

STATE OF CONNECTICUT



*AUDITORS' REPORT
JUDICIAL DEPARTMENT
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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November 6, 2013

**AUDITORS' REPORT
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We have examined the financial records of the Judicial Department for the fiscal years ended June 30, 2010 and 2011. This report on our examination consists of the Comments, Condition of Records, Recommendations and Certification that follow.

The financial statement presentation and auditing of the books and accounts of the state are done on a Statewide Single Audit basis to include all state agencies including the Judicial Department. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Judicial Department operates under the provisions of Article Fifth of the Constitution of the State of Connecticut and Titles 6 and 51, Chapters 78 and 870, respectively, of the General Statutes.

The Judicial Department is headed by the Chief Justice of the Supreme Court, who is responsible for the administration of the department. Daily operations of the department are under the direction of the Chief Court Administrator, who is responsible for the efficient and proper administration of judicial business. Included within the Judicial Department are the Supreme Court, the Appellate Court, the Superior Court and the various courts of probate.

The Supreme Court is the state's highest court. It must hear certain appeals from decisions of the Superior Court and has discretion over whether to grant review of cases decided by the Appellate Court. It also has the authority to transfer to itself any case in the Appellate Court and, except certain original actions as provided by Article XXVI of the Amendments to the Connecticut Constitution, it may transfer a case or class of cases to the Appellate Court. The Appellate Court is an intermediate court of appeals.

The Honorable Chase T. Rogers served as Chief Justice throughout the audited period. The Honorable Barbara M. Quinn served as Chief Court Administrator throughout the audited period.

The Superior Court is the sole court of original jurisdiction for all cases of action except for (1) such actions over which the courts of probate have original jurisdiction, as provided by statute, and (2) the very limited number of actions over which the Supreme Court has original jurisdiction, as provided by the Constitution. During the period under review, the state was divided into 13 judicial districts and 20 geographical areas for civil and criminal matters. There were also 13 districts for juvenile matters and there were six separate courts established within various judicial districts solely for hearing housing matters. There also continue to be a tax session court located in New Britain. In addition, there was a statewide Centralized Infractions Bureau for processing infractions, certain motor vehicle violations and certain minor criminal matters.

All aspects of the Judicial Department's financial operations are covered in this report with the following exceptions. The Office of the Probate Court Administrator is an agency within the Judicial Department and is reported on separately by the Auditors of Public Accounts. However, the individual local courts of probate are subject to audit by the Probate Court Administrator and are not audited by the Auditors of Public Accounts. Similarly, the Public Defender Services Commission is an autonomous body within the Judicial Department and is reported on separately.

RÉSUMÉ OF OPERATIONS:

Revenues and Receipts:

Revenues and receipts of the department consisted primarily of the fines and fees collected at the various locations of the Superior Court and by its Centralized Infractions Bureau. All such receipts are credited initially to the Fines Awaiting Distributions Fund, which totaled \$100,522,513 and \$102,614,229 for the 2009-2010 and 2010-2011 fiscal years, respectively, as compared to \$89,793,750 for the 2008-2009 fiscal year. The increase in the Fines Awaiting Distributions Fund was primarily due to the enactment of Public Act 09-152, effective July 1, 2009, which increased certain fees with the amounts transferred to the Connecticut Bar Foundation for the purpose of funding the delivery of legal services to the poor. Disbursements of the Fines Awaiting Distribution Fund consist of transfers to the following funds according to the provisions of the various statutes under which the fines and fees are levied.

	<u>Fiscal Year Ended June 30,</u>	
	<u>2010</u>	<u>2011</u>
Transfer to Criminal Injury Compensation Fund	\$ 2,422,797	\$ 2,575,192
Transfer to General Fund	62,729,026	62,197,232
Transfer to Special Revenue Funds	4,360,671	4,358,337
Transfer to Special Transportation Fund	22,701,672	23,381,516
Transfer to Connecticut Bar Foundation	6,749,895	8,420,360
Fines Distributed to Towns and Miscellaneous	<u>1,558,452</u>	<u>1,681,592</u>
Total Fund Disbursements	<u>\$100,522,513</u>	<u>\$102,614,229</u>

Parking fines are paid to the towns in which the infractions occurred.

