

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 State-Funded Judicial Operations for the period October 1, 1994 through September 30, 1996.

AUDIT PURPOSE

This financial audit 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 of 1984 and federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*.

BACKGROUND

The judicial branch of government 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. Other judicial agencies include the State Court Administrative Office, State Appellate Defender Office, Michigan Appellate Assigned Counsel System, Michigan Judicial Institute, Judicial Tenure Commission, and State Judicial Council.

Revenue and expenditures for State-funded judicial operations for the fiscal year ended September 30, 1996 were:

Revenue	\$ 78,811,630
Expenditures	\$210,601,130

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

As of September 30, 1996, State-funded judicial operations had 2,050 employees, which include 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 Third 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 Thirty-Sixth 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 assess the adequacy of the internal control structure* of State-funded judicial operations, including applicable administrative controls related to the management of federal financial assistance programs.

Conclusion: Our assessment of the internal control structure did not disclose any material weaknesses* . However, our review disclosed a reportable condition* in the area of federal grant accounting and reporting (Finding 1).

Audit Objective: To assess State-funded judicial operations' compliance with both State and federal laws and regulations that could have a material effect on either the State-funded judicial operations' financial schedules or any of the operations' major federal financial assistance programs.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the State-funded judicial operations' financial schedules or major federal financial assistance programs. However, our assessment disclosed reportable conditions relating to budgetary transfers (Finding 2), Title IV-D* requirements (Finding 3), Title IV-D percentage (Finding 4), and billings to federal programs (Finding 5).

Audit Objective: To audit State-funded judicial operations' financial schedules for the fiscal years ended September 30, 1996 and September 30, 1995.

Conclusion: We expressed an unqualified opinion on the financial schedules. However, our audit disclosed reportable conditions related to encumbrance liquidation (Finding 6) and revenue classification (Finding 7).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of State-funded judicial operations for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States 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 7 findings and 8 corresponding recommendations. The agency preliminary responses indicated that the Judiciary agreed with 3 findings and disagreed with 1 finding that it responded to. The Third Circuit Court agreed with 3 and disagreed with 1 of the 4 findings applicable to it.

The Judiciary complied with 8 of the 11 prior audit recommendations included in our scope of audit.