate to protect assets and prevent or detect errors and irregularities. The areas of cash receipts and payroll and personnel were determined to be areas of low risk, so no testing was performed. The Library appeared to be in compliance with riders reviewed in the General Appropriations Act.

Scope of Audit

A limited review and test of financial controls was performed based on risk factors. Controls over fixed assets, cash receipts, cash disbursements, and payroll were reviewed. Testing was performed in the area of fixed assets, because approximately 95 percent of the State Law Library's total assets are fixed assets. We also determined compliance with certain related state regulations and guidelines. This portion of the audit covered fiscal year 1995.

Court Reporters' Certification Board

Financial and Compliance Areas

No Significant Findings Were Identified in Financial and Compliance Areas Reviewed

Internal policies and procedures and guidelines for the Uniform Statewide Accounting System and the State Property Accounting system were followed. Expenditures were properly authorized and well documented. Detailed records of inventory items were maintained. Property was safeguarded from theft and exposure to the elements.

Performance Measures

Issue:

One of Three Performance Measures Reviewed Was Inaccurate

The performance measure "Percent of Complaints Resolved Resulting in Disciplinary Action" was inaccurate. For this measure, the number reported was 30 percent. The number reported should have been 23 percent. This is an error rate of 30 percent. The inaccuracy resulted because the denominator used to calculate this measure was not consistent with the measure definition. The other two performance measures reviewed, "Applications Received" and "Average Cost of Examination Administration," were certified.

Recommendation:

Review the performance measure definitions to ensure that the number reported is calculated consistently with the performance measure definitions. Designate an employee other than the preparer of the information to review the performance measure numbers reported for each reporting period. The reviewer should ensure that calculations are consistent with performance measure definitions, that mathematical calculations are correct, and that documentation supports the number reported.

Agency's Response:

In response to the draft regarding the audit conducted in July 1996 for this agency, the Court Reporters Certification Board will follow the auditors' recommendations and review the measure definitions to ensure the numbers reported are calculated consistently with the measure definition. This agency will also designate an employee other than the preparer of the information to review the performance numbers reported for each reporting period to ensure that calculations are consistent with

measure definitions, that mathematical calculations are correct, and that documentation supports the numbers reported.

Scope of Audit

Performance measure results reported by the agency for fiscal year 1995 were reviewed to determine whether they were accurate. The internal control structure in place as of July 1996 was reviewed, and control procedures over cash receipts, cash disbursements, fixed assets, and payroll and personnel were tested.

**Office of the
State Prosecuting Attorney**

Financial and Compliance Areas

No Significant Findings Were Identified in Financial and Compliance Areas Reviewed

Controls over the financial areas at the Office of the State Prosecuting Attorney (Office) appeared adequate to protect assets and prevent or detect errors and irregularities. There were six prior audit issues and recommendations in the area of fixed assets, and the Office has addressed all of them. No control weaknesses were identified in the payroll and personnel area. The Office appeared to be in compliance with state regulations regarding payroll and personnel issues.

Scope of Audit

A limited review and test of financial controls based on risk factors were performed. Payroll was tested since 71 percent of the Office's expenditures are allocated to payroll and payroll-related expenses. Controls were reviewed for the cash disbursements, fixed assets, and payroll and personnel. Controls were tested in the area of payroll and personnel for fiscal year 1995. Follow-up work was performed for the fixed assets area. Compliance with certain related state regulations and guidelines was reviewed. There were no cash receipts at the Office.

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Comptroller's Judiciary Section

Financial and Compliance Areas

The Comptroller's Judiciary Section (Judiciary Section) is a state agency incorporated into the organizational structure of the Office of the Comptroller of Public Accounts. The Judiciary Section receives appropriations for and is responsible for paying (1) the salaries of district judges and district attorneys, (2) miscellaneous expenses incurred by the district judges and district attorneys, and (3) expenses of witnesses called in criminal cases who reside outside the county where the trial is held. The Judiciary Section should provide information on applicable state regulations and Judiciary Section procedures to the counties who submit claims for reimbursement of witness fees.

