FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF

STATE-FUNDED JUDICIAL OPERATIONS

October 1, 1994 through September 30, 1996

05-150-97

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.

* *See glossary on page 69 for definition.*

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.

** See glossary on page 69 for definition.*

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.

The Honorable Conrad L. Mallett, Jr.
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Mallett:

This is our report on the 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.

This report contains our executive digest; description of entity; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains State-funded judicial operations' financial schedules and notes to financial schedules; supplemental financial schedules; schedule of questioned costs and schedule of immaterial noncompliance, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Entity

The judicial branch of government within the State of Michigan is provided for by Article 6 of the State Constitution. 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. Each of the different courts performs a certain role within the judicial branch according to the jurisdiction given to it by the State Constitution and by statute.

For this report, the audit entity represents the portion of the judicial branch financial transactions that is funded by State appropriations and is accounted for in the State's accounting system. The schedule of sources and disposition of General Fund authorizations by appropriation unit provides more detail regarding the courts and judicial agencies included in the audit entity. State appropriations* are used to pay all or a portion of the salaries of the judges in each court throughout the State.

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. Major portions of this Act were effective on October 1, 1996. 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.

The following paragraphs describe the judicial branch, which also includes some courts that are not included in our audit entity.

* *See glossary on page 69 for definition.*

COURTS

Supreme Court

The Supreme Court is the highest court in the State. The Supreme Court hears cases on appeal from other State courts and has original jurisdiction over certain matters. The Supreme Court is also responsible for the general administrative supervision of and establishes rules for practice and procedure in all courts in the State. The Supreme Court consists of seven justices and an administrative staff. The Supreme Court operations are funded by State appropriations. 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 the federal grant recipients, and they administer the federal grant programs.

Court of Appeals

The Court of Appeals is the second highest court in the State, hearing cases on appeal from lower courts. Panels consisting of three judges each hear cases in Lansing, Detroit, Grand Rapids, and Marquette. As of September 30, 1996, the Court of Appeals had 28 judges and its operations were funded by State appropriations.

Circuit Court

Circuit courts are referred to as the trial court of general jurisdiction because of their broad powers. Generally, circuit courts have original jurisdiction in all civil cases involving more than $10,000; in all felony criminal cases; and in domestic relations cases, such as divorce and paternity actions. The Friend of the Court is a component of each circuit court and facilitates court orders related to divorce and paternity actions. Circuit courts are responsible for hearing cases in one or more counties. As of September 30, 1996, there were 57 circuit courts with a total of 181 judges.

All circuit courts receive State-appropriated funding for judges' salaries. The counties, with one exception, provide funding for all other operating costs. Act 438, P.A. 1980, provided for the State to fund some of the operational costs of the Third Circuit Court (Wayne County), such as employee salaries, benefits, supplies, and materials. Wayne County is required to pay operational costs related to facilities, utilities, courtroom security, assigned counsel for indigents, and juror and witness fees. Act 364, P.A. 1996, requires Wayne County to fund the operations of the Third Circuit Court effective October 1, 1996.

Court of Claims

The Court of Claims resides in the Thirtieth Circuit Court (Ingham County) and has jurisdiction limited to hearing claims against the State of Michigan. The Court of Claims receives State-appropriated funding for judges' salaries and operational costs.

Recorder's Court

The Recorder's Court is a special court, established in 1857, which has jurisdiction in all felony criminal cases arising within the City of Detroit. Act 438, P.A. 1980, provided for the State to fund some of the operational costs of the Recorder's Court, such as employee salaries, benefits, supplies, and materials. The City of Detroit and Wayne County are required to pay operational costs related to facilities, utilities, courtroom security, assigned counsel for indigents, and juror and witness fees. As of September 30, 1996, the Recorder's Court had 29 judges. Act 374, P.A. 1996, abolished the Recorder's Court and merged it with the Third Circuit Court, effective October 1, 1997.

District Court

District courts have jurisdiction over all civil litigations up to $10,000 and also handle garnishments, eviction proceedings, land contracts, and mortgage foreclosures. In addition, district courts handle preliminary examinations in felony cases and handle all misdemeanors in which punishment does not exceed one year in jail. District courts include small claims divisions and make use of magistrates. District courts cover areas defined by statute, which include cities, townships, and other municipalities. As of September 30, 1996, there were 101 district courts with a total of 259 judges.

District courts receive State-appropriated funding for judges' salaries. The local government units, with one exception, provide funding for other operating costs. Act 438, P.A. 1980, provided for the State to fund some of the operational costs of the Thirty-Sixth District Court (City of Detroit), such as employee salaries, benefits, supplies, and materials. The City of Detroit is required to pay operational costs related to facilities, utilities, courtroom security, assigned counsel for indigents, and juror and witness fees. In addition, the City of Detroit pays to the State an annual fixed obligation of $7.15 million. Act 374, P.A. 1996, eliminated certain provisions related to the funding and revenue collection obligations of the State and the City of Detroit effective October 1, 1996.

Probate Court

Probate courts exercise exclusive jurisdiction in such matters as juvenile proceedings and adoptions and supervise the probating of wills and the administration of estates and trusts. Also, probate courts hear cases pertaining to guardianships and conservatorships for minors and adults. Probate courts have juvenile divisions which handle cases of delinquent, neglected, or abused children. Probate courts are responsible for hearing cases in one or more counties. Probate courts receive State-appropriated funding for judges' salaries, and the counties provide funding for operational costs. As of September 30, 1996, there were 78 probate courts and 107 judges.

OTHER JUDICIAL AGENCIES

State Court Administrative Office - Supervises and examines the administration of the courts, monitors court calendars, prepares State funding budget requests, and collects and compiles statistical and other court-related data.

State Appellate Defender Office - Governed by the State Appellate Defender Commission and provides legal counsel for indigent defendant appellate cases.

Michigan Appellate Assigned Counsel System - Governed by the State Appellate Defender Commission and administers a Statewide roster of attorneys who are eligible and willing to accept criminal appellate defense assignments for indigent defendants and provides continuing legal education for those attorneys.

Michigan Judicial Institute - Responsible for the continuing legal education of all Michigan judges and court-related personnel.

Judicial Tenure Commission - Investigates complaints against judges and may recommend disciplinary action to the Supreme Court.

State Judicial Council - Employs the personnel, exclusive of judges, of the Third Circuit, Recorder's, and Thirty-Sixth District Courts. Act 374, P.A. 1996, eliminated the State

Judicial Council as of October 1, 1996, and allowed the City of Detroit and Wayne County to create separate judicial councils as its successor.

All of the preceding judicial agencies are funded with State appropriations.

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

Revenue	$ 78,811,630
Expenditures and operating transfers out	$ 210,601,130

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

As of September 30, 1996, the State-funded judicial operations had 2,050 employees, which include all judges, except probate judges, for the various trial and appellate courts.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit, including the provisions of the Single Audit Act, of State-Funded Judicial Operations had the following objectives:

1. 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.

2. 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.

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

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.

We considered the State-funded judicial operations' internal control structure policies and procedures for its federal financial assistance programs and assessed the State-funded judicial operations' compliance with federal laws and regulations in accordance with the Single Audit Act of 1984 and federal Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, in addition to generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State-funded judicial operations' major programs are identified on the schedules of federal financial assistance. We did not

report on compliance for nonmajor federal financial assistance programs because we did not select any transactions for nonmajor federal financial assistance programs in connection with our audit of the financial schedules and our assessment of the internal control structure.

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 agency preliminary response which follows each recommendation in our report was taken from the Judiciary's written comments and oral discussion subsequent to our audit fieldwork.

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

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

INTERNAL CONTROL STRUCTURE

COMMENT

Background: The finance department of the Supreme Court provides data entry for all payroll and other expenditures funded by State appropriations. The individual courts and judicial agencies are responsible for cash receipting and depositing, preaudit and authorization of expenditures and personnel transactions, and equipment recordkeeping.

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.

The Michigan Administrative Information Network* (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including the State-funded judicial operations, is affected to varying degrees by MAIN.

Because the State-funded judicial operations' internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in the State-funded judicial operations to include elements reviewed in

* *See glossary on page 69 for definition.*

our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

FINDING

1. Federal Grant Accounting and Reporting

The Judiciary did not maintain sufficient internal control over federal grant accounting and reporting.

The Judiciary did not provide sufficient oversight to ensure that requests for federal grant reimbursements were accurate and timely and that reimbursements were properly recorded in the accounting records:

a. Federal regulations require award recipients to maintain records that identify the source and application of funds provided for financially assisted activities. Our review of the federal grant reports submitted by the Judiciary disclosed differences between the amounts reported and the amounts recorded in the accounting records. The Judiciary overbilled three federal grants, resulting in an overbilling of $2,615 (see schedule of questioned costs). The Judiciary also underbilled three federal grants totaling $2,140 (see schedule of questioned costs) in unclaimed federal revenue. We were informed that additional expenditures were recorded on the accounting records after the final request for reimbursement was submitted.