General Fund receipts, in addition to the transfers from the Fines Awaiting Distribution Fund, totaled \$1,833,202 and \$1,770,505 for the 2009-2010 and 2010-2011 fiscal years, respectively. The significant categories of receipts were refunds of prior years' expenditures, investment income and sales of the Commission on Legal Publications (COLP).

In accordance with Section 51-52 subsection (e) of the General Statutes, excess funds from the department's Clerk's Trust Accounts are deposited in the State Treasurer's Short Term Investment Fund (STIF). Investment income from STIF was deposited in the General Fund and totaled \$100,670 and \$66,309 for the 2009-2010 and 2010-2011 fiscal years, respectively. The decrease in investment income over the audited period corresponded to the steady decline of the STIF rate of return from approximately .34 percent during the 2009-2010 fiscal year to .21 percent as of June 30, 2011.

COLP sales of legal publications totaled \$322,286 and \$292,932 for the 2009-2010 and 2010-2011 fiscal years, respectively. (See Condition of Records section.)

General Fund Expenditures:

General Fund expenditures for the Judicial Department are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personal Services and Employee Benefits:			
Salaries and Wages	\$311,928,628	\$297,844,843	\$310,321,359
All Other	<u>7,288,690</u>	<u>7,036,006</u>	<u>7,387,334</u>
Total Personal Services and Employee Benefits	<u>319,217,318</u>	<u>304,880,849</u>	<u>317,708,693</u>
Purchases and Contracted Services:			
Professional, Scientific and Technical Services	17,010,942	18,125,633	18,261,252
Premises and Property Expenses	35,078,342	33,662,152	34,644,757
Fixed Charges	87,535,036	86,803,519	102,035,772
Client Services	2,541,526	2,293,403	2,626,592
Information Technology	6,584,893	6,198,082	7,820,662
Purchased Commodities	5,318,591	6,661,009	6,762,990

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Communications	3,314,193	3,166,808	3,375,931
Capital Outlays-Equipment	3,069,029	52,806	221,726
All Other	<u>3,291,380</u>	<u>2,906,322</u>	<u>2,907,957</u>
Total Purchases and Contracted Services	<u>163,743,932</u>	<u>159,869,734</u>	<u>178,657,639</u>
Total General Fund Expenditures	<u>\$482,961,250</u>	<u>\$464,750,583</u>	<u>\$496,366,332</u>

Total General Fund expenditures decreased by \$18,210,667 (3.8 percent) and increased by \$31,615,749 (6.8 percent) in the fiscal years ended June 30, 2010 and 2011, respectively, compared to the fiscal year ended June 30, 2009. Personal services, along with employee benefits and fixed charges accounted for the majority of expenditures during the audited period.

The above decrease in personal services costs was primarily the result of a reduction of 124 full-time filled positions from 4,141 to 4,017 during the audited period, which was due to a retirement incentive program offered in the 2008-2009 fiscal year. Savings were also achieved by employees taking furlough days.

The above increase in fixed charges was due to an increase in state grants and transfers of grants from other state agencies. This represents increased funding for expanded community-based programming for both adult and juvenile offenders.

The department additionally purchased equipment through the Capital Equipment Purchase Fund totaling \$464,133 and \$2,563,255 for the 2009-2010 and 2010-2011 fiscal years, respectively.

Special Revenue Fund - Federal and Other Restricted Accounts:

Special Revenue Fund receipts, in addition to transfers from the Fines Awaiting Distribution Fund, totaled \$19,805,567 and \$16,395,275 for the 2009-2010 and 2010-2011 fiscal years, respectively. This consisted mostly of federal grant receipts, totaling \$8,783,493 and \$8,439,651 and non-federal grants receipts, totaling \$11,002,278 and \$7,948,399 for the 2009-2010 and 2010-2011 fiscal years, respectively.

Non-Federal restricted accounts include the Client Security Fund, which operates under Section 51-81d of the General Statutes. The fund is used to reimburse claims for losses caused by the dishonest conduct of attorneys and is financed by an annual \$110 assessment for practicing attorneys and \$55 for non-practicing attorneys, paid by any person admitted as an attorney by the Superior Court. Such fees totaled approximately \$3,056,586 and \$3,138,861 for the 2009-2010 and 2010-2011 fiscal years, respectively.