Issue 1:

Counties That Were Reimbursed for Witness Fee Claims by the Judiciary Section Did Not Appear to Be Aware of Applicable State Regulations and Judiciary Section Procedures

The Judiciary Section relies heavily on the counties to faithfully complete and process the witness fee claim forms. These forms are generally processed by personnel in the district attorneys' and district judges' offices. Various instances of minor compliance discrepancies were found when witness fee claim forms submitted by the counties were tested. Because of political election staffing changes, there is an increased risk that county personnel in these offices may not be aware of the applicable state regulations and Judiciary Section procedures for completing and processing witness fee claims.

The Judiciary Section is responsible for ensuring compliance with Article 35.27 of the Texas Code of Criminal Procedure. To improve witness fee claim procedures at the county level, the Judiciary Section could provide guidance on applicable procedures, internal controls, and state regulations.

Recommendation:

The Judiciary Section should update its procedures and provide copies of these procedures along with applicable state regulations to the counties. The Judiciary Section should explain the importance of following these procedures and regulations to the counties. The Judiciary Section could also provide information to assist the counties in developing adequate internal controls over witness fee claims. With this information, the counties should gain a better understanding of what is expected of them regarding witness fee claims. This information should be provided to the counties after county elections are held, but no less frequently than every other year. When the Judiciary Section receives multiple witness fee claims from a single county that are not in

compliance with state regulations and procedures, the county should be contacted and instructed to comply in the future.

Agency's Response:

The Comptroller's Judiciary Section will update the written procedures for processing witness fee claims. In addition, the Judiciary Section will provide each county with written procedures for completing and submitting witness fee claims. The Section will also work with the counties should it continue to receive claims which are not in compliance with the rules and regulations regarding witness fee claims.

Performance Measures at the Public Integrity Unit

Issue:

Two of the Public Integrity Unit's Performance Measures Reviewed Were Inaccurate, and One Was Certified

The inaccuracies were due to mathematical errors. The Public Integrity Unit is a line item within the Comptroller's Judiciary Section appropriations; however, it is actually housed and administered by the Travis County District Attorney's Office. The Public Integrity Unit deals directly with the Legislature and the Legislative Budget Board regarding the performance measures and its appropriations. For fiscal year 1995, two of the performance measures were inaccurate and one was certified:

- The "Motor Fuel Tax Restitution Recovered by the Comptroller's Office in Public Integrity Unit Cases" was certified.
- The "Insurance Fraud Restitution Recovered by the State Guaranty Fund or Victims in Public Integrity Unit Cases" was inaccurate. The amount that should have been reported was \$110,591.99. The actual amount reported in the Automated Evaluation System of Texas (ABEST) was \$100,592.00. The inaccuracy was due to a mathematical calculation error. The difference of \$9,999.99 represents an error rate of 9 percent.
- The "General Fraud Restitution Recovered in Public Integrity Unit Cases" was inaccurate. The amount which should have been reported was \$30,395.35. The amount reported in ABEST was \$35,553.00. The inaccuracy was due to a mathematical calculation error. The difference of \$5,157.65 represents an error rate of 17 percent.

Recommendation:

The Public Integrity Unit should designate a person (other than the person entering the data) to review calculations of performance measure data for accuracy and for consistency with the performance measure definitions. The Public Integrity Unit should designate a person, other than the person who submits performance measure information, to review and reconcile performance measure numbers reported to the ABEST with the calculations performed. These calculations and reviews should be documented.

Public Integrity Unit Response:

We agree with all proposed recommendations stated in the draft summary and, due to the large amounts of raw data collected and managed, have assigned additional personnel to review all reported performance measure submissions. Please be aware however that the Public Integrity Unit is a department of the Travis County District Attorney's Office and currently does not have direct access to the Automated Budget Evaluation System of Texas (ABEST). Performance measures reported by this office are submitted directly to the Legislative Budget Board in paper form. Data entered in the ABEST system is completed by an unknown third party.

State Auditor's Follow-Up Suggestion:

To ensure that performance measures data is accurate, the Public Integrity Unit should request an ABEST report from the Legislative Budget Board (LBB) once the data has been entered by the third party. This report should be reviewed for accuracy by the Public Integrity Unit. If the report is not accurate, the Public Integrity Unit should contact the LBB and inform it of the correct information.