   We noted the same condition during our prior audit. In response to our prior audit, the Judiciary took steps to ensure that all grantees were aware of the importance of reconciling their billing detail with the State accounting system records. However, billing errors still occurred.

b. The various grant programs require the timely submission of reports. The Third Circuit Court - Friend of the Court (FOC) submitted 26 of 31 monthly reports and 8 of 8 quarterly reports after their due dates. In addition, the Judiciary submitted 18 of 48 monthly reports, 6 of 16 quarterly reports, and 2 of 4 final reports for its anti-drug abuse grant after their due dates.

The issue of timely reporting was addressed in our prior audit report and the Judiciary informed us that it would attempt to meet all due dates or negotiate reasonable extensions, if necessary. However, it did not meet all required due dates during fiscal years 1994-95 and 1995-96.

c. Section 1600.106 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), requires that revenue be recorded when it is measurable and available to fund the current year operations. Our review disclosed several instances in which the Judiciary did not properly record federal revenue. We noted four instances, totaling $80,040, in which revenue should have been recorded as a receivable in the preceding fiscal year which resulted in revenue misstatements in both fiscal years. We also noted one instance in which federal revenue totaling $4,412 was inappropriately recorded as miscellaneous General Fund revenue.

The Judiciary's insufficient oversight resulted in submitting inaccurate and late reimbursement requests and the improper recording of those reimbursements in the accounting records. In addition, insufficient oversight could result in delayed, reduced, or terminated federal funding.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE JUDICIARY MAINTAIN SUFFICIENT INTERNAL CONTROL OVER FEDERAL GRANT ACCOUNTING AND REPORTING TO ENSURE THE ACCURATE AND TIMELY SUBMISSION OF REQUESTS FOR FEDERAL GRANT REIMBURSEMENTS AND THE PROPER RECORDING OF REIMBURSEMENTS IN THE ACCOUNTING RECORDS.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the finding and informed us that it will:

(a) Endeavor to ensure that all federal grants are properly billed.
(b) Continue to try to meet all due dates for grant reporting. However, as noted in the response to our prior audit, grant reporting deadlines do not take into account the length of the State of Michigan's month-end closing process.

(c) Endeavor to record federal revenue in the proper fiscal year.

In addition, the Third Circuit Court - Friend of the Court (FOC) also agrees with the finding and indicated that it will begin to submit reports in a timely manner.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

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, Title IV-D requirements, Title IV-D percentage, and billings to federal programs.

FINDING

2. Budgetary Transfers

The Judiciary made budgetary transfers of unavailable authorizations and spent restricted revenue collected in excess of appropriations by line item.

We noted several instances in which the Judiciary used budgetary transfers to move spending authority between appropriated line items to fund expenditures. For example, the Judiciary moved the authorization from various restricted revenue line items with little or no collections to a Thirty-Sixth District Court line item with excess restricted revenue collections. The excess collected revenue was then used to supplant General Fund appropriations and fund Thirty-Sixth District Court operations, even though the Judiciary did not have legislative authority to spend these funds. The Judiciary then transferred supplanted general purpose

authorizations to cover expenditures for judges' salaries beyond appropriated amounts in fiscal year 1994-95.

Article 9, Section 17 of the State Constitution states that money shall not be paid out of the State treasury unless appropriated by law. Also, Article 4, Section 31 of the State Constitution gives the Legislature the authority and responsibility of passing appropriation bills. In addition, Section 18.1453 of the *Michigan Compiled Laws* requires that the amount expended from restricted revenue not exceed the lesser of the amount appropriated in the budget or the amount collected. If amounts are collected in excess of the amount authorized in an appropriations act, legislative authorization is necessary before these funds can be expended.

The Judiciary believes that Article 6, Section 7 of the State Constitution gives it the authority to make budgetary transfers within its gross appropriation and to spend those appropriations for any purpose pertaining to the operation of the court. The Judiciary does not believe that it is required to comply with a line-item appropriations act. The Judiciary has used its interpretation to make expenditures in excess of line-item appropriations and to spend restricted revenue without legislative authorization.

RECOMMENDATION

We recommend that the Judiciary comply with its appropriations act.

AGENCY PRELIMINARY RESPONSE

The Judiciary disagrees with the finding. The Judiciary informed us that the authority to make budgetary transfers within gross appropriations for any purpose pertaining to the operation of the court is conferred upon the Supreme Court by Article 6, Section 7 of the State Constitution:

> It [the Supreme Court] shall have control of the preparation of its budget recommendations and the expenditure of moneys appropriated for any purpose pertaining to the operation of the court or the performance of activities of its staff except that the salaries of the justices shall be established by law.

In practice, effective communication with the Legislature during the appropriations process has meant that the Supreme Court generally does not often find it

necessary for the operation of the court to make budgetary transfers. Although Article 6, Section 7 of the State Constitution relieves the Judiciary from the necessity to comply with statutory requirements applying to departments and agencies concerning the expenditure of funds, the Judiciary is committed to conforming its practices to those requirements whenever possible.

FINDING

3. Title IV-D Requirements

The Third Circuit Court - Friend of the Court (FOC) did not comply with federal grant requirements for its Child Support Enforcement (Title IV-D) program.

Federal regulations specify the minimum procedures that the FOC must follow to be eligible for Title IV-D funding. These include required procedures for locating delinquent noncustodial parents and enforcement activities for collection of delinquent payments. Our review of 50 randomly selected cases disclosed:

a. Title 45, Part 303, section 6 of the *Code of Federal Regulations (CFR)* requires the FOC to identify delinquent accounts. An account is considered delinquent when the absent parent fails to make payments equal to one month's child support. This section also requires enforcement action within 30 calendar days of identifying a delinquency. Ten of the 50 cases we reviewed required enforcement activities. However, there was no evidence of enforcement activities for 9 of the 10 cases.

b. Federal regulation 45 *CFR* 303.3 requires the FOC to determine the physical whereabouts of an absent parent, the absent parent's employer, and other sources of income or assets within 75 days of determining that such action is necessary. Ten of the 50 cases reviewed required the initial submission of the case to the State Parent Locator (SPL). However, there was no evidence that 6 of the 10 cases were submitted to the SPL as required. In addition, none of the 10 cases had evidence of efforts to locate absent parents or attempts to locate assets within the 75-day time frame.

c. Federal regulation 45 *CFR* 303.3 also requires the FOC to make attempts to locate absent parents or sources of income when information exists. The

State's SPL system is designed to process a name through the system upon initial submission and automatically reprocesses the name in each of the following three quarters. This provides SPL coverage for one year for every name submitted to the State's SPL system. The FOC must resubmit the names to the SPL system after one year. Twenty-five of the 50 cases reviewed required annual resubmission to the SPL during our audit period. However, there was no evidence that 5 of the 25 cases were submitted to the SPL as required.

We noted similar conditions during our prior audit. In response to our prior audit recommendation, the Judiciary informed us that it agreed with our recommendation that the FOC comply with all federal requirements for operating its Title IV-D program. However, it was not able to obtain complete compliance because of the shortage of enforcement staff and the high volume of delinquent cases. As a result, the FOC implemented a sampling approach to address the high volume of cases. However, this method of selecting cases is limited and results in a significant level of noncompliance.

Failure to comply with federal regulations could result in the loss of federal funds. Federal funds distributed to the FOC totaled $18,715,930 and $16,106,431 in fiscal years 1995-96 and 1994-95, respectively.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE THIRD CIRCUIT COURT - FOC COMPLY WITH ALL THE FEDERAL REQUIREMENTS FOR OPERATING ITS TITLE IV-D PROGRAM.

AGENCY PRELIMINARY RESPONSE

The Third Circuit Court - FOC agrees with the finding and indicated that corrective action will be coordinated with the new Friend of the Court beginning in January 1998.

FINDING

4. Title IV-D Percentage

The Third Circuit Court did not properly allocate FOC expenditures to federal programs. Federal regulations only allow cost reimbursements that are ordinary and necessary for the operation or performance of the federal award. The Third Circuit Court included expenditures related to non-Title IV-D activities in determining the percentage of cost charged to the federal program.

The FOC determines expenditures allocable to the Title IV-D program by computing the percentage of Title IV-D cases in the total case population and applying this percentage to the total FOC expenditures. This procedure was developed in conjunction with the Family Independence Agency's* (FIA's) Office of Child Support for fiscal year 1995-96. We reviewed the expenditure allocation and noted that approximately 83,000 cases were excluded from the total case population. However, the costs of processing these cases were included in the total expenditures used in allocating the Title IV-D allowable expenditures.

Excluded cases consisted of alimony only and preliminary paternity and family support cases. The Third Circuit Court staff informed us that these cases were deducted because they were not included in the category definitions developed by FIA and generally do not qualify for Title IV-D funding. Because the Third Circuit Court included expenditures related to processing these cases when calculating the Title IV-D percentage, we estimated that the federal government was overbilled approximately $98,000 (see schedule of questioned costs) in fiscal year 1995-96. In addition, the continued use of an inaccurate percentage calculation will result in future over- or underbillings to the federal government.

