

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



Oregon Judicial Department: Financial Review

Summary

The objective of our review was to gain an understanding of the fiscal controls related to processes managed by the Business and Fiscal Services Division (division) of the Oregon Judicial Department (department) and to identify opportunities to improve controls. We reviewed internal controls, accounting records and source data. We also reviewed compliance with applicable laws and regulations related to selected financial accounts including revenues, accounts receivable and expenditures. We found the department could improve its controls for estimating the amount of uncollectible accounts receivable. The department overestimated its uncollectible accounts and underreported accounts receivable by about \$64 million, or 4.6%. The department's methodology for estimating uncollectible accounts affects the accuracy of financial reporting, but does not affect the actual amounts collected.

Agency Response

The agency response is attached at the end of the report.

Audit Results

Background

The Chief Justice of the Supreme Court is the administrative head of the Oregon Judicial Department, which is a statewide unified court system with almost 200 judges and nearly 1600 staff positions. The Chief Justice appoints a State Court Administrator who is responsible for the centralized functions of the Oregon courts system including the department's Business and Fiscal Services Division. This division is responsible for managing the state court system's finances and ensuring that internal controls effectively safeguard state assets.

For the 2011-13 biennium, the department estimated it would collect more than \$300 million in revenue from fines, assessments, forfeitures, filing fees, restitution, compensatory fines, and individuals' contributions toward their public defense. Restitution and compensatory fines collected by the courts are distributed to individual victims. The majority of court-generated revenues are distributed to the Criminal Fines Account and the General Fund, with other amounts distributed to cities, counties, and the Oregon State Bar Association (for Legal Aid Services). The department is also responsible for the collection of amounts owed from court-imposed financial obligations.

The department records the revenue it receives for fines and fees and records accounts receivable for amounts owed but not yet received. Accounting standards require the department to estimate and report an allowance for uncollectible accounts, which is management's estimate of the amount of accounts receivable that will not be received. Since the allowance is an estimate, it does not necessarily reflect subsequent actual experience, which could differ markedly from expectations. Good business practices include periodically comparing the estimate to actual experience and adjusting the estimation methodology as determined necessary to bring the allowance estimate more into alignment with actual results.

Opportunity to Improve Controls Over Financial Reporting of Accounts Receivable Balances

We reviewed the effectiveness of fiscal controls related to processes managed by the department's Business and Fiscal Services Division and found the department could improve its controls over its process for estimating the amount of uncollectible accounts receivable. We tested selected controls over the revenue and receipting processes. We reviewed the department's methodology and calculations for determining accounts receivable balances, and the allowance for uncollectible accounts. We also tested selected transactions and controls related to expenditures.

We found the department did not have a policy or fully documented methodology for estimating the amount of uncollectible accounts receivable for financial reporting purposes. In addition, the department could not provide support for the base rate used to estimate its uncollectible accounts receivables and had not reviewed its methodology or the rate for reasonableness in at least six years.

Department management is responsible for accurate financial reporting and ensuring adjustments made during the year-end closing process are supported. As of June 30, 2012, the department reported a balance of \$1.4 billion in accounts receivable and estimated that \$1.13 billion of the balance was uncollectible for financial reporting purposes. We worked with the department to obtain data supporting the accounts receivable balance using collections data from 1988 to the present. During this audit the department proposed a revised methodology for calculating the aging of receivables and collections. Using this data and the revised methodology we recalculated the rate of collectability over time and applied that rate to the accounts receivable balances at June 30, 2012. We determined the department overestimated its uncollectible accounts and underreported its accounts receivable by about \$64 million, or 4.6%. Uncorrected, this amount may continue to increase each year along with the department's receivables balances. Accurate estimates allow users of financial statements to better understand the financial position of the state. The estimate does not impact actual collection results or the amount of revenue received by the state.

Recommendation

We recommend department management fully document their new methodology for calculating uncollectible accounts receivables and periodically review their methodology to ensure it is still relevant and reasonable. The periodic review should include a review of the collections data to ensure the rates are appropriate and adequately supported.

Objectives, Scope and Methodology

The objective of our review was to gain an understanding of the fiscal controls related to processes managed by the Business and Fiscal Services Division (division) of the department and to identify opportunities to improve controls. We reviewed internal controls, accounting records and source data. We also reviewed compliance with applicable laws and regulations related to selected financial accounts including revenues, accounts receivable and expenditures. We tested selected controls over the revenue and receipting processes and we reviewed the department's methodology and calculations for determining accounts receivable balances, and the allowance for uncollectible accounts. We also tested selected transactions and controls related to expenditures.

During our review, we considered policies and procedures, examined documentation, and interviewed management and staff at the department's central office and select staff from a county courthouse. We sampled daily receipts and bank deposits at selected courthouses. We also sampled revenue reports and traced the totals through the month end process to verify amounts distributed by the department's central office.

We focused on the most current reporting period; financial transactions from July 2012 through March 2013 and policies and processes current as of March 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



OREGON JUDICIAL DEPARTMENT
Office of the State Court Administrator

July 17, 2013
(SENT BY EMAIL)

Gary Blackmer, Director
Oregon Audits Division, Secretary of State
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Re: 2013 OJD Financial Review Report

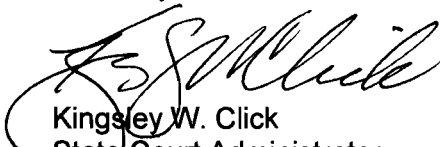
Dear Mr. Blackmer:

Thank you for the opportunity to respond to the July 2013 audit entitled "Oregon Judicial Department: Financial Review." The Oregon Judicial Department appreciates the recommendation from the Audits Division to document our updated methodology that is used to calculate the amount reported for the Department's uncollectable accounts receivable.

As part of this audit exercise, we have developed a new methodology to estimate the uncollectible accounts receivable balance which we based on actual amounts collected in current and prior years along with the age of debt. This methodology will allow the state's financial statements to more closely estimate the probable accounts receivable balance, but does not affect the actual amounts collected. We will reevaluate our methodology on a regular basis to account for changes in case filings, collection rates, and law changes impacting fees and fines assessed.

I want to thank the staff in the Audits Division who worked with Department staff on this audit. They were professional, thoughtful, and helpful throughout the process.

Sincerely,



Kingsley W. Click
State Court Administrator
Oregon Judicial Department

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Audit Team

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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The courtesies and cooperation extended by officials and employees of the Oregon Judicial Department during the course of this audit were commendable and sincerely appreciated.