A summary of the department's Special Revenue Fund expenditures follow:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Personal Services and Employee Benefits	<u>\$3,939,814</u>	<u>\$7,237,603</u>	<u>\$4,757,998</u>
Purchases and Contracted Services:			
Client Security Fund Payments	1,667,049	1,144,534	1,039,763
Criminal Injury Awards	409,227	918,437	370,787
Grants-Other	5,800,926	6,355,867	7,639,237
Capital Outlays-Equipment	362,135	937,938	1,071,132
All Other	<u>1,588,716</u>	<u>1,737,229</u>	<u>2,522,934</u>
Total Purchases and Contracted Services	<u>9,828,053</u>	<u>11,094,005</u>	<u>12,643,853</u>
Total Expenditures	<u>\$13,767,867</u>	<u>\$18,331,608</u>	<u>\$17,401,851</u>

The overall increases in expenditures during the audited period can be attributed to the increases in personal services costs for an additional 30 employees in the Foreclosure Mediation Program, a newly established program through a Memorandum of Understanding between the department and the Connecticut Housing Finance Authority (CHFA) in the 2009-2010 fiscal year. The increase in expenditures was slightly offset by the significant decrease in the payment of claims filed with the Client Security Fund. The number of claims against the fund from victims of attorney theft varies from year to year and there is no payout limit on each claim.

The majority of the expenditures involved various grant transfers. The expenditure category of Criminal Injury Awards are payments to victims by the Office of Victim Services in addition to payments from the Criminal Injuries Compensation Fund. The source of funding was from Crime Victim Assistance Grants with overall Special Revenue Fund expenditures totaling \$5,016,245 and \$4,844,850 for the 2009-2010 and 2010-2011 fiscal years, respectively.

Special Revenue Fund - Banking Fund:

Public Act 08-176, effective June 12, 2008, required the Judicial Department to establish a foreclosure mediation program in each judicial district to facilitate the best outcome for all parties to a foreclosure action. The program is available to owner-occupants of one-to-four family residential real property in Connecticut who are also borrowers under a mortgage encumbering the property and who use the property as their primary residence. Under the act, if a lender starts a foreclosure action, they must give the borrower notice of the foreclosure mediation program, which includes providing a foreclosure mediation request form. The borrower may then submit the form to the court and receive mediation under department policies and procedures. Under Public Act 09-209, the program's services were made mandatory for cases in which the defendant appeared in court and qualified for such services. Public Act 11-201 extended the program through the 2013-2014 fiscal year.

The act appropriated funding from the Banking Fund, a special revenue fund, to fund the cost of the foreclosure mediation program. During the 2010-2011 fiscal year, the department spent

\$2,998,083, mostly in personal services and fringe benefits for the foreclosure mediators. As noted above, an account within the Special Revenue Fund - Federal and Other Restricted Accounts was established to fund the foreclosure mediation program in the 2009-2010 fiscal year with expenditures of \$3,541,485.

Superior Court Condemnation Award Fund:

Under Section 48-11 of the General Statutes, compensation offered by the state transportation commissioner as part of condemnation proceedings that are being disputed by property owners is deposited in this fund. The money on deposit is paid to the proper persons through the State Treasurer on application of the owner or owners and on order of the court. Deposits by the state transportation commissioner totaled \$5,562,404 and \$3,786,035 for the 2009-2010 and 2010-2011 fiscal years, respectively. For the same period, disbursements paid to owners of property or returned to the Department of Transportation totaled \$7,281,695 and \$4,486,353, respectively.

The ending cash balance in the fund amounted to \$6,170,904 and \$5,470,586, as of June 30, 2010 and June 30, 2011, respectively.

State Bar Examining Committee:

The State Bar Examining Committee operates under the authority of Section 51-81 of the General Statutes and the rules of the Superior Court (Connecticut Practice Book, Chapter 2). It assists the court in overseeing the admittance of persons to the practice of law in Connecticut.