RECOMMENDATION

We recommend that the Third Circuit Court properly allocate FOC expenditures in compliance with federal regulations.

** See glossary on page 69 for definition.*

AGENCY PRELIMINARY RESPONSE

The Third Circuit Court - FOC disagrees with the finding. The Third Circuit Court - FOC indicated that the procedures used for the allocation of cost at the FOC were developed with FIA's Office of Child Support in accordance with the FOC manual. In addition, the specific software that was developed to identify the case load percentage used for the allocation of these expenditures was developed by the FOC in conjunction with the Office of Child Support. It is the Third Circuit Court - FOC's belief that the procedures and the allocation factor used in the Title IV-D program are consistent with the FOC manual and the procedures and policies of the Office of Child Support and are, therefore, consistent with the contractual obligations.

FINDING

5. Billings to Federal Programs

The Third Circuit Court - FOC did not bill the federal government for all allowable expenditures under the Title IV-D grant. As a result, the Court spent State General Fund money of $290,688 and 229,302 (see schedule of questioned costs) in fiscal years 1995-96 and 1994-95, respectively, when federal funds were available to cover these expenditures.

The Third Circuit Court excluded FOC expenditures associated with the mailing of child support collections to the custodial parents from its monthly expenditure reports. We were informed that the costs were excluded based on a past determination that they were not allowable. However, because of changes in the processing of cases and changes to the federal program, these costs are now allowable.

RECOMMENDATIONS

We recommend that the Third Circuit Court - FOC bill the federal government for all allowable expenditures under the Title IV-D grant.

We also recommend that the Third Circuit Court attempt to recover federal funds that may still be available.

AGENCY PRELIMINARY RESPONSE

The Third Circuit Court - FOC agrees with the finding and informed us that it has adjusted billings for fiscal year 1996-97.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

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 State-funded judicial operations' financial schedules. However, our audit of the State-funded judicial operations' financial schedules disclosed reportable conditions related to encumbrance liquidation and revenue classification.

FINDING

6. Encumbrance Liquidation

The Judiciary did not properly liquidate fiscal year 1994-95 encumbrances. As a result, these encumbrances were inappropriately carried forward in fiscal year 1995-96.

GASB Cod. Sec. 1700.129 states that encumbrances are commitments related to unperformed contracts for goods and services. The Judiciary received the services related to the contracts during fiscal year 1995-96. However, the Judiciary used a transaction code that was established to liquidate accounts payable instead of a transaction code to liquidate encumbrances. The net effect was an overstatement of encumbrances and reserved fund balance and an understatement of accounts payable and expenditures of $1,053,675 in fiscal year 1995-96.

RECOMMENDATION

We recommend that the Judiciary properly liquidate encumbrances.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the finding and informed us that there is currently no coding within the State's accounting system to correct this problem. The Judiciary will continue to work with the Department of Management and Budget to resolve the technical problems.

FINDING

7. Revenue Classification

The Judiciary did not ensure that drunk driving reinstatement fees were properly classified in the accounting records. GASB Cod. Sec. 1800.115 states that the primary classification of governmental fund revenues should be by fund and source.

During fiscal year 1994-95, the Judiciary incorrectly recorded drunk driving reinstatement fees as miscellaneous revenue instead of as licenses and permits revenue. These fees were deposited by the Department of State with the Department of Treasury in the Judiciary's undistributed receipts account. The Judiciary processed the transactions to transfer the fees from the undistributed receipts account using the wrong account coding. This oversight resulted in an understatement of license and permit revenue and an overstatement of miscellaneous revenue of $992,900 in fiscal year 1994-95.

The misclassification did not affect the distribution of any of the court fees to the local courts or affect the total amount of revenue recorded by the Judiciary.

RECOMMENDATION

We recommend that the Judiciary ensure that drunk driving reinstatement fees are properly classified in the accounting records.

AGENCY PRELIMINARY RESPONSE

The Judiciary agrees with the finding and informed us that it discovered the error in fiscal year 1995-96; however, because the State's accounting records for fiscal year 1994-95 were closed, adjusting entries could not be made.

Independent Auditor's Report on
the Internal Control Structure

July 11, 1997

The Honorable Conrad L. Mallett, Jr.
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the General Fund financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated July 11, 1997. We have also audited the State-funded judicial operations' compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 11, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the financial schedules are free of material misstatement and about whether the State-funded judicial operations complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended September 30, 1996 and September 30, 1995, we considered the State-funded judicial operations' internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network in order to determine our auditing procedures for the purpose of expressing our opinions on the State-funded judicial operations' financial schedules and not to provide assurance on the internal control structure. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the State-funded judicial operations' internal control structure. We also considered the State-funded judicial operations' internal control structure in order to determine our

auditing procedures for the purpose of expressing our opinion on the operations' compliance with requirements applicable to major federal financial assistance and to report on the internal control structure in accordance with OMB Circular A-128.

The management of the State-funded judicial operations is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial schedules in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures, including those used in administering federal financial assistance programs, in the following categories:

<u>Accounting Controls</u>
- Nonpayroll expenditures and accounts payable
- Revenue, cash receipting, and accounts receivable
- Spending authorizations, transfers, and encumbrances
- Payroll-personnel system
- Administration of federal financial assistance

<u>Administrative Controls</u>
- General requirements:
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- Specific requirements:
  - Types of services allowed or unallowed
  - Eligibility

Matching, level of effort, and/or earmarking requirements
Special reporting requirements
Special tests and provisions
Subrecipient monitoring

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal years ended September 30, 1996 and September 30, 1995, the State-funded judicial operations expended 97.7% and 98.3%, respectively, of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State-funded judicial operations' major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State-funded judicial operations' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or to administer federal financial assistance programs in accordance with applicable laws and regulations. The reportable condition is more fully described in Finding 1.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the State-funded judicial operations are not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the State-funded judicial operations' internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level

the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures, including those used in administering federal financial assistance programs, would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the State-funded judicial operations' reportable condition described above is a material weakness. Three of the 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the State-funded judicial operations' financial schedules and of the operations' compliance with requirements applicable to its major federal financial assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995, and this report on the internal control structure does not affect our reports thereon dated July 11, 1997.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
Compliance With Laws and Regulations

July 11, 1997

The Honorable Conrad L. Mallett, Jr.
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the General Fund financial schedules of the State-funded judicial operations for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated July 11, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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 financial schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State-funded judicial operations is the responsibility of the operations' management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the operations' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards* for which the ultimate resolution cannot be determined. Accordingly, no provision for any asset or liability has been recognized in the State-funded judicial operations' financial schedules.

The Judiciary used budgetary transfers to provide authorization for payment of salary increases to judges and to spend restricted revenue collected in excess of the appropriated amount during fiscal year 1994-95. The Judiciary believed that the State Constitution provided the authority to process the transfers. However, our review disclosed that there may be a need to evaluate the extent of the Judiciary's budgetary transfer authority. This instance of noncompliance is more fully described in Finding 2.

We considered this instance of noncompliance in forming our opinion on whether the State-funded judicial operations' financial schedules are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated July 11, 1997 on those financial schedules.

We have also audited the State-funded judicial operations' compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests or provisions; subrecipient monitoring claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995. The management of the State-funded judicial operations is responsible for the operations' compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the previous paragraph occurred. An audit includes examining, on a test basis, evidence about the State-funded judicial operations' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the findings and recommendations, the accompanying schedule of questioned costs, and the accompanying schedule of immaterial noncompliance. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State-funded judicial operations complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests or provisions; subrecipient monitoring claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial

assistance programs for the fiscal years ended September 30, 1996 and September 30, 1995.

We have applied procedures to test the State-funded judicial operations' compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the fiscal years ended September 30, 1996 and September 30, 1995:

Political activity
Civil rights
Cash management
Federal financial reports
Allowable costs/cost principles
Drug-Free Workplace Act
Administrative requirements

Our procedures for testing compliance with the general requirements were limited to the applicable procedures described in OMB's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures for testing compliance with the general requirements, which are described in the previous paragraph, were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State-funded judicial operations' compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second previous paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State-funded judicial operations had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the findings and recommendations and/or the accompanying schedule of questioned costs.

This report is intended for the information of management and the Legislature. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Schedules

July 11, 1997

The Honorable Conrad L. Mallett, Jr.
Chief Justice of the Supreme Court of Michigan
G. Mennen Williams Building
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the accompanying schedule of General Fund revenue and operating transfers and schedules of General Fund sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 1996 and September 30, 1995. These financial schedules are the responsibility of the State-funded judicial operations' management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the State-funded judicial operations are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *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 financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the State-funded judicial operations or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the State-funded judicial operations for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the State-funded judicial operations' financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of sources and disposition of General Fund authorizations by appropriation unit, the schedule of assets and liabilities, and the schedules of federal financial assistance, are presented for purposes of additional analysis and are not a required part of the State-funded judicial operations' financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the State-funded judicial operations' financial schedules and, in our opinion, is fairly stated in all material respects in relation to the State-funded judicial operations' financial schedules.

