



## JUDICIAL BRANCH

# AUDIT OF SELECT BUSINESS CYCLES FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Our audit of payroll, information technology governance, and inter-agency administrative services for the Judicial Branch, which are the responsibility of the Office of the Executive Secretary (Executive Secretary) of the Supreme Court of Virginia, for the fiscal year ended June 30, 2018, found:

- proper recording and reporting of all payroll related transactions, in all material respects, in the Commonwealth's payroll system;
- proper alignment of information technology governance policies and procedures with generally accepted best practices; and
- matters involving internal control and its operation related to payroll and administrative services agreements necessary to bring to management's attention.

We did not review management's corrective action on prior year findings identified as deferred in the Findings Summary included in the Appendix to allow the Executive Secretary sufficient time to implement corrective action. We will follow up on these findings in a future audit.

The following entities of the Judicial Branch receive payroll, information technology, and general administrative services from the Executive Secretary, particularly from its department of Fiscal Services (Fiscal) and the department of Judicial Information Technology (Judicial Technology), and as a result, they should consider the results of this audit:

- |  |   |
|--|---|
| • Circuit Courts                         | • Juvenile and Domestic Relations District Courts |
| • Combined District Courts               | • Magistrate System                               |
| • Court of Appeals of Virginia           | • Supreme Court of Virginia                       |
| • General District Courts                | • Virginia Criminal Sentencing Commission         |
| • Judicial Inquiry and Review Commission |   |

## - TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
AUDIT SCOPE OVERVIEW	3-4
INDEPENDENT AUDITOR'S REPORT	5-7
APPENDIX: FINDINGS SUMMARY	8
AGENCY RESPONSE	9
AGENCY OFFICIALS	10

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Establish Memoranda of Understanding with Separate Judicial Agencies**

**Type:** Internal Control

**Repeat:** No

The Executive Secretary does not have formal Memoranda of Understanding with the separate judicial agencies for which it provides administrative, information technology, and payroll services. These agencies include the Judicial Inquiry and Review Commission and the Virginia Criminal Sentencing Commission. The Executive Secretary relies on their office's Organization and Functions Manual to establish the role of and services provided by the Executive Secretary. However, this manual is an internal document maintained by the Executive Secretary and is not distributed among and approved by these other agencies.

As a best practice, Memoranda of Understanding should be established between agencies performing or receiving services from other agencies in order to lay out the terms of services provided, the responsibilities of each of the agencies involved, and the funding sources for these services. The lack of these memoranda could result in misunderstandings of agencies' responsibilities related to important processes, which can lead to the breakdown of crucial controls. This could potentially result in the key processes being done ineffectively or not at all. Memoranda can also help to avoid misunderstandings related to budget and funding sources between agencies.

As the Executive Secretary has performed administrative and payroll services for the noted judicial agencies for several years, management did not realize that these Memoranda are necessary. The Executive Secretary should establish a Memorandum of Understanding with each of these separate agencies that it performs administrative services for in order to document their responsibilities under the arrangement and funding for those services. Formally documenting these services will ensure that all agencies are in agreement on the Executive Secretary's role with administration, information technology, and payroll.

### **Improve Retirement Benefits System Reconciliation Documentation and Procedures**

**Type:** Internal Control

**Repeat:** No

The Executive Secretary does not retain monthly reconciliations between the agencies' Human Resource system and the Commonwealth's retirement benefits system. Although the existing procedures in place do detail the process of how the reconciliation is performed, they do not detail the proper steps to document the reconciliation and its results. Due to the inability of the agency to provide the appropriate documentation, we were unable to verify that the reconciliations were completed properly.

Per Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 50410, in order to ensure the retirement benefits system has properly identified the creditable compensation for the current month and that the employees are reported into the proper retirement plan codes, a

monthly reconciliation of the agency's Human Resource system to the retirement benefits system should be performed. This process identifies and corrects errors prior to certifying the monthly contribution snapshot. Further, employee enrollment information and any supporting documentation should be maintained for audit purposes.

Without sufficient reconciliation documentation, there is no evidence that the monthly reconciliation was performed to ensure the retirement benefits system's contribution snapshot was accurately confirmed. Inadequate reconciliations can lead to improper confirmation of retirement contributions, which affects financial reporting and the sustainability of the retirement system.