The committee funds its operations through the fees it collects from applicants. The funds so derived are retained by the committee and are not accounted for within any authorized state fund. Based on the committee's financial statements, as of June 30, 2011, cash and cash equivalents totaled \$751,242. Cash receipts consisted mostly of fee collections and totaled \$513,721 and \$704,087, for the 2009-2010 and 2010-2011 fiscal years, respectively. For the same period, the committee's cash disbursements totaled \$762,949 and \$751,242, respectively, and were for salaries and other administrative expenses.

CONDITION OF RECORDS

Our audit of the Judicial Department's records revealed several areas requiring improvement or further comment as discussed below:

Attendance Records:

Criteria:

1. Longevity payments - The Judicial Branch's Administrative Policies and Procedures Manual and Section 5-213 of the General Statutes, stipulate that an employee is eligible to receive longevity payments beginning after the completion of ten years of state service with increases following the completion of fifteen, twenty, and twenty-five years of service.
2. Medical certificates - According to Judicial Department procedures, an employee who qualifies for leave under the state or federal Family Medical Leave Act (FMLA) must have the required forms submitted and on file for review. Additionally, the Judicial Department has elected to follow the Department of Administrative Services' FMLA Manual.
3. Emergency sick leave bank - According to the Judicial Branch's Administrative Policies and Procedures Manual, an eligible employee who suffers illness or injury requiring recuperation periods beyond the length of the employee's accrued leave may receive up to an additional 420 hours of sick time per five-year period after being absent on account of illness for more than 20 working days.

Conditions:

1. Longevity payments - Our review of records for 11 employees receiving longevity payments revealed that one employee's longevity records were miscalculated by overstating a credit of seven months of state service, resulting in overpayments totaling \$2,347.
2. Medical certificates - Our sample of eight employees on extended sick leave included six on FMLA and noted the following:
 - a. One employee file was missing a FMLA Employee request form (HR-1 Judicial).
 - b. Two employee files were missing the agency response to the employees' request for FMLA form (HR-2 Judicial).
 - c. One employee file was missing the FMLA medical certificate for illness (Form 33A).

d. One employee file was missing a fitness for duty certification form upon returning from leave under FMLA.

e. Two employees, who charged three or more consecutive working days due to illness, were not notified that such absences could potentially qualify as leave under FMLA.

3. Emergency sick leave bank - our review of an eligible employee who participated in the program was only absent for 12 working days, instead of the required 20 working days, before benefiting from the bank. We were also provided another set of guidelines from the human resources unit that required the employee to be absent due to illness for more than 25 working days before benefitting from the bank and we could not determine which policy was current.

Effect:

1. Longevity payments - An employee received longevity payments before he qualified.

2. Medical certificates - Inadequate or insufficient documentation for sick leave violates agency policy and procedures.

3. Emergency sick leave bank - The agency's administrative policies and guidelines were not being complied with.

Cause:

1. Longevity payments - Inadequate administrative review of longevity records involving the conversion of part-time hours worked to its full-time equivalent, resulting in overstatements in state service and payments, appears to be the cause.

2. Medical certificates - A lack of administrative oversight appears to have contributed to the condition.

3. Emergency sick leave bank - Management was unaware of the policies and guidelines requiring at least 20 or 25 working days of being sick until an eligible employee can benefit from the sick bank. It was the agency's practice to provide benefits from the sick bank to eligible employees as soon the employee's leave time was exhausted.

Recommendation:

The Judicial Department should improve its attendance record documentation for longevity payments and medical certificate and adhere to procedures for the emergency sick leave bank program. (See Recommendation 1.)

Agency Response:

"The Branch acknowledges an overpayment of longevity and is recouping the payment. While most employees' longevity calculations are simple,

some calculations become complex when an employee's work history contains breaks in service, periods of service in a temporary class and non-standard work hours. Payroll has established internal verification procedures to allow for a person to recalculate the longevity independently from the individual originally responsible for preparing the payment.