Scope of Audit

Cash disbursements were tested for compliance with Comptrollers' procedures, the General Appropriations Act and applicable state statutes. This cash disbursements testing was conducted in the areas of witness fee claims, apportionment vouchers for district attorneys' offices related expenses, and salaries and expenses for district judges and district attorneys. Certain performance measures were reviewed for the Public Integrity Unit.

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Objective, Scope, and Methodology

Objective

The objective of the audit was to assess the financial controls, performance measures accuracy, and controls and efficiency of the appellate courts and judicial branch agencies.

Scope

The scope of the audit included a review of financial controls, performance measures, and efficiency issues at the courts and agencies. Based on risk, different levels of review were conducted at the courts and judicial branch agencies.

At the beginning of the audit, courts and agencies were divided into two groups. The first group, having higher risk, received a complete review in financial and performance measures areas. Financial testing was conducted in all of the following areas: cash disbursements, cash receipts, fixed assets, and payroll.

Performance measures were certified at the 14 appellate courts at the request of the Legislative Budget Board. Performance measures were only certified at the agencies if they were considered a high-risk area, and they had not been recently certified in another audit.

Financial testing was only performed in the highest-risk areas in the second group of courts and agencies. These courts and agencies in the second group were determined to have less risk based on the amount of appropriations, number and type of previous audit findings, and financial analyses performed prior to the audit. The same criteria was used to determine which areas to test at these lower-risk agencies and courts.

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, and analyzing information.

Information collected:

- Interviewed selected members of management and staff at the courts and agencies visited
- Examined documentary evidence such as:
 - Cash disbursement vouchers and documentation of the bidding and purchasing processes

- Cash receipts process
- Internal inventory documents and SPA documents and controls
- Payroll documentation
- Performance measure source documentation and controls
- Documents which demonstrated compliance with certain state laws and regulations
- Observed certain processes and items such as:
 - Cash-receipting process
 - Fixed assets

Fieldwork was conducted from July 1 through November 30, 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by the following members of the State Auditor's staff:

- Andrea Claire, JD, MBA (Project Manager)
- Ann Huebner
- Kevin Hannigan, MBA
- Jennifer Jupe
- Lena Lui
- Mary Koster, CPA
- Joe Seitz
- Jackie Catrow
- Charles R. Hrcir, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

Summary of Financial Controls and Performance Measure Controls

Court/Agency	Cash Disbursements	Cash Receipts	Fixed Assets	Payroll	Performance Measures
Supreme Court	✓	✓	✓	✗	N/A
Court of Criminal Appeals	✓		✗	❖	N/A
First Court - Houston	✓	✗	✓	✓	✓
Second Court - Fort Worth	✓	✗	✓	✗	✓
Third Court - Austin	✓			✓	✓
Fourth Court - San Antonio	✓	✗	✓		✓
Fifth Court - Dallas	✗	❖	✗	✗	✗
Sixth Court - Texarkana	✗	✗		✓	✓
Seventh Court - Amarillo			✓	✓	✓
Eighth Court - El Paso	✗				✓
Ninth Court - Beaumont	✓	✓	✓	✓	✓
Tenth Court - Waco	✓	✓	✗	✗	✓
Eleventh Court - Eastland	✗	✓	✗	✗	✓
Twelfth Court - Tyler	✗	✗	✓	❖	✗
Thirteenth Court - Corpus Christi	✗	✗	✓	✓	✓
Fourteenth Court - Houston	✗	✓	✓	✓	✓
Office of Court Administration					N/A
State Law Library			✗		N/A
Court Reporters' Certification Board	✓	✓	✓	✓	✗
State Prosecuting Attorney				✓	N/A
Public Integrity Unit	N/A	N/A	N/A	N/A	✗

- ✓ Controls appeared adequate from review and testing.
 - ✗ Control weaknesses were identified in this area.
 - ❖ Minor control weaknesses were identified in this area.
- Controls appeared adequate from review, but were not tested based on lower risk of this area and/or this agency or court.
- Controls were not reviewed or tested for this area and this agency/court due to the lower risk of this area and/or this agency or court.
- N/A Area not reviewed at agency or court.