In accordance with *Government Auditing Standards,* we have also issued a report dated July 11, 1997 on our consideration of the State-funded judicial operations' internal control structure and a report dated July 11, 1997 on its compliance with laws and regulations.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

REVENUE	1996	1995
Federal Revenue	$19,798,943	$16,287,997
From Locals	19,320,992	21,856,499
From Services	1,336,582	1,306,850
Licenses/Permits	1,399,325	562,100
Misc. Revenue	12,364,776	11,962,990
State Court Fund	24,591,011	20,817,095
Total Revenue	$78,811,629	$72,793,531
OPERATING TRANSFERS	0	0
Total Revenue and Operating Transfers	$78,811,629	$72,793,531

The accompanying notes are an integral part of the financial schedules

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Year Ended September 30, 1996

SOURCES OF AUTHORIZATIONS	
General purpose appropriations	$ 139,320,700
Balances carried forward	11,509,480
Restricted financing sources	78,595,040
Budgetary transfers	0
Total	$ 229,425,220
DISPOSITION OF AUTHORIZATIONS	
Expenditures and operating transfers out	$ 210,601,130
Balances carried-forward:	
Encumbrances	$ 5,387,261
Restricted revenue - authorized	3,901,671
Restricted revenue - not authorized	2,400,341
Total carried-forward	$ 11,689,273
Balances lapsed	$ 7,134,817
Total	$ 229,425,220

The accompanying notes are an integral part of the financial schedules.

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Sources and Disposition of Authorizations
Fiscal Year Ended September 30, 1995

SOURCES OF AUTHORIZATIONS		
General purpose appropriations	$	133,418,000
Balances carried forward		5,361,075
Restricted revenue additions		72,779,719
Budgetary transfers		0
Total	$	211,558,794
DISPOSITION OF AUTHORIZATIONS		
Expenditures and operating transfers out	$	199,082,529
Encumbrances carried forward		7,731,336
Unencumbered balances forward		3,781,329
Balances lapsed		963,600
Total	$	211,558,794

The accompanying notes are an integral part of the financial schedules.

Notes to Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the portion of the judicial branch operations funded by State appropriations and accounted for in the State accounting system for the fiscal years ended September 30, 1996 and September 30, 1995. The financial transactions of the State-funded judicial operations are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

Financial transactions relating to the receipt and disbursement of certain fiduciary funds in the Third Circuit, Recorder's, and Thirty-Sixth District Courts are not presented in these financial schedules. Those funds are held in a trust capacity by the courts and are disbursed based on court orders. The funds represent bonds, probation payments, child support collections, and fines and fees assessed by the court or established by statute.

The footnotes accompanying these financial schedules relate directly to the State-funded portion of judicial branch operations. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Treasurer's Common Cash; Property, Plant, and Equipment; Pension Benefits and Other Postemployment Benefits; Compensated Absences; and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the State-funded judicial operations' General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either State-funded judicial operations or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Subsequent Events

a. Court Reorganization

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. Major portions of this Act were effective on October 1, 1996. The Act changed the State Court Fund funding formula, created the Court Equity Fund to provide funding to counties for trial courts, and 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 appropriate funds for operating and maintaining the court. The Act also eliminated certain State and City of Detroit funding and revenue collection obligations related to the Thirty-Sixth District Court.

The Act revised the methods used to determine judges' salaries and provided for 100% State funding for those salaries.

The Act also abolished the State Judicial Council and allowed for Wayne County and the City of Detroit to create separate judicial councils. In addition, the Act created the Trial Court Assessment Commission and the Judicial Performance Commission and provided for local court management councils.

b. Court Reorganization - Pending Litigation

The City of Detroit filed a lawsuit against the State, arguing that certain provisions of Act 374, P.A. 1996, were in violation of Article 9, Sections

25 and 29 of the State Constitution. The circuit court ruled in favor of the City; however, the decision has been appealed.

In a separate case, the Judicial Attorneys Association and the Government Administrative Association subsequently filed a lawsuit claiming that the sections of Act 374, P.A. 1996, pertaining to court employees were unconstitutional. The trial court ruled in favor of the plaintiffs, and the matter is on appeal.

In the same case, the County of Wayne filed a cross claim against the State, arguing that certain provisions of Act 374, P.A. 1996, were in violation of Article 9, Sections 25 and 29 of the State Constitution. The circuit court ruled in favor of the County; however, the decision has been appealed.

Note 3 Unrecorded Revenue

The Thirty-Sixth District Court received fees collected via the tax intercept program during the audit period; however, it failed to remit those fees to the State. As a result, court-generated revenue was understated by $380,265 and $301,867 in fiscal years 1995-96 and 1994-95, respectively.

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SUPPLEMENTAL
FINANCIAL SCHEDULES

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit

Fiscal Year Ended September 30, 1996

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriation Over (Under) Additions (Memorandum Only)	Balances Carried Forward
SUPREME COURT				
Supreme Court Administration:				
General purpose	$ 9,066,700	$	$	$ 304,
Private	480,000		480,000	
Fee revenue	162,700	18,085	144,615	
Total Supreme Court Administration	$ 9,709,400	$ 18,085	$ 624,615	$ 304,
State Court Administrative Office (SCAO):				
General purpose	$ 8,046,900	$	$	$ 6,466,
Private	336,900	138,477	198,423	
Anti-drug funds	665,800	149,098	516,702	
Justice training grants		24,996	(24,996)	
Highway safety planning	70,000	27,196	42,804	
Kellogg Foundation grant		13,472	(13,472)	
Fee revenue		1,334,655	(1,334,655)	
State Court Fund	1,005,000	3,896,060	(2,891,060)	990,
Child support incentive		33,214	(33,214)	
HHS Cooperative Reimbursement Program		161,280	(161,280)	
Local	2,497,600		2,497,600	
Child support enforcement	12,093,000		12,093,000	
Federal contingency		144,009	(144,009)	
Total SCAO	$ 24,715,200	$ 5,922,457	$ 10,745,843	$ 7,457,
Board of Law Examiners:				
General purpose	$	$		$
Law examination fees	214,800	348,475	(133,675)	
Total Board of Law Examiners	$ 214,800	$ 348,475	$ (133,675)	$
Michigan Judicial Institute:				
General purpose	$ 1,300,500	$	$	$ 15,
Private	245,000		245,000	
Justice training grants	227,600	155,030	72,570	
Highway safety planning	104,500		104,500	
Private - Kellogg Foundation		21,021	(21,021)	
Total Michigan Judicial Institute	$ 1,877,600	$ 176,051	$ 401,049	$ 15,
Community Dispute Resolution	$ 1,610,100	$ 1,368,563	$ 241,537	$ 2,164,
Total Community Dispute Resolution	$ 1,610,100	$ 1,368,563	$ 241,537	$ 2,164,
Branchwide Appropriations	$ 2,635,600	$	$	$
Total Branchwide Appropriations	$ 2,635,600	$ 0	$ 0	$
Drunk Driving Caseflow Program:				
System user fees	$ 1,800,000	$	$ 1,800,000	$
Drunk driving caseflow		1,482,467	(1,482,467)	219,
Total Drunk Driving Caseflow Program	$ 1,800,000	$ 1,482,467	$ 317,533	$ 219,
State Judicial Council	$ 279,900	$	$	$ 10,
Total State Judicial Council	$ 279,900	$ 0	$ 0	$ 10,
Total Supreme Court	$ 42,842,600	$ 9,316,098	$ 12,196,902	$ 10,171,

Budgetary Transfers	Total Sources (C)	Expenditures and Operating Transfers Out	Encumbrances Carried Forward	Unencumbered Balances Forward	Balances Lapsed
$ 246,187	$ 9,617,253	$ 9,454,867	$ 78,498	$	$ 83,910
(25,000)	455,000				
(133,675)	29,026	18,085			
$ 87,513	$ 10,101,279	$ 9,472,952	$ 78,498	$ 0	$ 83,910
$ (511,900)	$ 14,001,987	$ 8,613,653	$ 3,844,169	$	$ 1,531,321
(20,000)	316,900	138,478			
(59,689)	606,111	149,099			
		24,104			
	70,000	27,197			
		13,473			
		1,334,703			
	1,995,860	1,000,000		3,888,208	
		33,215			
		161,282			
	2,497,600				
(3,599,000)	8,494,000				
		144,010			
$ (4,190,589)	$ 27,982,459	$ 11,639,214	$ 3,844,169	$ 3,888,208	$ 1,531,321
$ 50,000	$ 50,000	$	$	$	$ 50,000
133,675	348,475	348,475			
$ 183,675	$ 398,475	$ 348,475	$ 0	$ 0	$ 50,000
$ 99,047	$ 1,415,267	$ 1,383,839	$ 18,886	$	$ 12,546
(21,021)	223,979				
(25,390)	202,210	155,030			
	104,500			30	
21,021	21,021	21,021			
$ 73,658	$ 1,966,978	$ 1,559,890	$ 18,886	$ 30	$ 12,546
$	$ 3,774,240	$ 1,392,553	$	$ 2,140,147	$
$ 0	$ 3,774,240	$ 1,392,553	$ 0	$ 2,140,147	$ 0
$ 511,900	$ 3,147,500	$ 3,020,958	$	$	$ 126,542
$ 511,900	$ 3,147,500	$ 3,020,958	$ 0	$ 0	$ 126,947
$ (1,471,088)	$ 328,912	$	$	$	$
1,471,088	1,690,542	1,471,088		230,833	
$ 0	$ 2,019,454	$ 1,471,088	$ 0	$ 230,833	$ 0
$	$ 289,900	$ 279,900	$ 10,000	$	$
$ 0	$ 289,900	$ 279,900	$ 10,000	$ 0	$ 0
$ (3,333,844)	$ 49,680,283	$ 29,185,029	$ 3,951,553	$ 6,259,218	$ 1,804,319