The Executive Secretary has insufficient procedures documented for ensuring the monthly reconciliations are performed in accordance with CAPP Manual requirements. Documentation is not retained to show that the retirement benefits system's contribution snapshot was accurate when confirmed.

The Executive Secretary should update documented procedures to ensure that appropriate documentation is maintained related to monthly reconciliations of the agency's Human Resource system to the Commonwealth's retirement benefits system as required by the CAPP Manual.

## AUDIT SCOPE OVERVIEW

The Chief Justice of the Supreme Court serves as the head of the Judicial Branch. The Judicial Branch of government is composed of the court system, the magistrate system, and various judicial agencies. The Executive Secretary aids the Chief Justice in this mission by providing administrative services to the Judicial Branch. The Executive Secretary consists of the following ten departments:

- Assistant Executive Secretary and Counsel
- Court Improvement Program
- Educational Services
- Fiscal
- Human Resources
- Judicial Information Technology
- Judicial Planning
- Judicial Services
- Legal Research
- Legislative and Public Relations

Fiscal serves as the payroll administrator for the Judicial Branch. Fiscal, along with Human Resources (HR), implements controls and records and reports payroll for all judicial agencies, with the exception of clerks of the circuit courts and their direct staff. This included over 3,800 salaried and wage employees in the fiscal year ending June 30, 2018. We tested the following payroll areas as part of our audit:

- HR and Payroll Systems' Access
- Terminated Employees
- Payroll Reconciliations
- Payroll Certifications
- Pay Rate Approval and Changes
- Potentially Unusual Pay Histories
- Employment Eligibility
- Retirement Benefits System Access
- Retirement Benefits Data Recording
- Retirement Benefits Reconciliations

Judicial Information Technology serves as the information technology (IT) service provider to the Judicial Branch, managing IT systems and projects for all judicial agencies. Based on the management recommendations from prior audits, we determined the governance of information technology at the Executive Secretary was a potential risk. These prior reports are located at [www.apa.virginia.gov](http://www.apa.virginia.gov) under the titles "Judicial Branch Audit of Information Systems Security for the year ended June 30, 2016" and "Judicial Branch Audit of Capital Assets and Information Technology Project Management as of June 30, 2017."

To evaluate the IT governance at the Executive Secretary, we evaluated the quality of processes related to each of the IT Governance Institute's five areas of IT governance. These five areas are:

- Strategic Alignment
- Value Delivery
- Risk Management
- Resource Management
- Performance Measurement

Each of these areas of IT governance were evaluated using the Control Objectives for Information and related Technology (COBIT) 5 framework. This is an internationally accepted industry standard

framework for governing and managing IT. COBIT 5 presents the process capability model, which is used to measure the current maturity of an enterprise's IT-related processes and classify them on a scale from zero to five, with the higher number indicating a more mature process. For the purposes of our audit, we ensured that processes related to each of the five key IT Governance areas described above are rated at least a level two in this process capability model. Level two is defined as a performed process that is implemented in a managed fashion, achieving its purposes, and its work products are appropriately established, controlled and maintained.

The Executive Secretary provides a number of administrative services to the Judicial Branch. This includes payroll, human resources, IT services, financial reporting, budgeting, and others. As a result, our scope included the agreements in place to define these services and how responsibilities between agencies in the judicial branch are defined.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

May 2, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the payroll, information technology governance, and inter-agency administrative services for the **Judicial Branch**, which are the responsibility of the **Office of the Executive Secretary (Executive Secretary) of the Supreme Court of Virginia**, for the year ended June 30, 2018. 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 objectives.

## **Audit Scope and Objectives**

Our audit's primary objectives with regard to payroll, information technology governance, and inter-agency administrative services were:

- determine the adequacy of the Executive Secretary's internal controls over payroll and accuracy of recorded payroll related transactions in the Commonwealth's payroll system;
- determine the adequacy and alignment with generally accepted best practices of the Executive Secretary's information technology governance policies and practices; and
- determine the adequacy of controls and agreements in place over the Executive Secretary's role as administrator for the Judicial Branch.

We did not follow up on the findings issued in the prior Judicial Branch audit reports to allow the Executive Secretary sufficient time to implement corrective action. These findings address information system security, information technology project management, and capital assets. We will follow up on these findings in a future audit. See the Findings Summary included in the Appendix for a listing of prior year findings and the status of follow-up on management's corrective action.