Appendix 3:

Certification Results for Courts

Court	Measure 1: Disposition Rate	Measure 2: Number of Cases Disposed
First Court - Houston	Certified	Certified
Second Court - Fort Worth	Certified	Certified
Third Court - Austin	Certified	Certified
Fourth Court - San Antonio	Certified	Certified
Fifth Court - Dallas	Inaccurate	Certified with Qualification
Sixth Court - Texarkana	Certified	Certified
Seventh Court - Amarillo	Certified	Certified
Eighth Court - El Paso	Certified	Certified
Ninth Court - Beaumont	Certified	Certified
Tenth Court - Waco	Certified	Certified
Eleventh Court - Eastland	Certified	Certified
Twelfth Court - Tyler	Certified with Qualification	Certified with Qualification
Thirteenth Court - Corpus Christi	Certified	Certified
Fourteenth Court - Houston	Certified	Certified

Performance Measures Certification Criteria

Below are the categories related to the certification of performance measures and corresponding criteria.

Certified	A measure is “certified” if reported performance is accurate within plus or minus 5 percent and if it appears that controls are in place over the collection and reporting of performance data to ensure accuracy.
Certified with Qualification	A measure is “certified with qualification” when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also “certified with qualification” when controls are strong, but source documentation is unavailable for testing. When a definition is not followed but the number reported was still within the allowable error rate of plus or minus 5 percent, the measure is “certified with qualification.” When a reasonable interpretation is made of an unclear definition, the measure may be “certified with qualification.”
Factors Prevented Certification	“Factors prevented certification” is given if documentation is unavailable and controls are not adequate to ensure accuracy. Additionally, “factors prevented certification” is given when a measure definition is not followed, and it cannot be determined whether the number reported is accurate or inaccurate.
Inaccurate	A measure is “inaccurate” when the actual performance is not within 5 percent of reported performance, or there is a greater than 5 percent error in the sample of documentation tested. A measure is also “inaccurate” if the measure definition is not followed and the number reported exceeds the allowable error rate of plus or minus 5 percent.

Fifth Court of Appeals, Dallas - Supplement

Appendix 5.1:

Court's Response

Thank you for the opportunity to respond to the audit report that your office prepared. All of the expressed concerns or weaknesses are directly attributable to the Court's loss of employees in our two top positions. When the Clerk of the Court (the Clerk) and the Business Administrator left at about the same time in FY96, the Court's clerical and administrative operations did, in fact, suffer. However, the circumstances surrounding the loss of these individuals was an anomaly. The facts described in this response demonstrate why I am confident in stating that this situation will not occur again.

Audits of this type, by their very nature, examine a specific time period. Therefore, the audit will present only a snapshot of the Court's operations at a specific period in time. However, a historical perspective and familiarity with the overall circumstances of FY 95 and FY 96 provides significant information that bears on the conclusions and factual determinations which were made.

As you may know, the Clerk in the other intermediate appellate courts performs or supervises the case-management functions, the processing and docketing of cases, and all administrative responsibilities. Due to our size, the number of employees, and the volume of our docket, one individual could not adequately discharge the required responsibilities.

Therefore, the Court obtained Legislative approval for a business-administrator position.

All administrative duties, such a payroll, employee benefits, insurance, purchasing, computers, mandated reports (other than case status reports to the Office of Court Administration (OCA)), were removed from the Clerk and placed with the Business Administrator. Because the Clerk's responsibilities were decreased, the Court reduced the salary level in that position. As a result, our Clerk made significantly less than the Clerks in other intermediate appellate courts. Initially, the salary reduction did not adversely impact our ability to hire an experienced Clerk. This salary differential did, however, present a significant problem when our Clerk retired.

Audit Report: High turnover at the Fifth Court of Appeals has contributed to weak control systems.

The Clerk's Office

We dispute the factual statement that the Court had three Clerks during FY96. Two individuals held the position during that time period . . .

[Clerk A] was employed at the Court for sixteen years, serving from October 1979 through November 1995. She was the Clerk at the time of her retirement. Therefore, [Clerk A's] departure resulted in the loss of a person with invaluable experience and knowledge, and she was, in fact, the key employee in the Clerk's Office.

[Clerk A] retired from the Court because of . . . reasons [which] . . . required that she immediately stop working. . . .