The Branch agrees with the finding for medical certificates. The Branch has seen dramatic growth in the number of requests for leave of absence under the Family Medical Leave Act, especially intermittent leave. The number of applications nearly doubled from FY2008-2009 to 2010-2011. In response to the increased activity level, the Branch has made several changes, including the following: (1) Policies and procedures were adapted to explain FMLA provisions and incorporate best practices, (2) Technology changes allowed for a uniform database of information to perform analyses and generate timelier reporting for central and field offices to proactively monitor leave usage, (3) An additional employee was hired to the central function to aid in assuring complete and accurate required documentation and provide timely notifications to potentially eligible employees, and (4) Training was obtained to ensure employees were current on the laws and regulations related to the Family Medical Leave Act.

The Branch concurs with the finding for the emergency sick leave bank and has amended the branch policy to conform to existing practices. The policy deletes the requirement of a waiting period before receipt of emergency sick leave.”

Expenditures:

Criteria: When processing voucher forms, the State Accounting Manual (chapter 1.6 of the expenditure section) requires the proper completion of invoice and receipt dates. This is important because the dates are used to determine payment due date, interest accrual dates, and to calculate venter accounts payable for inclusion in year-end GAAP reporting. Comptroller Memorandum 2007-24 specifies that, for state aid and other grant payments that have a statutory or contractual due date, the contractual due date should be used as the receipt date.

Public Act 09-152, effective July1, 2009, codified into Section 51-5d of the General Statutes states that, in part, revenue received as a result of certain fee increases shall be certified by the Chief Court Administrator or a designee on or before the last day of January, April, July, and October in each year and the transferred amount is to be used for the purpose of funding the delivery of legal services to the poor.

Condition: 1. We reviewed 25 GAAP accounts payable grant expenditures and found that seven (28 percent) had incorrect receipt dates. The seven payments had contractual due dates of the first of the month, but the receipt date used was the last day of the month.

2. We noted four exceptions during the audited period in which the certifications of funds transferred to the Connecticut Bar Foundation were completed one to three days beyond the statutory deadline requirement.

Effect: The department was not in compliance with the State Accounting Manual and Comptroller Memorandum 2007-24 concerning receipt dates of contractually due expenditures.

Statutory requirements for the certification of funds transferred to the Connecticut Bar Foundation were not being followed.

Cause: Managerial oversight was the cause of using the incorrect receipt date for expenditures and the late completion of certifications.

Recommendation: The Judicial Department needs to improve internal controls over expenditures. (See Recommendation 2.)

Agency Response: “The Branch agrees with this finding and will comply with the statutory requirements and the Office of the State Comptroller’s directives in the future. The transactions with incorrect receipt dates were limited to transactions processed by one individual. The Branch will perform

training for the individual and integrate spot checking by an independent unit to ensure compliance.

The funds transferred to the Connecticut Bar Foundation were certified on the first or second work day (Monday, February 1, 2010; Tuesday, November 2, 2010; Tuesday, February 1, 2011; and Tuesday, May 3, 2011) following the statutory due date that fell mostly on the weekends (Sunday, January 31, 2010; Sunday, October 31, 2010; Monday, January 31, 2011; and Saturday, April 30, 2011). The Revenue Accounting Unit performs a complicated and time-consuming reconciliation for fines, fees and costs imposed and collected at 48 court venues to daily bank deposits. The daily activity is reconciled to monthly and quarterly reports that allocate monies to several statutorily designated funds prior to obtaining the appropriate certifications to perform the transfer of funds to the Connecticut Bar Foundation. Management is aware of the requirements and will be monitoring compliance to minimize the chance of future occurrences.”

State Grants:

Criteria:

The department’s Court Support Services Division (CSSD) Policy and Procedures Number 5.16 concerning Quality Assurance of Contracted Services requires CSSD to monitor each program through site visits, meetings, interviews, and monthly statistical report analyses.

According to the Judicial Branch’s Administrative Policies and Procedures Manual, CSSD is required to maintain electronic and hard copy grant file records until the completion of the next two audits of the Judicial Branch by the Auditors of Public Accounts.

Condition:

1. Lack of documentation of monitoring - In our review of 15 contracts with providers involving adult behavioral health and other services, we could not sufficiently determine, in nine of the contracts, whether the required monitoring of the programs was being done.
2. Record retention deficiency - Records of contractual services for providers used to support the monitoring requirements for quality assurance of contracted services were discarded after a six-month period.

Effect:

The lack of documentation of the required monitoring of contracts for reporting activities increases the possibility that policies and procedures are not being complied with.

