

EXECUTIVE DIGEST

STATE-FUNDED JUDICIAL OPERATIONS

INTRODUCTION

This report contains the results of our financial audit* , including the provisions of the Single Audit Act, of the State-Funded Judicial Operations for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of the State-funded judicial operations was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

The judicial system consists of three levels of courts and other judicial agencies. The courts include the Supreme Court, the Court of Appeals, and State trial courts. Trial courts consist of circuit, district, and probate courts. The Court of Claims resides in the 30th Circuit Court (Ingham County) and has jurisdiction limited to hearing claims against the State of Michigan. Other judicial agencies include the State Court Administrative Office, State Appellate Defender Office, Michigan Appellate Assigned Counsel System, Michigan Judicial Institute, and Judicial Tenure Commission.

The finance department of the Supreme Court maintains the accounting records for all revenue and expenditures involving State funds, including federal grant money. Various courts and other judicial agencies are federal grant recipients, and they administer the federal grant programs.

Revenue and expenditures and operating transfers out for the State-funded judicial operations for the fiscal year ended September 30, 1998 were:

Revenue	\$ 56,010,213
Expenditures and operating transfers out	\$204,599,850

State general purpose revenue provides the primary funding for expenditures in excess of revenue collections.

As of September 30, 1998, the State-funded judicial operations had 1,046 employees, which included all judges, except probate judges, for the various trial and appellate courts.

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. The Act changed the State Court Fund funding formula and created the Court Equity Fund to provide funding to counties for trial courts. The Act also created a Hold Harmless Fund to provide supplemental support for certain counties and cities.

In addition, the Act abolished the Detroit Recorder's Court and merged it with the 3rd Circuit Court, requiring Wayne County to operate and maintain the court. The Act also eliminated certain State and City of Detroit funding and revenue collection obligations related to the 36th District Court. As a result, the operation and maintenance of that Court became the responsibility of the City of Detroit.

Further, the Act revised the method of determining judges' salaries and provided for 100% State funding of those salaries.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit the State-funded judicial operations' financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on the State-funded judicial operations' financial schedules.

Audit Objective: To assess and report on the State-funded judicial operations' compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance disclosed an instance of noncompliance related to indirect costs* that is required to be reported under *Government Auditing Standards* (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses* . We did identify reportable conditions* related to liabilities and cash management (Findings 1 and 3).

Audit Objective: To assess and report on the State-funded judicial operations' compliance with requirements applicable to each major federal program and on

internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to payroll certifications, allowed activities, and grant payments that are required to be reported under OMB Circular A-133 (Findings 4 through 6). Our auditor's report on compliance is unqualified for all major programs except for Temporary Assistance for Needy Families and the State Court Improvement Program, which are adverse. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the State-funded judicial operations for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report contains 6 findings and 7 corresponding recommendations. The State-funded judicial operations' corrective action plan indicates that the Judiciary agrees with the recommendations and has implemented or plans to implement all of them.

As disclosed in the State-funded judicial operations' summary schedule of prior audit findings, the Judiciary complied with all 4 of the prior Single Audit* recommendations that were included within the scope of our current audit.