During [Clerk A's] lengthy tenure with the Court, she amassed large amounts of annual and sick leave, and she accumulated significant compensatory time. Although [Clerk A] physically left the Courts in mid-August 1995, she remained on the State payroll until November 30, 1995.

At the time of [Clerk A's] physical departure, the Clerk's Office was already in the midst of a significant period of transition. A few months earlier, our data-entry clerk who had been with the Court for fourteen years retired, and we had changed to a totally new case-management system. Approximately one half of the clerical staff obtained training in Austin, and [Clerk A] was responsible for training the remaining deputy clerks. In the months immediately following the implementation of the new program, [Clerk A] and two deputy clerks focused on identifying and rectifying conversation glitches, and, at the same time, they continued performing their normal tasks. [Clerk A's] sudden departure caused a dramatic void, which I addressed by immediately shifting the priorities and job responsibilities of all deputy clerks. Unquestionably, the Court's operations suffered from this professional and personal loss.

During the ensuing months, the Court aggressively sought a qualified replacement. Because of the salary issue, the search took longer than expected. After the first series of interviews, we realized that the salary level would have to be increased before we could attract qualified candidates. We still did not, at that time, raise the salary to the same level as the Clerks of the other courts.

The Court hired [Clerk B] in April 1996. We soon recognized, however, that the job absolutely demanded an individual with prior appellate-court experience. Therefore, in September 1996, the Court further adjusted its budgetary priorities. At this time, the salary range was raised to a level commensurate with the salaries offered by the other intermediate appellate courts.

As a result, in November 1996, the Court was able to hire . . . our current Clerk. [The current Clerk] had been employed in the Clerk's Office at the First District Court of Appeals in Houston for more than seven years. When she left the Houston Court, [the current Clerk] was the Chief Deputy Clerk. In that position, [the current Clerk] was responsible for training all deputy clerks on case management, reconciling and preparing the monthly OCA reports, and supervising and managing the daily work

flow of the deputies. [The current Clerk's] experience and professionalism, has already brought significant improvements to our Clerk's Office.

The audit report also refers to the departure of four deputy clerks during FY96. The circumstances of those individuals' employment and leaving are described below.

- Deputy Clerk IV: An individual was hired for a supervisory position during the brief tenure of . . . [Clerk B]. The employment period lasted less than ten days when the individual stated that she had to resign because of medical reasons.*
- Deputy Clerk I (file clerk): This individual left the Court after approximately six months because she and her family moved to another geographic area.*
- Deputy Clerk II (data entry): This six-year employee transferred to another State agency because the position offered a significantly higher salary. This individual was the Court's primary data-entry person at the time she left. Therefore, this employee performed a very critical job-function.*
- Deputy Clerk IV (supervisory position): This individual had been with the Court almost six years. He terminated his employment, without notice, during the brief tenure of . . . [Clerk B].*

OCA personnel conducted on-site training for all of the current deputy clerks in September 1996. The employees' case management skills and confidence level greatly increased as a result of this training. Further, under the supervision and direction of [the current Clerk] the job responsibilities have been redistributed, and a systematic cross-training program has already been implemented.

Based upon the current data, it also appears that the high-turnover period has ended. We are five months into FY97 and there have been no terminations or resignations in the Clerk's Office.

Administration

Within two months of [Clerk A] informing me that she had to . . . [retire], the [former] Business Administrator gave notice of her intent to leave the Court. Our [former] Business Administrator had been employed for two years when she resigned and moved out-of-state with her husband. As a result, for a five-month period, the Court did not have the benefit of full-time personnel in these two key positions. As Chief Justice, I worked with the Chief Deputy Clerk and the Accountant to ensure that the bills were paid, the monthly case-status reports were filed with OCA, and the other mandated reports were filed with the appropriate entities.

The Court hired . . . our current Business Administrator, in April 1996. [The current Business Administrator] came to the Court with five years of experience, including personnel and payroll administration for a 150-person organization. [The current Business Administrator] has reorganized the administration division and implemented new control systems for purchasing and voucher preparation. Further, [the current Business Administrator] has initiated a book that documents the Court's administrative procedures.

During [the current Business Administrator's] tenure, two vacancies have occurred in the administrative area. The circumstances of each are explained below.