## **Audit Methodology**

Management of the Executive Secretary has responsibility for establishing and maintaining internal controls and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Executive Secretary's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations and comparison of policies and procedures with generally accepted best practices as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Executive Secretary's operations. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

## **Conclusions**

We found that the Executive Secretary properly stated, in all material respects, payroll related transactions recorded and reported in the Commonwealth's payroll system, relating to the audit objectives.

We found the Executive Secretary's information technology governance policies and practices were adequate and aligned with generally accepted best practices as described in the section entitled "Audit Scope Overview."

We noted certain matters involving internal control pertaining to payroll and administrative services agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

### **Exit Conference and Report Distribution**

We discussed this report with management on May 22, 2019. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Chief Justice of the Supreme Court of Virginia, Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

KJS/vks

## FINDINGS SUMMARY

Finding	Follow-Up Status	Year First Issued
Establish Memoranda of Understanding with Separate Judicial Agencies	New	2018
Improve Retirement Benefits System Reconciliation Documentation and Procedures	New	2018
Continue to Improve Sensitive Systems Risk Assessment and Contingency Planning Documentation	Deferred*	2013
Continue Improving Database Security	Deferred*	2013
Maintain Oversight of Third-Party Service Providers	Deferred*	2016
Obtain and Retain an Information Security Officer	Deferred*	2016
Perform a Risk Analysis for Exceptions to the Acceptable Use Policy	Deferred*	2016
Correctly Document, Track, and Report Information Technology Project Costs	Deferred*	2017
Improve, Document, and Implement a Construction in Progress Reconciliation Process	Deferred*	2017
Perform a Physical Inventory of Capital Assets	Deferred*	2017
Evaluate the Useful Life of Capital Assets	Deferred*	2017
Improve, Document, and Implement a Capital Asset Addition Process	Deferred*	2017

\*Follow-up Status on prior year findings identified as “Deferred” indicates review of management’s corrective action on a prior year finding will be performed in a future audit.

CHIEF JUSTICE  
DONALD W. LEMONS

JUSTICES  
S. BERNARD GOODWYN  
WILLIAM C. MIMS  
ELIZABETH A. MCCLANAHAN  
CLEO E. POWELL  
D. ARTHUR KELSEY  
STEPHEN R. MCCULLOUGH

SENIOR JUSTICES  
CHARLES S. RUSSELL  
ELIZABETH B. LACY  
LAWRENCE L. KOONTZ, JR.  
LEROY F. MILLETTE, JR.

## SUPREME COURT OF VIRGINIA



100 NORTH NINTH STREET  
RICHMOND, VIRGINIA 23219-2334  
(804) 786-6455  
WWW.COURTS.STATE.VA.US

CLERK  
DOUGLAS B. ROBELEN  
EXECUTIVE SECRETARY  
KARL R. HADE  
CHIEF STAFF ATTORNEY  
K. LORRAINE LORD  
REPORTER OF DECISIONS  
KENT SINCLAIR  
STATE LAW LIBRARIAN  
GAIL WARREN

May 22, 2019

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
James Monroe Building  
101 North 14<sup>th</sup> Street  
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for providing us the opportunity to review the draft audit report for the Supreme Court of Virginia for the period of July 1, 2017, to June 30, 2018. We have noted the recommendations included in this report.

### **Establish Memorandum of Understanding with Separate Judicial Agencies**

We will develop a Memorandum of Understanding with the Judicial Inquiry and Review Commission and the Virginia Criminal Sentencing Commission to document the services provided by the Office of the Executive Secretary for these agencies.

### **Improve Retirement Benefits System Reconciliation Documentation and Procedures**

We will develop policies and procedures to document the monthly reconciliation that currently is performed between the Human Resource Department and the Commonwealth's retirement benefits system.

With best wishes, I am

Very truly yours,

A handwritten signature in black ink, appearing to read "K R Hade".

Karl R. Hade

**OFFICE OF THE EXECUTIVE SECRETARY OF THE SUPREME COURT OF VIRGINIA**

As of June 30, 2018

The Honorable Donald W. Lemons  
Chief Justice

Karl R. Hade  
Executive Secretary