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit

Fiscal Year Ended September 30, 1996

Continued

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriation Over (Under) Additions (Memorandum Only)	Balances Carried Forward
COURT OF APPEALS				
General purpose	$ 15,676,100	$	$	$ 433,
Federal anti-drug funds	517,900		517,900	
Court-generated revenue	1,089,700	1,257,815	(168,115)	
State Court Fund	2,000,000	2,000,000		
Total Court of Appeals	$ 19,283,700	$ 3,257,815	$ 349,785	$ 433,
JUDICIAL TENURE COMMISSION	$ 874,200	$	$	$
Total Judicial Tenure Commission	$ 874,200	$ 0	$ 0	$
APPELLATE PUBLIC DEFENDER PROGRAM				
Appellate Public Defender Program - GF/GP:	$ 4,599,500	$	$	$
Federal anti-drug funds	151,200		151,200	
IDG from DMB - Michigan justice training fund	75,000	100,390	(25,390)	
Appellate Assigned Counsel:				
Administration - GF/GP	587,100			2,
IDG from DMB - Michigan justice training fund	35,000	23,928	11,072	
Federal anti-drug funds	30,400		30,400	
Total Appellate Public Defender Program	$ 5,478,200	$ 124,318	$ 167,282	$ 2,
JUDGES' SALARIES				
Supreme Court Justices	$ 825,300	$	$	$
Court of Appeals Judges	3,169,000			
Circuit court judges' salaries	11,735,800			
Grants to counties for recorder's court judges' salaries	1,880,300			
District court judges' salaries	15,113,900			
Grants to counties for probate court judges' salaries	4,935,500			
Judicial salary standardization-payments to counties/district control units	22,705,300			
Judges Retirement System contribution	1,404,600			
Grant to the OASI contribution fund, employer's share of social security	2,612,500			
Total Judges' Salaries	$ 64,382,200	$ 0	$ 0	$
TRIAL COURT OPERATIONS				
Third Circuit Court:				
General purpose	$ 8,609,900	$	$	$ 319,
Court-generated revenue	4,069,100	5,379,385	(1,310,285)	
State Court Fund	306,200	307,731	(1,531)	
Total Third Circuit Court	$ 12,985,200	$ 5,687,116	$ (1,311,816)	$ 319,
Third Circuit Court - Friend of the Court (FOC):				
General purpose	$	$	$	$
Court-generated revenue	1,097,000	1,777,874	(680,874)	
Child support incentive	8,500,000	5,040,214	3,459,786	
HHS Cooperative Reimbursement Program	11,998,700	14,243,932	(2,245,232)	
Total Third Circuit Court - FOC	$ 21,595,700	$ 21,062,020	$ 533,680	$
Wayne County Clerk:				
General pupose	$ 3,968,200	$	$	$
State Court Fund	387,400	389,337	(1,937)	

Total Wayne County Clerk			$ 4,355,600	$ 389,337	$ (1,937)	$
			Expenditures	Encumbrances	Unencumbered	
Budgetary Transfers	Total Sources (C)	and Operating Transfers Out	Carried Forward	Balances Forward	Balances Lapsed	
$ 616,292	$ 16,725,663	$ 15,938,395	$ 438,424	$	$ 348,842	
(517,900)						
146,759	1,236,459	1,236,459		21,360		
	2,000,000	2,000,000				
$ 245,151	$ 19,962,122	$ 19,174,854	$ 438,424	$ 21,360	$ 348,842	
$ 85,453	$ 959,653	$ 959,653	$	$	$	
$ 85,453	$ 959,653	$ 959,653	$ 0	$ 0	$ 0	
$	$ 4,599,500	$ 4,552,900	$ 42,220	$	$ 4,460	
	151,200					
25,390	100,390	100,390				
	589,593	585,284	2,493		1,816	
	35,000	23,928				
	30,400					
$ 25,390	$ 5,506,083	$ 5,262,502	$ 44,713	$ 0	$ 6,276	
$	$ 825,300	$ 815,603	$	$	$ 9,697	
	3,169,000	3,169,000				
	11,735,800	11,735,800				
	1,880,300	1,880,300				
	15,113,900	15,113,900				
	4,935,500	4,935,500				
	22,705,300	22,705,300				
	1,404,600	1,404,600				
	2,612,500	2,612,500				
$ 0	$ 64,382,200	$ 64,372,503	$ 0	$ 0	$ 9,697	
$ 250,000	$ 9,179,545	$ 7,915,642	$ 319,645	$	$ 943,721	
1,303,685	5,372,785	5,372,785		6,600		
1,531	307,731	307,731				
$ 1,555,216	$ 14,860,061	$ 13,596,158	$ 319,645	$ 6,600	$ 943,721	
$ (250,000)	$ (250,000)	$ (250,000)	$	$	$	
680,873	1,777,873	1,777,873				
(2,245,232)	6,254,768	5,040,214		1,897		
2,245,232	14,243,932	14,243,932				
$ 430,873	$ 22,026,573	$ 20,812,019	$ 0	$ 1,897	$ 0	
$	$ 3,968,200	$ 3,968,200	$	$	$	
1,937	389,337	387,400		1,937		
$ 1,937	$ 4,357,537	$ 4,355,600	$ 0	$ 1,937	$ 0	

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1996
Continued

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriation Over (Under) Additions (Memorandum Only)	Balances Carried Forward
Recorder's Court - Felony Division:				
General purpose	$ 8,823,000	$	$	$ 102,
Anti-drug funds	393,300		393,300	
Court-generated revenue	694,700	980,536	(285,836)	
State Court Fund	725,600	729,228	(3,628)	
DAG State administrative match	400,000	400,000		
Total Recorder's Court - Felony Division	$ 11,036,600	$ 2,109,764	$ 103,836	$ 102,
Thirty-Sixth District Court:				
General purpose	$ 7,579,000	$	$	$ 480,
Anti-drug funds	245,000		245,000	
Kellogg Foundation grant				
Court-generated revenue	8,747,400	11,018,911	(2,271,511)	
State Court Fund	3,580,800	3,598,705	(17,905)	
Local revenue	8,735,100	8,360,956	374,144	
Total Thirty-Sixth District Court	$ 28,887,300	$ 22,978,572	$ (1,670,272)	$ 480,
Statewide Functions:				
Outstate trial court reimbursement - SCF	$ 11,047,000	$ 11,047,000	$	$
Indigent civil legal assistance grants - SCF	2,603,000	2,623,000	(20,000)	
Juror fee reimbursement - General purpose	2,891,800			
Total Statewide Functions	$ 16,541,800	$ 13,670,000	$ (20,000)	$
Total Trial Court Operations	$ 95,402,200	$ 65,896,809	$ (2,366,509)	$ 902,
Judiciary Grand Totals	$ 228,263,100	$ 78,595,040	$ 10,347,459	$ 11,509,

(A) "Gross Appropriations" includes restricted sources and General Fund authorizations. During fiscal year 1995-96, the Judiciary had a lump sum appropriation. The detail in this schedule reflects internal budgeting decisions made by the Judiciary.

(B) The amount of restricted revenue collected by appropriation unit is shown as "Restricted Revenue Additions" on this schedule.

(C) "Total Sources" includes gross appropriations, balances carried forward, and budgetary transfers. The $10,347,360 difference between total sources on this schedule and the total sources of authorizations on the schedule of General Fund sources and disposition of authorizations on page 38 represents the amount of restricted sources estimated in the appropriations act that were not collected.

