

Audit Report

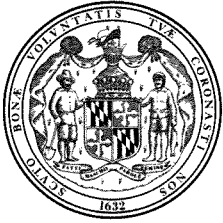
Judiciary

July 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

July 16, 2013

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Judiciary for the period beginning October 19, 2009 and ending June 30, 2012. The Judiciary is established by the State Constitution as responsible for the administration of justice in Maryland and comprises the courts and various other agencies (such as the Administrative Office of the Courts and the State Law Library) that support the administrative and regulatory functions of the Judicial Branch of government.

Our audit disclosed that sufficient procedures and controls were not established over equipment to ensure proper accountability and that certain computer equipment was discarded without a documented evaluation as to whether any of the items were potentially serviceable.

The Judiciary's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Judiciary.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas J. Barnickel III". The signature is written in a cursive style.

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Judiciary is established by the State Constitution as a separate branch of government responsible for the administration of justice in Maryland. The Judiciary comprises the courts and various other agencies that support the administrative and regulatory functions of the Judicial Branch of government. The Maryland Judiciary consists of the

- Appellate Courts, consisting of the Court of Appeals and the Court of Special Appeals;
- Circuit Courts, one of which is located in each of the State's 24 local subdivisions;
- District Courts of which there are 34 locations, with at least one in each local subdivision and which are organized into 12 geographic districts; and
- Court-related agencies such as the Administrative Office of the Courts (AOC), Maryland Judicial Conference, State Law Library, State Reporter, Commission on Judicial Disabilities, and State Board of Law Examiners.

AOC provides certain support services to the Maryland Judiciary, including personnel administration, preparation and administration of the Judiciary's budget, payroll, and processing of invoices. Although certain of these services are provided to the Circuit Courts and consequently are included in the scope of this audit, we also conduct separate audits of the fiscal transactions processed by each of the 24 Offices of the Clerks of the Circuit Courts. Furthermore, although the Judiciary audit also includes a review of information controls for the financial systems supporting AOC operations, we also perform a separate audit of the Judicial Information Systems, which includes controls related to Judiciary's data center and wide area network. Finally, the Judiciary's internal audit staff performs periodic scheduled audits of district court operations, which we rely on to reduce the scope of our work over cash receipts and revenue processing.

According to the State's records, during fiscal year 2012, the Maryland Judiciary's operating expenditures totaled approximately \$424 million, the majority of which were included in the scope of this audit.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated August 24, 2010. We determined that the Judiciary satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Equipment

Finding 1

The Judiciary lacked adequate controls over equipment.

Analysis

The Judiciary lacked adequate controls over equipment, which according to its records, totaled approximately \$66.7 million as of June 30, 2012. Two sets of equipment records are maintained: one for the District Court's equipment, which totaled \$17.7 million, and the other for all remaining Judiciary equipment. For example, we noted the following conditions:

- Five employees had access to either the District Court's or other units' warehouse inventory and had the capability to update the related automated detail equipment records. The two warehouses were used to store certain equipment, such as computer equipment, waiting to be issued or disposed of. As a result, these employees could potentially misappropriate equipment items located in the respective warehouse to which they had access and conceal the related theft by deleting such items from the related detail equipment records.
- The equipment control account for non-District Court units was not properly maintained since a report of disposals generated from the related detail equipment records was used to record disposals in the control account rather than approved Department of General Services (DGS) property disposal forms. As a result, the control account did not serve as an independent record of equipment. In addition, reconciliations of the detailed records to the control account for the District Court were not reviewed and approved by a management level employee. A control account helps to maintain accountability over equipment and to ensure that all transactions have been properly recorded.

- Inventory records were not maintained for the State Law Library’s collection of art and historical items (rare books and prints). Although independent appraisals were performed for some of these items in fiscal year 2011 and all of the items in fiscal year 2012 (and will be performed annually in the future) for insurance purposes, there was no formal process to ensure that all collection items had been accounted for. Furthermore, even though the July 2012 third-party appraisal valued the Library’s art and historical items at \$12.6 million, the Judiciary reported a \$5.4 million June 30, 2012 value for the State Law Library to DGS.

Under the aforementioned conditions, errors or other discrepancies could occur without timely detection. Improper employee access to the warehouse inventory and the related detail equipment records, as well as the lack of management review and approval of control account reconciliations, were commented upon in our preceding audit report.

Recommendation 1

We recommend that the Judiciary establish adequate internal controls over equipment. Specifically, we recommend that

- a. employees who have routine physical access to warehouse inventory of equipment not be able to access and update the related detail records (repeat);**
- b. independent documentation be used to record transaction totals in the equipment control account, and reconciliations of the detail records to the control account be reviewed and approved by management personnel (repeat);**
- c. comprehensive detailed records be maintained and reflect appropriate item values (for example, based on appraisals); and**
- d. annual inventory appraisals be periodically reconciled to the detailed inventory records to account for all State Law Library art and historical items.**

Finding 2

Certain computer equipment was discarded without complying with established policies.

Analysis

During fiscal year 2012, the Judiciary disposed of, as junk, approximately 2,300 pieces of computer-related equipment without following established inventory control policies. Specifically, there was no documentation to support the items had been formally declared as junk by the property officer or that an evaluation had been performed to determine if any of the items were serviceable for

inclusion on an excess property declaration, as required. According to the Judiciary's records, the items had a recorded value of approximately \$4.7 million. Although most of these items had been purchased five or more years prior to disposal and due to their age may not have been serviceable or had other salvage value, we noted many items, such as computers, printers, and scanners, that were less than two years old. However, without an adequate evaluation prior to disposal, it was not possible to determine if all the items should have been disposed of as junk.

The Judiciary's *Inventory Control Manual* states that items worn or damaged beyond repair should be declared as junk by the property officer and disposed of. If serviceable, but no longer needed, the *Manual* requires that they are to be declared as excess property to the Inventory Standards and Support Services Division (ISSSD) of the DGS, which determines the appropriate disposition. The *Manual* states that such items should not be placed in storage, cannibalized, scrapped, junked, sold, or transferred outside the Judiciary without ISSSD acknowledgement.

Recommendation 2

We recommend that prior to discarding equipment, the Judiciary determine if the equipment is serviceable and report such a determination to DGS, or if worn or damaged beyond repair, the equipment be formally declared as junk by the property officer.

Audit Scope, Objectives, and Methodology

We have audited the Judiciary for the period beginning October 19, 2009 and ending June 30, 2012. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Judiciary's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included primarily procurements and disbursements related to operating expenditures, processing of traffic citations and related collections, State grant funds, special funds, payroll, equipment, information systems security, and corporate purchasing cards. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Judiciary's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. The Judicial Internal Audit Division performs audits of the District Courts approximately every three years. During the course of our audit, we judgmentally reviewed internal audit reports and related work papers and relied on the results for the District Courts' revenue and cash receipt processing functions. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

The Judiciary provides certain support services (for example, payroll, processing of invoices, maintenance of budgetary accounting records) on a centralized basis for the Offices of the Clerks of the Circuit Courts. These support services were included in the scope of this audit. We audit the remaining fiscal activities of the Clerks' Offices on an individual basis, and separate audit reports are issued.

Our scope included a review of information controls for the financial system which supports the Judiciary's Administrative Office of the Courts. Our audit included a review of the internal controls related to production data, programs and transactions and certain general controls over the system. We also perform a separate audit of the Judicial Information Systems which includes reviewing internal controls over its data center, the related data center software, and the Judiciary's wide area network.

The Judiciary's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

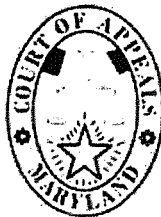
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Judiciary's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Judiciary that did not warrant inclusion in this report.

The Judiciary's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Judiciary regarding the results of our review of its response.

APPENDIX



MARY ELLEN BARBERA
CHIEF JUDGE
COURT OF APPEALS OF MARYLAND
ROBERT C. MURPHY COURTS OF APPEAL BUILDING
361 ROWE BOULEVARD
ANNAPOLIS, MD 21401-1699

July 10, 2013

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Maryland Judiciary, for the period beginning October 19, 2009, and ending June 30, 2012. The following are our responses to the audit findings and recommendations in the audit report:

Finding 1

The Judiciary lacked adequate controls over equipment.

The Judiciary concurs with the finding and recommendation.

- a. Employees with routine physical access to warehouse inventory are no longer able to access and update related automated detail equipment records. The user account permissions for access to the automated detail equipment records have been reviewed and appropriately restricted.
- b. Original purchase and delivery documents will be used by employees at the Administrative Office of the Courts Warehouse to record transaction totals in the equipment control account for all non-District Court units. Furthermore, the reconciliation of the District Court control account balance to the aggregate total of the detail records will be reviewed and approved by the Assistant Chief Clerk in the District Court Headquarters Finance office.
- c. A formal process has been developed to ensure that Special Collection items in the Maryland State Law Library are accounted for and documented in comprehensive detailed records.
- d. The annual inventory appraisals of Special Collection items in the Maryland State Law Library will be periodically reconciled to the detailed inventory records.

Mr. Thomas J. Barnickel III, CPA
July 9, 2013
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Finding 2


Certain computer equipment was discarded without complying with established policies.

The Judiciary concurs with the finding and recommendation. Steps have been taken to bring procedures into compliance with the Judiciary's *Inventory Control Manual*. The property office and employees at the Administrative Office of the Courts Warehouse now operate in adherence to the *Inventory Control Manual*.

We believe we have responded in full to both findings and recommendations.

Very truly yours,


Mary Ellen Barbera
Chief Judge of the Court of Appeals


Frank Broccolina
State Court Administrator

cc: Roberta L. Warnken, Chief Clerk of the District Court
Faye D. Matthews, Deputy State Court Administrator
Allen C. Clark III, Director of Budget and Finance
Ssali S. Luwemba, Director of Internal Audit

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