- *Accountant: The job responsibilities for this position were voucher preparation, payroll processing, coordination of benefits, and personnel administration. This employee had been with the Court for approximately two and one-half years when she left to return to private-sector employment at a significantly higher salary.*
- *Administrative Technician: Because of budgetary considerations, this position was eliminated and the job responsibilities were absorbed by other Court personnel.*

Your audit report also refers to the departure of two other classified employees during FY96, which would be the two secretaries who left the Court. The circumstances surrounding these departures are that one retired when she reached age sixty-five and the other individual left to assist her husband in a new family-owned business.

Certainly the number of vacancies during FY96 could be interpreted to mean that there is some type of systemic personnel problem. However, the circumstances surrounding these occurrences demonstrate that: two were for health reasons; one was an age-retirement; two were because other positions offered greater salaries; two resulted from employees moving away with their families; one was for family-business reasons; and, one position was eliminated due to a shift in the Court's budgetary priorities. As a further indication that the departures are not indicative of an underlying personnel problem, a majority of these individuals still maintain a close social relationship with the Court in that they participate in our office luncheons and gatherings, and one of them has returned to the Court as a part-time temporary worker.

Insofar as the recommendations outlined under this issue, the Court has already undertaken the suggested course of action. We can readily identify the cause for the high turnover and most of these vacancies were caused by circumstances beyond our control. We also share your conclusion that the reduction of turnover will increase stability and will allow the Court to implement long-term controls in administrative areas. Finally, as stated earlier, [the current Clerk] has already implemented

cross-training in the Clerk's Office so that all job functions can be routinely handled when absences and/or vacancies occur.

Audit Report: Control weaknesses exist in the areas of cash disbursements and purchasing.

- *Bids for glass entrance doors*

On November 30, 1995, this Court received a waiver from the statutory provisions for a renovation project that included the fabrication and installation of glass entry doors (see attached). Three informal bids were obtained, and the award was made to the lowest bidder, JPON Glass.

- *Informal bids for purchases over \$1000*

In January 1996, computer supplies in the amount of \$1,039.45 were purchased on Voucher 2256137 from Computer Ribbon Specialists, a certified HUB vendor. Information bids were not obtained for this purchase because the Court had previously determined that this company was the lowest and best local vendor for computer printer supplies. The Court purchases these supplies periodically as replacements are needed. During FY96, this was the only purchase for more than \$1,000.

- *Formal system to review purchases*

[The current Business Administrator] implemented a purchasing system that includes the use of a computer database to generate purchase orders, expenditure logs, and purchase vouchers. The new system provides improved review and documentation of purchases, which further ensures that all bidding requirements are followed. [The current Business Administrator] reports that he provided a copy of the new system during the audit process.

Audit Report: Control over fixed assets should be implemented to safeguard State property.

The untagged computer equipment mentioned in the report arrived during the period when the Court did not have a business administrator. The business administrator also serves as the Court's property manager. Property tags have now been attached to all computer equipment purchased in December 1995, and all new fixed assets purchased by the Court since July 1996 have been tagged. Additionally, all items have been entered into the State Property Accounting (SPA) system.

[The current Business Administrator] conducted a year-end physical inventory. All Court items listed in the SPA, including the referenced computer printer, are on our premises.

Audit Report: *Adequate separations of duties regarding payroll\personnel functions have not been established.*

The deficiency pointed out in this section again stems from the fact that the Court was going through a transition period at the time of the audit. Because [the current Business Administrator] had been with the Court about three months, the Accountant was initially administering most of the personnel and payroll functions. In fact, the Accountant initially had to perform these functions because the Court had just converted to the Uniform Statewide Payroll System (USPS), and she was the only employee who had been trained on this system.

At the current time, [the current Business Administrator] works with an accounting clerk. Both [the current Business Administrator] and the accounting clerk have had training on USPS. Under the Court's current operations, there is a definite system of checks and balances.

