

Arizona Court of Appeals Division I

Procedural Review

As of June 16, 2016
Report 16-303



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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June 16, 2016

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

We have performed a procedural review of the Arizona Court of Appeals Division I's (Court) 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 related party requirements.

As a result of our review, we noted certain deficiencies in internal controls and noncompliance with Arizona Revised Statutes that the Court's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our findings and recommendations concerning these deficiencies are described in the accompanying summary.

This report is intended solely for the information and use of the 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



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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 Arizona Revised Statutes (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 Court of Appeals Division I (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 a 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.

Recommendation—The Court should ensure that all employees in management positions complete a conflict-of-interest disclosure 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.



The Court should improve its review of employee travel reimbursements

Criteria—In accordance with the Administrative Office of the Courts travel reimbursement policies and procedures, for an employee to be eligible for reimbursement of travel allowances and costs, the claim must have been authorized or subsequently approved by management. In addition, lodging costs incurred within 35 miles of a person’s designated post of duty or residence will not be reimbursed absent an emergency or an exception approved by management.

Condition and context—The Court did not have adequate controls to properly review and approve travel reimbursement requests to ensure travel costs claimed were allowable and properly supported. Specifically, for two of five travel claims tested, the travel claims were not properly reviewed and approved. One travel claim was not approved by a supervisor prior to payment, and the second travel claim included \$110 in unallowable lodging cost because the employee returned home for non-emergency reasons.

Effect—The Court reimbursed \$110 in lodging costs that were unallowable. In addition, there is a risk of fraud, theft, and abuse if travel expenditures are not properly supported, reviewed, and approved.

Cause—The Court did not properly review employee travel claims to ensure policies and procedures were followed and the costs were allowable.

Recommendation—The Court should ensure that all employee travel claims are properly supported, reviewed, and approved for allowability by management knowledgeable of court travel requirements prior to making payment.



The Court should maintain an up-to-date capital assets list

Criteria—In accordance with the *State of Arizona Accounting Manual*, Topic 25, Section 10, the Court should have effective internal controls over its capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context—The Court had a total of 15 capital assets listed on its internal capital assets list and the State's Fixed Assets Module (FAM). However, the Court did not maintain effective internal controls over its capital assets to ensure its assets were properly safeguarded and identified as the State's property. As a result, for all four capital assets selected for test work, auditors were unable to locate the asset's tag number identifying the asset as state property. Further, auditors examined additional assets maintained at the Court and determined those assets were also not properly tagged.

Effect—Without effective internal controls, the Court's capital assets are exposed to loss, theft, or misuse.

Cause—The Court's staff did not have a process in place to tag its capital assets.

Recommendation—To help strengthen internal controls over capital assets and ensure all assets are accounted for, the Court should inventory and tag its capital assets identifying the asset as the State's property. Further, the Court should reconcile the inventory of its assets to accounting records to ensure all assets are accounted for, properly controlled, and reported in the State's financial records.

COURT RESPONSE



MICHAEL J. BROWN
CHIEF JUDGE

Court of Appeals

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June 27, 2016

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Re: Response to Court of Appeals 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.

Finding #2: The Court should improve its review of travel reimbursements.

Criteria #2: In accordance with the Administrative Office of the Courts travel reimbursement policies and procedures, for travel to be eligible for reimbursement of travel allowances and expenses, the judicial approval authority must have authorized or have subsequently approved the travel. In addition, lodging costs incurred within 35 miles of a person's designated post of duty or residence will not be reimbursed absent an emergency or an exception approved by the judicial approval authority.

Response: The court will ensure that travel reimbursements are fully reviewed, supported and approved by management knowledgeable of court travel requirements prior to disbursing funds. The finding of an overpayment has been addressed and the court has been reimbursed \$110.

Finding #3: The Court should update its capital assets list.

Criteria #3: In accordance with the State of Arizona Accounting Manual, Topic 25, Section 10, the Court should have effective internal controls over its capital assets that are sufficient to control, safeguard, and report capital assets.

Response: The court has addressed the issue raised and has affixed an identification number asset tag to all capital assets. The court will reconcile the inventory of its assets to accounting records to ensure that the court's inventory of capital assets is properly accounted for, controlled and reported in the State's financial records on an on-going basis.

Sincerely,

Michael A. Brown
Chief Judge