Contract records of providers used for supporting monitoring requirements were discarded in violation of the department's records retention schedule.

Cause: Our review indicated that prior to June 2009, the former grant manager, who retired in June 2011, reviewed and monitored all compliance specialist's reports supplied by providers and entered this data electronically in an Excel worksheet. However, CSSD discontinued this practice during the audited period.

Due to the lack of storage space and unawareness of the record retention policies, an employee discarded contract records used for monitoring providers after a six-month period.

Recommendation: The Judicial Department should follow its policies and procedures by ensuring that monitoring requirements for quality assurance of contracted services are being performed and records are retained for appropriate time periods. (See Recommendation 3.)

Agency Response: "The Branch acknowledges the lack of written quality assurance report documentation and respectively disagrees with the finding that records of contractual services for providers used to support the monitoring requirements for quality assurance were discarded after a six-month period. The reports were printed from an email attachment and subsequently disposed after six months while the original emails were retained by CSSD staff.

The CSSD organizational structure changed since the prior audit and responsibilities were shifted to a Program Manager under the Grants and Contracts Manager. The Grants and Contracts Manager reviewed and verified the monitoring requirements and deliverables of compliance staff although the QA of Contracted Services Activity Spreadsheet was not used as a central log of that supervisory review. The Program Manager performed direct supervision of staff performing the monitoring of contracts. Policies and procedures were updated twice to improve monitoring practices and the latest implemented July 7, 2013, after the transition of the grant manager's duties and responsibilities occurred as a result of employee attrition on June 30, 2011.

During the current audited period, CSSD automated collection of data elements unique to the specific characteristics of a contracted program. Program reports captured monthly utilization and client demographic information, as well as program performance measures. In years past, the report was produced in hardcopy and mailed to CSSD. During the current audit, the requirements included the initial receipt of a program report as

an attachment to an email from the community based service provider. The emails and related program reports were printed, followed by a review and approval from a professional-level position, known as a Compliance Specialist. After review and approval, the administrative personnel used the printed program reports to perform data entry. The printed program reports were disposed after six months while the original emails were retained by the Compliance Specialist.”

Auditors’ Concluding

Comments:

Since we did not learn that the discarded records were also in electronic format until after the close of our field work, we will verify during our next audit if the electronic records (1) represent the records that were discarded, and (2) document the monitoring requirements of contracted services for providers.

Timeliness of Deposits - COLP Operations:

Background:

As noted in the Résumé of Operations section, the department has a Commission on Official Legal Publications (COLP) within its Information Technology Division that prints and sells various legal publications.

Criteria:

The Judicial Branch’s Administrative Policies and Procedures Manual and Section 4-32 of the General Statutes require receipts of \$500 and more to be deposited within 24 hours.

Good internal controls provide for the segregation of duties over receipting, recording, and depositing of documentation.

Condition:

1. During our review of the timeliness of deposits, we noted that only the top invoice of payments received for the sale of publications was date stamped. Without date stamps, we could not determine with certainty the timeliness of 18 deposits that we tested.

2. The Judicial deposit transmittal forms prepared for each deposit showed that all 18 forms lacked the preparer name and three lacked the reviewer signature.

3. During the audited period, one of two staff opened mail, processed receipts, and prepared and recorded the deposit. If one employee was absent, the other employee would perform all the duties. A backup employee was designated, but would only process the deposit if both staff members were absent. For the period of July 2011 to February 2012, only one employee performed all receipting and depositing duties due to an employee retirement. The segregation of duties improved in February

2012 when an employee was hired to replace the employee who retired.

- Effect:*
1. We could not determine whether COLP operations complied with appropriate policies and the state statute concerning the timeliness of deposits.
 2. Incomplete deposit forms can contribute to erroneous reporting.
 3. Inadequate segregation of duties increases the risk that sales will not be deposited in a timely manner.
- Cause:* Inadequate supervisory review and a lack of staffing appear to have contributed to the condition.
- Recommendation:* The Judicial Department should improve COLP operations for receipts and deposits. (See Recommendation 4.)
- Agency Response:* “The Branch concurs with this finding. The Commission on Official Legal Publications (COLP) immediately began date-stamping the invoices with payments received for the sales of publications upon notice of the finding. Policies and procedures were reviewed prior to implementing changes to the extent possible. COLP anticipates adequate staffing levels for the current fiscal year to segregate duties and to provide oversight of the deposit transmittal. Branch management will assist COLP in exploring and implementing current banking services available to further improve operations.”