- Payroll changes are processed in USPS by the accounting clerk. Trial payrolls are reviewed and approved each month by [the current Business Administrator] prior to the release of the final payroll.
- All personnel changes, including pay rate changes, are approved by the Chief Justice and processed by the accounting clerk.
- Timecard information is reviewed by supervisors on a weekly basis. The accounting clerk updates leave balances on a monthly basis, under [the current Business Administrator's] supervision.
- The Court's current internal purchasing system allows the accounting clerk to enter voucher information, including the service date, item purchased, and vendor. However, only [the current Business Administrator] may assign a document number to complete and print a purchase voucher. The accounting clerk enters all vouchers into USAS, which are then released by [the current Business Administrator].

Audit Report: *Of two performance measures reviewed for accuracy, one was inaccurate and the other was certified with qualification.*

Apparently in FY95, the Court's former Business Administrator provided an erroneous mathematical percentage in connection with an LBB request for a disposition rate. This erroneous percentage number was then entered into the LBB's ABEST system. As

previously discussed, this employee left in November 1995, and we have not been able to determine how she arrived at that figure. We have, however, determined that this was an isolated mistake, and all of the underlying data regarding our docket activities have been properly reported to OCA and the LBB.

Specifically, we have determined the following facts.

- *The Court's FY95 docket activity data submitted to OCA is correct and has been reconciled to the Court's case-management system reports (see attached).*
- *The FY95 figures of the Court's case dispositions vary by only two cases in that OCA reflects that we disposed of 1,737 cases and ABEST reflects a case disposition of 1,735.*
- *The FY96 disposition rate data reported to ABEST reconciles with the OCA information.*
- *All of the performance-measure data that was included in the Court's Legislative Appropriations Request (LAR) for the FY98-99 Biennium is correct and is based upon the OCA information.*

[The current Clerk] is experienced in reconciling and preparing monthly case-management reports. We expect that this expertise, together with the on-site training that has already occurred, will lead to a higher degree of accuracy and control.

We apologize for the prior error and anticipate that our new operating procedures ensure accuracy. The basic checks and balances of our system are briefly outlined below.

- *Entry of case-management data is completed daily by the deputy clerks.*
- *[The current Clerk] is primarily responsible for producing and reconciling the management-activity reports. Our Chief Deputy Clerk serves as a backup for this task.*
- *Each month's docket activity data is reconciled to the previous month's report and to the year-to-date totals.*
- *The case-management data for opinions issued is reconciled to reports maintained by the secretaries for each Justice.*

- [The current Business Administrator] *enters the reconcile data into ABEST.*

Again, thank you for the opportunity to respond. In our opinion, the Court has already implemented changes that address all of the expressed concerns. If we have omitted anything or your office desires additional information, please do not hesitate to call. We would welcome the opportunity for your personnel to visit the Court at this time so that you could observe our current operations.

Appendix 5.2:

State Auditor's Follow-Up Comment

The Fifth Court's response stated "We dispute the factual statement that the Court had three clerks during fiscal year 1996. Two individuals held the position during that time period" The audit report did not state that the Fifth Court had three clerks *during* fiscal year 1996. It stated that the Fifth Court had three clerks *since* the beginning of fiscal year 1996. Two clerks arrived at the court during fiscal year 1996, and one clerk arrived during fiscal year 1997.

After receiving the report, the Fifth Court submitted additional documentation for purchases. The Fifth Court stated that it "received a waiver from the statutory provisions for a renovation project that included the fabrication and installation of glass entry doors." The Fifth Court requested a waiver from having the work performed or managed by the General Services Commission and that waiver was granted as an "exclusion." According to the General Services Commission, this "exclusion" did not exempt the Fifth Court from state bidding requirements. Further, the Fifth Court stated in its request that it wanted to solicit bids for the fabrication of a door for its entrance. The Fifth Court apparently obtained three informal bids for purchase of the glass entrance. Formal bids, rather than informal bids, were required and should have been obtained by the Fifth Court.

Additionally, of the three informal bids obtained by the Fifth Court, none were historically underutilized business (HUB) vendors. According to the General Services Commission, the "exclusion" did not exempt the Fifth Court from HUB requirements. To meet HUB requirements, at least one bid each must be obtained from a minority-owned business and a woman-owned business. In the event a HUB vendor cannot be located from the General Services Commission HUB Directory, a HUB quick reference list, or other available sources, the purchasing entity must make a written notation of all the referenced sources used and document the unavailability of HUBs. No such documentation was provided by the Fifth Court.

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