Budgetary Transfers	Total Sources (C)	Expenditures and Operating Transfers Out	Encumbrances Carried Forward	Unencumbered Balances Forward	Balances Lapsed
$ (276,187)	$ 8,648,813	$ 8,393,400	$ 102,000	$	$ 153,412
	393,300			11,000	
285,836	980,536	980,536			
3,628	729,228	729,228			
	400,000	400,000			
$ 13,276	$ 11,151,876	$ 10,503,164	$ 102,000	$ 11,000	$ 153,412
$ (1,928,992)	$ 6,130,552	$ 1,734,843	$ 530,926	$	$ 3,864,782
(245,000)					
59,689	59,689	59,689			
2,211,822	10,959,222	10,959,222			
17,904	3,598,704	3,598,706			
(267,076)	8,468,024	8,360,956			
$ (151,653)	$ 29,216,191	$ 24,713,416	$ 530,926	$ 0	$ 3,864,782
$	$ 11,047,000	$ 11,047,000	$	$	$
20,000	2,623,000	2,623,000			
1,108,200	4,000,000	3,996,231			3,769
$ 1,128,200	$ 17,670,000	$ 17,666,231	$ 0	$ 0	$ 3,769
$ 2,977,850	$ 99,282,239	$ 91,646,588	$ 952,571	$ 21,434	$ 4,965,684
$ 0	$ 239,772,580	$ 210,601,130	$ 5,387,261	$ 6,302,012	$ 7,134,816

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1995

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriations Over (Under) Additions (Memorandum Only)	Balances Carried Forward
SUPREME COURT				
Supreme Court Administration:				
General purpose	$ 9,184,600	$	$	$ 858,124
Private	480,000		480,000	
Sale of reports	30,000	7,514	22,486	
Law examination fees	132,700	142,674	(9,974)	
Total Supreme Court Administration	$ 9,827,300	$ 150,188	$ 492,512	$ 858,124
State Court Administrative Office (SCAO):				
General purpose	$ 7,717,200	$	$	$ 2,044,317
Private	300,000	143,320	156,680	
Anti-drug funds	665,800	119,481	546,319	
Justice training grants				
Highway safety planning	70,000	4,412	65,588	
Kellogg Foundation grant		12,511	(12,511)	
Local user fee	2,463,200	1,306,850	1,156,350	
State Court Fund	911,700	993,453	(81,753)	
Child support enforcement	17,760,000		17,760,000	
Total SCAO	$ 29,887,900	$ 2,580,028	$ 19,590,672	$ 2,044,317
Board of Law Examiners:				
General purpose	$	$	$	$
Law examination fees	182,300	208,132	(25,832)	22,196
Total Board of Law Examiners	$ 182,300	$ 208,132	$ (25,832)	$ 22,196
Michigan Judicial Institute:				
General purpose	$ 1,277,100	$	$	$ 57,294
Private	245,000		245,000	
Anti-drug funds		51,085	(51,085)	
Justice training grants	227,600	134,443	93,157	
Highway safety planning	104,500		104,500	
Private - Kellogg Foundation		206,584	(206,584)	
Total Michigan Judicial Institute	$ 1,854,200	$ 392,112	$ 184,988	$ 57,294
Community Dispute Resolution	$ 1,559,700	$ 1,350,616	$ 209,084	$ 2,273,836
Total Community Dispute Resolution	$ 1,559,700	$ 1,350,616	$ 209,084	$ 2,273,836
Branchwide Appropriations	$ 2,692,100	$	$	$
Total Branchwide Appropriations	$ 2,692,100	$ 0	$ 0	$ 0
Drunk Driving Caseflow Program	$ 1,800,000	$ 1,635,081	$ 164,919	$ 102,400
Total Drunk Driving Caseflow Program	$ 1,800,000	$ 1,635,081	$ 164,919	$ 102,400
State Judicial Council	$ 275,100	$	$	$
Total State Judicial Council	$ 275,100	$ 0	$ 0	$ 0
Federal Contigency Funds	$ 2,000,000	$	$ 2,000,000	$
Total Federal Contingency Funds	$ 2,000,000	$ 0	$ 2,000,000	$ 0
Total Supreme Court	$ 50,078,600	$ 6,316,157	$ 22,616,343	$ 5,358,167
COURT OF APPEALS				
General purpose	$ 17,644,000	$	$	$
Federal anti-drug funds	517,900		517,900	
Court filing/motion fees	1,089,700	1,268,155	(178,455)	
State Court Fund	2,000,000	2,000,000	0	
Total Court of Appeals	$ 21,251,600	$ 3,268,155	$ 339,445	$ 0

Budgetary Transfers	Total Sources (C)	Expenditures and Operating Transfers Out	Encumbrances Carried Forward	Unencumbranced Balances Forward	Balances Lapsed
$ 987,479	$ 11,030,203	$ 9,849,076	$	$ 393,534	$ 771,604
(480,000)					
(22,486)	7,514	7,514			
9,974	142,674	142,675			
$ 494,967	$ 11,180,391	$ 9,999,265	$ 0	$ 393,534	$ 771,604
$ 6,210,087	$ 15,971,604	$ 9,549,244	$ 6,367,664	$	$ 56,301
	300,000	143,321			
(448,167)	217,633	119,481			
(443)	(443)	(443)			
(12,511)	57,489	4,412			
12,511	12,511	12,513			
	2,463,200	1,306,850			
(133,801)	777,899	2,595		991,304	
	17,760,000	(377)			
$ 5,627,675	$ 37,559,892	$ 11,137,596	$ 6,367,664	$ 991,304	$ 56,301
$ 168	$ 168	$	$	$	$ 168
25,832	230,328	230,328			
$ 26,000	$ 230,496	$ 230,328	$ 0	$ 0	$ 168
$ (30,152)	$ 1,304,242	$ 1,288,523	$ 15,720	$	$
(71,178)	173,822				
51,085	51,085	51,085			
(86,712)	140,888	134,445			
(71,881)	32,619				
143,059	143,059	75,555			
$ (65,779)	$ 1,845,715	$ 1,549,608	$ 15,720	$ 0	$ 0
$	$ 3,833,536	$ 1,460,309	$	$ 2,164,140	$
$ 0	$ 3,833,536	$ 1,460,309	$ 0	$ 2,164,140	$ 0
$ (252,976)	$ 2,439,124	$ 2,439,124	$	$	$
$ (252,976)	$ 2,439,124	$ 2,439,124	$ 0	$ 0	$ 0
$	$ 1,902,400	$ 1,518,028	$	$ 219,453	$
$ 0	$ 1,902,400	$ 1,518,028	$ 0	$ 219,453	$ 0
$ (36,209)	$ 238,891	$ 228,893	$ 10,000	$	$
$ (36,209)	$ 238,891	$ 228,893	$ 10,000	$ 0	$ 0
$ (2,000,000)	$	$	$	$	$
$ (2,000,000)	$ 0	$ 0	$ 0	$ 0	$ 0
$ 3,793,678	$ 59,230,445	$ 28,563,153	$ 6,393,384	$ 3,768,431	$ 828,073
$ 325,962	$ 17,969,962	$ 17,536,210	$ 433,271	$	$
	517,900				
178,455	1,268,155	1,268,155			
	2,000,000	2,000,000			
$ 504,417	$ 21,756,017	$ 20,804,365	$ 433,271	$ 0	$ 0

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1995
Continued

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriations Over (Under) Additions (Memorandum Only)	Balances Carried Forward
JUDICIAL TENURE COMMISSION	$ 851,500	$	$	$
Total Judicial Tenure Commission	$ 851,500	$ 0	$ 0	$ 0
APPELLATE PUBLIC DEFENDER PROGRAM				
General purpose	$ 4,624,000	$	$	$
Federal anti-drug funds	151,200		151,200	
IDG from DMB - Michigan justice training fund	75,000	148,304	(73,304)	
Appellate Assigned Counsel:				
Administration - GF/GP	580,500			
IDG from DMB - Michigan justice training fund	35,000	13,836	21,164	
Federal Anti-drug funds	30,400		30,400	
Total Appellate Public Defender Program	$ 5,496,100	$ 162,140	$ 129,460	$ 0
JUDGES' SALARIES				
Circuit court judges' salaries	$ 11,084,400	$	$	$
Grants to counties for recorder's court judges' salaries	1,785,400			
District court judges' salaries	14,350,200			
Grants to counties for probate court judges' salaries	4,815,100			
Judicial salary standardization-payments to counties/district control units	21,571,500			
Judges' Retirement System contribution	1,310,300			
Grant to the OASI contribution fund, employer's share of social security	2,569,000			
Total Judges' Salaries	$ 57,485,900	$ 0	$ 0	$ 0
TRIAL COURT OPERATIONS				
Third Circuit Court:				
General purpose	$ 8,043,700	$	$	$
Court-generated revenue	4,324,700	5,518,902	(1,194,202)	
State Court Fund	306,200	305,438	762	
Total Third Circuit Court	$ 12,674,600	$ 5,824,340	$ (1,193,440)	$ 0
Third Circuit Court - Friend of the Court (FOC):				
General purpose	$	$	$	$
Court-generated revenue	740,700	470,848	269,852	
Child support incentive	8,500,000	4,828,883	3,671,117	
HHS Cooperative Reimbursement Program	11,600,400	11,277,548	322,852	
Total Third Circuit Court - FOC	$ 20,841,100	$ 16,577,279	$ 4,263,821	$ 0
Wayne County Clerk:				
General purpose	$ 3,908,600	$	$	$
State Court Fund	387,400	386,432	968	
Total Wayne County Clerk	$ 4,296,000	$ 386,432	$ 968	$ 0
Recorder's Court - Felony Division:				
General purpose	$ 8,435,900	$	$	$
Anti-drug funds	393,300	11,000	382,300	
Court-generated revenue	694,700	799,561	(104,861)	
State Court Fund	725,600	723,787	1,814	
DAG State administrative match	400,000	400,000		
Total Recorder's Court - Felony Division	$ 10,649,500	$ 1,934,348	$ 279,252	$ 0

