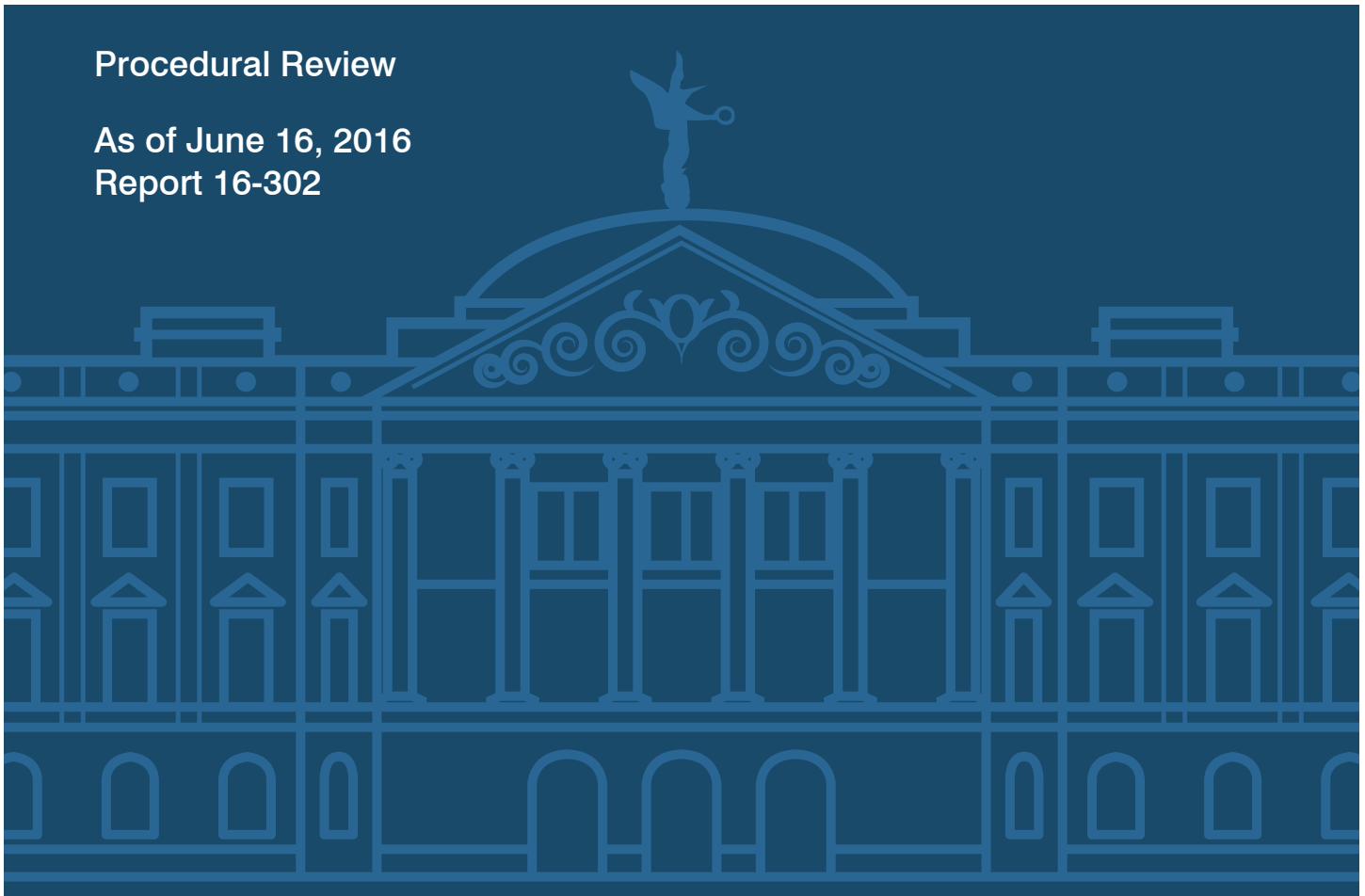


Arizona Supreme Court

Procedural Review

As of June 16, 2016
Report 16-302



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

June 16, 2016

David K. Byers, Administrative Director
Arizona Administrative Office of the Courts

We have performed a procedural review of the Arizona Supreme Court's internal controls in effect as of June 16, 2016. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, journal entries, transfers, payroll, purchasing, capital assets, information technology access controls, travel, and compliance with conflict-of-interest requirements.

As a result of our review, we noted noncompliance with Arizona Revised Statutes (A.R.S.) that the Arizona Supreme Court's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls for A.R.S. compliance. Our finding and recommendation concerning this deficiency is described below.

The Court should establish policies and procedures to ensure compliance with Arizona conflict-of-interest laws

Criteria—Key employees should disclose potential conflicts of interest in accordance with A.R.S. §38-503. In addition, state agencies must complete and submit to the State's General Accounting Office (GAO) Form 51 each year if the agency has any related-party transactions that aggregate to \$100,000 or more for financial reporting purposes.

Condition and context—The Arizona Supreme Court (Court) did not have controls to ensure that employees in management positions completed an annual conflict of interest form. Specifically, auditors noted that there were no conflict-of-interest disclosures for employees in management positions.

Effect—The Court risks engaging in transactions with a conflict-of-interest that have not been disclosed and noncompliance with A.R.S. §38-503.

Cause—The Court was not aware that all key employees should complete a conflict-of-interest form.

David K. Byers, Administrative Director
Arizona Administrative Office of the Courts
June 16, 2016
Page Two

Recommendation—The Court should ensure that all employees in management positions complete a conflict of interest form to help ensure compliance with A.R.S. §38-503. In addition, when conflicts-of-interest exist, those employees with a conflict must refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. Also, new employees in management positions should complete a conflict-of-interest form when hired in order to disclose any potential conflicts of interest or related parties. Further, if the Court has related-party transactions that aggregate to \$100,000 or more, they should be reported to GAO for disclosure in the State's financial statements.

This report is intended solely for the information and use of the Arizona Supreme Court and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Jay Zsorey, CPA
Financial Audit Director

COURT RESPONSE



Supreme Court

STATE OF ARIZONA
ADMINISTRATIVE OFFICE OF THE COURTS

Scott Bales
Chief Justice

David K. Byers
Administrative Director
of the Courts

June 23, 2016

Taryn Strangle, CPA
Finance Audit Manager
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Re: Response to the Supreme Court Procedural Review Findings

Finding #1: The Court should establish policies and procedures to ensure compliance with Arizona Revised Statutes.

Criteria #1: Key employees should disclose potential conflicts of interest in accordance with Arizona Revised Statutes.

Response: The Court agrees to establish policies and procedures to ensure compliance with A.R.S. 38-503. The Court will ensure all employees in executive management positions complete a conflict of interest or related party disclosure form by July 1 each fiscal year or upon hiring.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

~~Dave~~ Byers, Director
Administrative Office of the Courts