Inventory and Property Control:

- Criteria:* Section 4-36 of the General Statutes and the State Property Control Manual require each state agency to establish and maintain accurate property control records for complete accountability and the safeguarding of assets. A physical inventory should be completed annually.
- The department’s Administrative Policy and Procedures Manual (Policy 811-Property Accounting), in part, states “If an item cannot be found after more than one inventory cycle and whose age is beyond its useful life, by default will be eligible for disposal and removed from active inventory.”

<i>Condition:</i>	<p>Our review of the department's property control disclosed the following:</p> <ol style="list-style-type: none">1. Per the department's inventory listing dated April 25, 2013, equipment totaling \$557,000 was recorded as missing. The missing equipment consisted of capital equipment worth \$224,000 and controllable equipment (items under \$1,000) worth \$333,000. Most of the equipment was noted as missing since July 1, 2010. These equipment items consisted mainly of computer related items and office furniture.2. Our review of the annual inventory report (CO-59) for the fiscal year 2011 appeared to be overstated by approximately \$812,000. The department's CO-59 disclosed capital equipment worth \$35,954,000 on June 30, 2011, and inventory listings disclosed controllable equipment worth over \$10,000,000.3. The department's policy appears not to be in compliance with Section 4-33a of the General Statutes concerning the need for prompt reporting of missing equipment.4. A required annual physical inspection of equipment was not completed during the audited period.5. Our review of 50 randomly inspected items disclosed that ten items (20 percent) were found in different locations than noted on the inventory list, two items (four percent) were not found on the inventory list, and one item (two percent) was not tagged.6. When we brought the issue concerning the missing equipment listings on the inventory to the agency's attention, the department immediately followed-up, researched the issue, and subsequently filed the appropriate loss reports.
<i>Effect:</i>	<p>There was a lack of compliance with the Comptroller's guidelines to ensure the proper recording, safeguarding, and reporting of the department's assets.</p>
<i>Cause:</i>	<p>We were told that the retirement incentive program offered in the 2008-2009 fiscal year, benefit changes that occurred in September 2011, and budget constraints contributed to a lack of sufficient staffing to conduct a required annual physical inventory during the audited period for over 80 locations that maintain equipment throughout the department.</p>
<i>Recommendation:</i>	<p>The Judicial Department should improve its controls over state property as outlined by the State Property Control Manual in accordance with Section 4-36 of the General Statutes. (See Recommendation 5.)</p>

Agency Response: “The Branch accepts this finding and acknowledges the complexity of tracking inventory in a modern work environment. Judicial Branch property is assigned to 620 operating units in 80 locations across the state. The property totals more than \$461 million of which \$370 million is real property and \$91 million is personal property. Property is one of the largest investments made by the Branch. To increase accountability and safeguarding the public’s investment it is necessary to account for the .08% of unlocated capital equipment and .07% of unlocated controllable equipment that has been identified in this audit, and establish effective procedures to assure accuracy in the future.

Tracking this property has changed significantly over the last 20 years largely driven by technological advances and organizational changes within the Branch. Years ago property consisted of primarily desks and typewriters, and was assigned to permanent locations. Today and in the future, with rapid advances in technology, equipment now has a shorter life span and is increasingly portable.

Despite the Branch’s centralized administrative structure for property accounting, the dispersed and decentralized nature of its operations, limited staff and an outmoded paper-driven process, make it extremely difficult to track and account continuously for property movement especially when caused by equipment repair and replacement. The use of a point in time physical inventory may no longer be the best or only way to monitor assets.

The Branch has performed a comprehensive review of the inventory system and is executing a wide range of strategies including: (1) system improvements to remotely track equipment and timely report movements; (2) training to increase awareness among supervisors and staff regarding the importance of chain of custody, asset protection and obtaining authorizations; (3) establishing performance targets; (4) shifting the primary responsibilities for inventories to divisions; (5) increased inventory of employee’s custody of theft-prone equipment; and (6) improving record retention practices.”