Budgetary Transfers	Total Sources (C)	Expenditures and Operating Transfers Out	Encumbrances Carried Forward	Unencumbranced Balances Forward	Balances Lapsed
$ (20,266)	$ 831,234	$ 831,234	$	$	$
$ (20,266)	$ 831,234	$ 831,234	$ 0	$ 0	$ 0
$ 172,385	$ 4,796,385	$ 4,771,461	$	$	$ 24,923
(151,200)					
73,304	148,304	148,304			
8,673	589,173	584,796	2,493		1,884
(21,164)	13,836	13,836			
(30,400)					
$ 51,598	$ 5,547,698	$ 5,518,397	$ 2,493	$ 0	$ 26,807
$ 257,355	$ 11,341,755	$ 11,341,755	$	$	$
40,157	1,825,557	1,825,557			
270,989	14,621,189	14,621,189			
(51,415)	4,763,685	4,763,685			
235,425	21,806,925	21,806,925			
	1,310,300	1,310,300			
(60,245)	2,508,755	2,508,755			
$ 692,266	$ 58,178,166	$ 58,178,166	$ 0	$ 0	$ 0
$ (1,969,468)	$ 6,074,232	$ 5,657,683	$ 319,645	$	$ 96,905
1,078,637	5,403,337	5,403,338			
(762)	305,438	305,438			
$ (891,593)	$ 11,783,008	$ 11,366,459	$ 319,645	$ 0	$ 96,905
$ 1,705,789	$ 1,705,789	$ 1,705,789	$	$	$
(366,852)	373,848	373,848			
(2,055,665)	6,444,335	4,828,886			
	11,600,400	11,275,651		1,897	
$ (716,728)	$ 20,124,372	$ 18,184,174	$ 0	$ 1,897	$ 0
$ 968	$ 3,909,568	$ 3,909,568	$	$	$
(968)	386,432	386,432			
$ 0	$ 4,296,000	$ 4,296,000	$ 0	$ 0	$ 0
$ (707,228)	$ 7,728,672	$ 7,626,672	$ 102,000	$	$
(393,300)				11,000	
104,861	799,561	799,561			
(1,623)	723,977	723,787			
	400,000	400,000			
$ (997,290)	$ 9,652,210	$ 9,550,020	$ 102,000	$ 11,000	$ 0

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit
Fiscal Year Ended September 30, 1995
Continued

Appropriation Unit	Gross Appropriations (A)	Restricted Revenue Additions (B) (Memorandum Only)	Restricted Revenue Appropriations Over (Under) Additions (Memorandum Only)	Balances Carried Forward
Thirty-Sixth District Court:				
General purpose	$ 6,697,800	$	$	$ 2,908
Anti-drug funds	245,000		245,000	
Justice training grant		13,749	(13,749)	
Kellogg Foundation grant		65,000	(65,000)	
Court-generated revenue	8,747,400	11,263,645	(2,516,245)	
State Court Fund	3,580,800	3,571,859	8,941	
Local - Fixed City Obligation	7,150,000	7,150,000		
Local - Parking Violations Bureau	1,585,100	3,410,520	(1,825,420)	
Total Thirty-Sixth District Court	$ 28,006,100	$ 25,474,773	$ (4,166,473)	$ 2,908
Statewide Functions:				
Outstate trial court reimbursement	$ 10,340,000	$ 10,424,064	$ (84,064)	$
Indigent civil legal assistance grants	2,350,000	2,412,032	(62,032)	
Juror fee reimbursement	4,000,000			
Total Statewide Functions	$ 16,690,000	$ 12,836,096	$ (146,096)	$ 0
Total Trial Court Operations	$ 93,157,300	$ 63,033,268	$ (961,968)	$ 2,908
Judiciary Grand Total	$ 228,321,000	$ 72,779,719	$ 22,123,281	$ 5,361,075

(A) "Gross Appropriations" includes restricted sources and General Fund authorizations.

(B) The Judiciary believes that the State Constitution makes its gross appropriation available for use, including amounts estimated for restricted sources, even if not realized. The amount of restricted revenue collected by appropriation unit is shown as "Restricted Revenue Additions" on this schedule.

(C) "Total Sources" includes gross appropriations, balances carried forward and budgetary transfers. The $22,123,281 difference between total sources on this schedule and the total sources of authorizations on the schedule of General Fund sources and disposition of authorizations on page 39 represents the amount of restricted sources estimated in the appropriations act that were not collected.

Budgetary Transfers	Total Sources (C)	Expenditures and Operating Transfers Out	Encumbrances Carried Forward	Unencumbranced Balances Forward	Balances Lapsed
$ (6,709,281)	$ (8,573)	$ (500,933)	$ 480,543	$	$ 11,815
(245,000)					
13,749	13,749	13,749			
45,629	45,629	45,629			
2,516,245	11,263,645	11,263,645			
(8,941)	3,571,859	3,571,859			
	7,150,000	7,150,000			
1,825,420	3,410,520	3,410,517			
$ (2,562,179)	$ 25,446,829	$ 24,954,466	$ 480,543	$ 0	$ 11,815
$ 84,064	10,424,064	$ 10,424,064	$	$	$
62,032	2,412,032	2,412,031			
	4,000,000	4,000,000			
$ 146,096	$ 16,836,096	$ 16,836,095	$ 0	$ 0	$ 0
$ (5,021,693)	$ 88,138,515	$ 85,187,215	$ 902,188	$ 12,897	$ 108,720
$ 0	$ 233,682,075	$ 199,082,529	$ 7,731,336	$ 3,781,329	$ 963,600

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STATE-FUNDED JUDICIAL OPERATIONS
Schedule of General Fund Assets and Liabilities
As of September 30

ASSETS	1996	1995
Current Assets:		
Due from federal agencies (A)	$ 2,536,171	$
Due from local units	$ 6,657,684	$ 13,525,900
Other current assets	$ 6,118,875	$ 6,176,126
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 14,091,476	$ 6,386,115
Due to other funds	$ 27,007	$ 27,007
Deferred revenue	$ 118,737	$ 178,426
Unearned receipts payable (B)	$ 24,583,476	$ 24,176,933
Other liabilities	$ 456,733	$ 225,134

This schedule is not a balance sheet and is not intended to report financial condition. The schedule presents assets and liabilities that result directly from the operations of, and are the responsibility of, the State-funded judicial operations. The schedule excludes other assets and liabilities, such as equity in Common Cash, cash in transit, and warrants outstanding, which are accounted for centrally by the State.

(A) The Judiciary did not have the authority to draw federal funds of $2,392,679 related to the federal receivable recorded in fiscal year 1995-96. The funds for the related programs must be drawn by the Family Independence Agency and the Department of Education. The receivable was due the General Fund.

(B) The amounts recorded as unearned receipts payable are amounts held by the Thirty-Sixth District Court, Recorder's Court, and the Third Circuit Court for bonds and liens held for the performance of court orders.

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1996

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	*CFDA* Program Number *	Award Period	Amount of Award
U.S. Department of Agriculture				
Certified Mediation Program - Agricultural Mediation Program	26-011-0386000134	10.435	10/01/95 - 09/30/96	$ 357,(
Total U.S. Department of Agriculture				
U.S. Department of Justice				
Drug Control and System Improvement - Formula Grants:				
Coordinated Adjudication Project (A)	70630-1K94	16.579	10/01/94 - 10/31/95	$ 200,(
Coordinated Adjudication Project (A)	70630-2K95	16.579	10/01/95 - 10/31/96	$ 150,(
Consolidated Reporting Systems (A)	70193-1K93	16.579	08/01/94 - 04/30/96	$ 18,!
Total Drug Control and System Improvement - Formula Grants				
Total U.S. Department of Justice				
U.S. Department of Transportation				
State and Community Highway Safety	PT-95-25	20.6	07/17/95 - 09/30/96	$ 31,(
Total U.S. Department of Transportation				
U.S. Department of Education				
Special Education - Grants to States	0497-2D33	84.027	07/01/96 - 06/30/97	$ 60,(
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Family Support Payments to States - Assistance Payments - Incentives	Interagency	93.56 **	10/01/95 - 09/30/96	$ 5,040,:
Child Support Enforcement (Title IV-D) (C)	CS/COMB-96-8203	93.563 **	10/01/95 - 09/30/96	$ 17,631,4
Child Support Enforcement (Title IV-D) - Child Support Public Information (C)	Interagency	93.563 **	10/01/95 - 09/30/96	$ 238,!
Total Child Support Enforcement (Title IV-D)				

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Amounts Expended		
Directly Expended by Judicial Operations	Distributed to Subrecipients	Total
$ 44,403	$ 81,044	$ 125,447
$ 44,403	**$ 81,044**	**$ 125,447**
$	$	$
66,362	38,694	105,056
$ 66,362	$ 38,694	$ 105,056
$ 66,362	**$ 38,694**	**$ 105,056**
$ 27,196	$	$ 27,196
$ 27,196	**$ 0**	**$ 27,196**
$ 19,238	$	$ 19,238
$ 19,238	**$ 0**	**$ 19,238**
$	$	$ 0
$ 13,675,716	$	$ 13,675,716
151,280		151,280
$ 13,826,996	$ 0	$ 13,826,996

Amounts Expended		
Directly Expended by Judicial Operations	Distributed to Subrecipients	Total
$ 33,214	$	$ 33,214
		0
$ 33,214	$ 0	$ 33,214
$ 10,792	$	$ 10,792
$ 13,871,002	**$ 0**	**$ 13,871,002**
$ 14,028,201	$ 119,738	$ 14,147,939

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Federal Financial Assistance

Fiscal Year Ended September 30, 1995

Grantor Agency/ Federal Assistance Program Title	Grant/ Contract Number	*CFDA* Program Number	*	Award Period	Amount of Award
U.S. Department of Justice					
Drug Control and System Improvement - Formula Grants:					
Anti-Drug Abuse Education for Judges, Court Personnel, and the Public (A)	70129-4K93	16.579		10/01/93 - 09/30/95	$ 124,
Consolidated Reporting Systems (A)	70193-1K93	16.579		08/01/94 - 04/30/96	$ 18,
Coordinated Adjudication Project (A)	70630-1K94	16.579		10/01/94 - 10/31/95	$ 200,
Total Drug Control and System Improvement - Formula Grants					
Total U.S. Department of Justice					
U.S. Department of Transportation					
Traffic Safety Needs Assessment	PT-95-25	20.600		07/17/95 -09/30/96	$ 31,
Total U.S. Department of Transportation					
U.S. Department of Health and Human Services					
Family Support Payments to States - Assistance Payments - Incentives (B)	Interagency	93.560	* *	10/01/94 - 09/30/95	$ 4,828,
Child Support Enforcement (Title IV-D) (C)	CS/COMB-95-8203	93.563	* *	10/01/94 - 09/30/95	$ 14,787,
Child Support Enforcement (Title IV-D) - Child Support Public Information (C)	Interagency	93.563		10/01/94 - 09/30/95	$ 186,
Total Child Support Enforcement (Title IV-D)					
Total U.S. Department of Health and Human Services					
Total Federal Financial Assistance					

* *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

** Major program, as defined by the Single Audit Act.

(A) Subgrant through the Office of Drug Control Policy, Michigan Department of Management and Budget.

(B) There is no formal award amount. The available pool of funds is distributed at year-end by the Family Independence Agency based on relative performance.

(C) Subgrant through the Michigan Family Independence Agency, formerly the Michigan Department of Social Services.

Directly Expended by Judicial Operations	Distributed to Subrecipients	Total
$ 40,126	$	$ 40,126
16,918		16,918
66,102	65,326	131,428
$ 123,146	$ 65,326	$ 188,472
$ 123,146	**$ 65,326**	**$ 188,472**
$ 4,412	$	$ 4,412
$ 4,412	**$ 0**	**$ 4,412**
$	$	$ 0
$ 11,277,548	$	$ 11,277,548
96,754		96,754
$ 11,374,302	$ 0	$ 11,374,302
$ 11,374.302	**$ 0**	**$ 11,374.302**
$ 11,501,860	$ 65,326	$ 11,567,186

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SUPPLEMENTAL INFORMATION

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995

Program and Grant/Contract Number	Finding	Questioned Costs
U.S. Department of Agriculture		
1. Agricultural Mediation Program *CFDA* # 10.435 Grant Number 26-011-0386000134	Grantee did not submit all allowable expenditures for reimbursement. (Finding 1)	$ (63)
U.S. Department of Justice		
Passed through the Michigan Office of Drug Control Policy		
2. Anti-Drug Abuse Education for Judges, Court Personnel, and the Public *CFDA* # 16.579 Grant Number 70129-4K93	Grantee received federal funds in excess of expenditures incurred. (Finding 1)	425
3. Coordinated Adjudication Project *CFDA* # 16.579 Grant Number 70630-2K95	Grantee did not submit all allowable expenditures for reimbursement. (Finding 1)	(1,464)
4. Coordinated Adjudication Project *CFDA* # 16.579 Grant Number 70630-1K94	Grantee received federal funds in excess of expenditures incurred. (Finding 1)	58
U.S. Department of Education		
Passed through the Michigan Department of Education		
5. Special Education - Dispute Resolution Project *CFDA* # 84.027 Grant Number 0497-2D33	Grantee did not submit all allowable expenditures for reimbursement. (Finding 1)	(613)
U.S. Department of Health and Human Services		
Passed through the Michigan Family Independence Agency		
6. Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number CS/COMB-96-8203	Grantee reported payroll expenditures in excess of amount incurred.	3,102
7. Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number CS/COMB-96-8203	Grantee did not collect all of the employees' share of parking expenditures.	69

STATE-FUNDED JUDICIAL OPERATIONS
Schedule of Questioned Costs
Fiscal Years Ended September 30, 1996 and 1995
Continued

	Program and Grant/Contract Number	Finding	Questioned Costs
8.	Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number CS/COMB-95-8230	Grantee collected more than the employees' share of parking expenditures.	(15)
9.	Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number: CS/COMB-96-8203 CS/COMB-95-8203	Grantee did not submit all allowable expenditures for reimbursement. (Finding 5)	 (290,688) (229,302)
10.	Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number CS/COMB-95-8203	Grantee did not use all appropriate case numbers in the Title IV-D percentage calculation. (Finding 4)	98,000
11.	Child Support Enforcement (Title IV-D) *CFDA* # 93.563 Grant Number CS/COMB-95-8203	Grantee did not follow grantor procedures in completing the required quarterly time studies used to determine Title IV-D percentage.	Not determinable
12.	Child Support Public Information *CFDA* # 93.563	Grantee received federal funds in excess of expenditures incurred. (Finding 1)	2,132
	Total Questioned Costs		$ (418,475)

CFDA is defined as *Catalog of Federal Domestic Assistance.*

STATE-FUNDED JUDICIAL OPERATIONS

Schedule of Immaterial Noncompliance

Fiscal Years Ended September 30, 1996 and 1995

Program and Grant/Contract Number	Finding/Noncompliance
U. S. Department of Justice	
Anti-Drug Abuse Education for Judges, Court Personnel, and the Public *CFDA* #16.579 Grant Number 70129-4K93	The Judiciary submitted 18 of 48 monthly reports, 6 of 16 quarterly reports, and 2 of 4 final reports after the due date.
U. S. Department of Transportation	
Traffic Safety Needs Assessment CFDA #20.600 Grant Number PT-95-25	The Judiciary submitted the October 30, 1995 progress report after the due date.
U.S. Department of Health and Human Services	
Child Support Enforcement (Title IV-D) *CFDA #* 93.563 Grant Number *CS/COMB-95-8203*	The Third Circuit Court did not follow grantor procedures in completing the required quarterly time studies used to determine Title IV-D percentage.
Child Support Enforcement (Title IV-D) *CFDA #* 93.563 Grant Number CS/COMB-95-8203	The Third Circuit Court submitted 26 of 31 monthly expenditure reports and 8 of 8 quarterly reports to the Family Independence Agency after the due date.

CFDA is defined as *Catalog of Federal Domestic Assistance*.

NOTE: This schedule reports instances of immaterial noncompliance with laws and regulations which have no associated questioned costs and are not included in the body of our report. All instances of noncompliance that have an associated questioned cost are presented on the schedule of questioned costs.

Glossary of Acronyms and Terms

appropriation	The legislative authorizations for expenditure or obligation of money from a State operating fund.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*
DAG	[U.S.] Department of Agriculture.
DMB	Department of Management and Budget.
Family Independence Agency (FIA)	formally the Department of Social Services.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
FOC	Friend of the Court.
GASB	Governmental Accounting Standards Board.
GF/GP	General Fund/General Purpose.
HHS	[U.S. Department of] Health and Human Services.
IDG	interdepartment grant.

internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules, would not be prevented or detected.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
OASI	Old Age Survivor's Insurance.
OMB	federal Office of Management and Budget.
reportable condition	A matter coming to the auditor’s attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
SCAO	State Court Administrative Office.
SCF	State Court Fund.

SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*
SPL	State Parent Locator.
Title IV-D	A section of the *Code of Federal Regulations* governing the federal grant for Child Support Enforcement.