RECOMMENDATIONS

Our prior report on the Judicial Department covered the fiscal years ended June 30, 2007, 2008 and 2009, and contained six recommendations. Of these recommendations, three have been implemented or otherwise resolved and three have been restated to reflect current conditions. As a result of our current examination, we have included two new recommendations. The status of the prior recommendations is presented below:

- **The Department should ensure annual evaluations are performed for all its employees.** This recommendation has been resolved.
- **The Department should improve its attendance record documentation involving timesheets, compensatory time and medical certificates.** Attendance record documentation for timesheets and compensatory time was improved; however, deficiencies still exist for medical certificates. As a result, this recommendation will be repeated in modified form. (See Recommendation 1.)
- **The Bar Examining Committee should close its checking account with its activities accounted for in a restricted General Fund account and obtain all appropriate approvals for disbursements.** Appropriate approvals for disbursements were obtained; and, sufficient consideration for closing and transferring of the checking account activities was made. As a result, this recommendation will be withdrawn.
- **The Department should follow the documentation requirements for the completion of agency administered construction projects.** Document requirements were sufficiently complied with for construction projects; therefore, this recommendation will not be repeated.
- **The Department needs to improve internal controls over expenditures.** Controls were improved for unused equipment, timesheets documenting temporary employment services, and contracts for purchases. However, deficiencies concerning expenditures were still noted, resulting in this recommendation being repeated. (See Recommendation 2.)
- **The Department should ensure thorough reviews of provider's invoices to detect any erroneous payments and require an audit of any provider receiving significant state funding.** Improvements were noted for the payments to and audits of providers. However, deficiencies concerning state grants were still noted, resulting in this recommendation being repeated in modified form. (See Recommendation 3.)

Current Audit Recommendations:

- 1. The Judicial Department should improve its attendance record documentation for longevity payments and medical certificates and adhere to procedures for the emergency sick leave bank program.**

Comment:

Our review noted an erroneous calculation of longevity, missing documentation for sick leave, and an eligible employee benefitting from the sick bank before the required waiting period.

- 2. The Judicial Department needs to improve internal controls over expenditures.**

Comment:

We noted instances in which incorrect receipt dates for grant expenditures were used and certifications of funds transferred to the Connecticut Bar Foundation were certified after the statutory deadline.

- 3. The Judicial Department should follow its policies and procedures by ensuring that monitoring requirements for quality assurance of contracted services are being performed and records are retained for appropriate time periods.**

Comment:

Without proper documentation, we could not sufficiently determine whether monitoring requirements of contracted services for providers were done. Also, we were informed that records which supported monitoring requirements were stored for a six-month period but later discarded because of lack of storage space. However, we learned an electronic version of the discarded records is available and will require additional follow up in the next audit.

- 4. The Judicial Department should improve COLP operations for receipts and deposits.**

Comment:

We could not determine the timeliness of deposits, deposit forms were incomplete, and a lack of segregation of duties existed.

- 5. The Judicial Department should improve its controls over state property as outlined by the State Property Control Manual in accordance with Section 4-36 of the General Statutes.**

Comment:

We noted that annual inventory reports and supporting records were inaccurate and no physical inventory of equipment was completed during the audited period.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Judicial Department for the fiscal years ended June 30, 2010 and 2011. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed and reported on consistent with management's direction, and (3) the assets of the department are safeguarded against loss or unauthorized use. The financial statement audits of the Judicial Department for the fiscal years ended June 30, 2010 and 2011, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Judicial Department complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

Management of the Judicial Department is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Judicial Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Judicial Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Judicial Department's internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or the breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiency, described in detail in the accompanying Condition of Records and Recommendations sections of this report for the Judicial Department, to be a significant deficiency: Recommendation 4 – Internal controls over cash receipts. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Judicial Department complied with laws, regulations, and contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to the Judicial Department's management in the accompanying Condition of Records and Recommendations sections of this report.

The Judicial Department's response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the Judicial Department's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of department management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Judicial Department during the course of this examination.



William T Zinn
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts