

# STATE OF NEVADA

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## Performance Audit

Judicial Branch of Government  
Supreme Court of Nevada

2014



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of performance audit report on the Supreme Court of Nevada issued on October 6, 2014. Legislative Auditor report # LA14-20.

## Background

The Nevada Judiciary is one of three branches of government. It consists of the Supreme Court, the State's highest court, and three levels of trial courts: the district, justice, and municipal courts. The Supreme Court rules on appeals from the trial courts, determining if legal errors occurred in court cases, or whether verdicts and judgments were fair and correct.

As of July 26, 2014, the Supreme Court had 150 filled positions. In addition, 89 judges were paid through a budget account administered by the Supreme Court. The main Supreme Court building is located in Carson City, and additional offices are located in Carson City and Las Vegas.

Funding for the Supreme Court is administered by the Administrative Office of the Courts (AOC). Funding comes primarily from the state's General Fund and from administrative assessments on misdemeanor criminal and traffic violations heard in justice and municipal courts. It also collects peremptory challenge fees from district courts when a party to a case seeks a change in the judge hearing the case. Filing fees are collected when a special proceeding is brought to the Supreme Court.

Expenditures for the Supreme Court and other accounts it administers were about \$51 million in fiscal year 2014.

## Purpose of Audit

The purpose of the audit was to determine whether the Supreme Court has effective controls over the procurement of goods and services, collection of peremptory challenge and court filing fees, and safeguarding of equipment.

This audit focused on the 12-month period ending March 31, 2014, and prior years for some procurement and equipment activities.

## Audit Recommendations

This audit report contains six recommendations to improve controls over the procurement of goods and services, collection of certain fees, and safeguarding of equipment.

The Supreme Court accepted five recommendations and rejected one recommendation.

## Recommendation Status

The Supreme Court's 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

# Supreme Court of Nevada

## Judicial Branch of Government

### Summary

In general, the Supreme Court has adequate controls over the procurement of goods and services. However, the Supreme Court can improve oversight of its procurement activities. Specifically, it needs to take additional action to help ensure multiple bids or quotes are obtained when selecting vendors. From our testing of the procurement of goods and services, we found that most procurements did not have documentation showing multiple bids or quotes were requested. As a result, the Supreme Court cannot demonstrate it received the best product at the best price. In addition, internal procurement policies and procedures were not always followed. Adequate oversight of procurement activities is important to help ensure the Court receives those goods and services desired, and that its interests are protected.

The Supreme Court has effective controls to ensure the timely deposit of peremptory challenge and filing fees. We tested 90 transactions and found these fees were deposited timely. However, additional controls are needed to reduce the risk of loss of these fees. Specifically, checks need to be restrictively endorsed immediately upon receipt, and recorded and reconciled properly. During fiscal year 2014, the Court received over \$565,000 in peremptory challenge and filing fees.

The Supreme Court needs to strengthen its controls over equipment. We found the Court did not properly track its equipment, and as a result its equipment records were not accurate. In addition, the proper disposal of some equipment, such as computers and monitors, could not be verified. Adequate controls in these areas are important to help ensure equipment is properly safeguarded, including items with a high susceptibility to theft or loss, such as laptop computers. State property records indicate the total acquisition cost of items held by the Court is over \$4.1 million.

### Key Findings

For 13 of 20 (65%) procurements tested, the Supreme Court did not solicit multiple bids or quotes, or did not document they were requested. The value of these procurements totaled over \$598,000. When competitive procedures are not used to select vendors, the Supreme Court does not have assurance it receives the best product at the best price. For example, one vendor that performs janitorial services has been under contract with the Supreme Court since 2006. The vendor's contract was amended in 2011, but multiple bids were not requested. (page 5)

The Supreme Court has developed procedures to help control its procurement activities. Our testing of over \$1.8 million in procurements of goods and services found procedures were often followed. For example, all 10 procurements of goods tested received the proper approvals before being purchased, and payments were made after the execution of the contract. However, staff did not always follow policies and procedures, including those requiring contract summary sheets and documenting receipt of goods. (page 7)

We tested 30 filing fee and 60 peremptory challenge fee transactions and found the correct fee amount was collected and deposited timely. However, key controls to log, restrictively endorse, and reconcile receipts were not performed or performed timely. Our testing did not identify missing funds; nevertheless, additional controls over cash receipts are needed to help ensure they are not lost or stolen. (page 9)

The Court did not perform an annual inventory of equipment. According to the Court's records, its most recent inventory of information technology (IT) equipment was performed in February 2012. In addition, staff were not sure when the last inventory of non-IT equipment was performed. Nevertheless, our testing of equipment did not find significant problems. However, the Court has less assurance equipment is properly safeguarded when physical inventories are not performed. (page 12)

Our testing of the Court's disposal of IT equipment found discrepancies between the Court's disposal lists and the receipts provided by the entity receiving the equipment. In addition, the Court does not have a receipt for one disposal documenting the entity received the equipment. Policies and procedures do not address the process needed to verify items approved for disposal were disposed of properly. Without adequate controls over the disposal of equipment, the Supreme Court's excess equipment could be stolen or given away improperly. (page 13)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Supreme Court of Nevada. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes six recommendations to improve controls over the procurement of goods and services, collection of certain fees, and safeguarding of equipment. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

September 17, 2014  
Carson City, Nevada

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# Introduction

## Background

The Nevada Judiciary is one of three branches of government. It consists of the Supreme Court, the State's highest court, and three levels of trial courts: the district, justice, and municipal courts. Appendix A shows additional information on Nevada's court system and the components of the Supreme Court.

Each type of court in the Judicial Branch has a different purpose. District courts have general jurisdiction over all legal disputes involving criminal, civil, family, and juvenile matters. They also hear appeals from justice and municipal courts. Justice courts handle misdemeanor crime and traffic matters, small claims disputes, evictions, and other civil matters less than \$10,000. Municipal courts manage cases involving violations of traffic and misdemeanor ordinances that occur within the limits of the municipality.

The Supreme Court is comprised of seven Justices. The primary job of the Justices is to rule on appeals from the trial courts, determining if legal errors occurred in court cases, or whether verdicts and judgments were fair and correct. The Supreme Court includes three components:

- The Clerk of the Court is responsible for all Supreme Court files and documents, manages the Court's caseload and dockets, coordinates public hearings, and releases the Court's decisions.
- The Administrative Office of the Courts (AOC) performs all administrative functions for the Supreme Court and provides support services to the trial courts in such areas as training and technology.
- The Law Library houses law books and other documents in its facility at the Supreme Court in Carson City. The Library is used by members of the public, as well as the Supreme Court.

### Staffing and Budget

As of July 26, 2014, the Supreme Court had 150 filled positions. In addition, 89 judges were paid through a budget account administered by the Supreme Court. The main Supreme Court building is located in Carson City, and additional offices are located in Carson City and Las Vegas.

Although part of the Judicial Branch of government, the district, justice, and municipal courts are also a component of the local governments where they are located. Nevada's counties and cities fund most of the costs associated with district, justice, and municipal courts.

Funding for the Supreme Court is administered by the AOC. Funding comes primarily from the state's General Fund and from administrative assessments on misdemeanor criminal and traffic violations heard in justice and municipal courts.

In fiscal year 2014, the majority of the funding for the Supreme Court came from state appropriations (\$31.1 million). Exhibit 1 summarizes the Court's revenues for fiscal years 2012 to 2014, net of reversions and amounts carried forward to the next year.

### Revenue Sources Fiscal Years 2012 to 2014

Exhibit 1

Description	2012	2013	2014 <sup>(2)</sup>
Appropriations	\$29,438,682	\$30,050,243	\$31,119,335
Administrative Assessments	18,116,328	17,277,820	15,827,511
Beginning Cash	11,220,918	11,102,058	11,108,283
Other Revenue <sup>(1)</sup>	2,393,261	1,590,234	2,387,971
Foreclosure Mediation Program	1,992,351	1,825,964	1,076,944
Carry Forward to Subsequent Year	(11,102,058)	(11,108,283)	(9,807,367)
Reversions to General Fund	(1,188,151)	(737,954)	(489,936)
<b>Net Revenues</b>	<b>\$50,871,331</b>	<b>\$50,000,082</b>	<b>\$51,222,741</b>

Source: State accounting system and Supreme Court records.

<sup>(1)</sup> Other Revenue consists of federal grants, fees received from counties, IFC contingency funding, and reimbursement revenue.

<sup>(2)</sup> FY 2014 numbers are as of 8/27/2014.

Fiscal year 2014 expenditures for the Supreme Court totaled \$51 million. Exhibit 2 shows the Supreme Court's expenditures by budget account for fiscal years 2012 to 2014.

**Expenditures** **Exhibit 2**  
**Fiscal Years 2012 to 2014**

<b>Description</b>	<b>2012</b>	<b>2013</b>	<b>2014<sup>(1)</sup></b>
State Judicial Elected Officials	\$20,401,804	\$20,887,286	\$21,220,789
Supreme Court	9,716,541	9,836,213	10,555,187
Specialty Courts	4,217,965	5,627,449	5,720,384
Administrative Office of the Courts	3,133,018	3,218,516	3,360,377
Judicial Retirement State Share	2,243,200	2,243,200	2,037,650
Foreclosure Mediation Program	4,026,209	1,808,705	1,927,598
Library	1,450,972	1,603,167	1,596,334
Senior Justice and Senior Judge Program	1,484,331	1,287,054	1,400,769
Judicial Program and Service Division	1,140,608	948,734	1,166,855
Uniform System of Judicial Records	1,760,932	1,205,810	987,739
Judicial Education	1,076,758	951,288	842,464
Support, Governance, Special Events	193,436	363,185	319,784
Law Library Gift Fund	5,778	5,400	18,598
Judicial Selection	19,770	14,070	1,529
<b>Totals</b>	<b>\$50,871,322</b>	<b>\$50,000,077</b>	<b>\$51,156,057</b>

Source: State accounting system and Supreme Court records.

<sup>(1)</sup> FY 2014 numbers are as of 8/27/2014.

## Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of Supreme Court's activities to procure goods and services, control certain cash receipts, and safeguard equipment. The primary focus of our work was the 12-month period ending March 31, 2014, and prior years for some procurement and equipment activities. Our audit objective was to

determine whether the Supreme Court has effective controls over the procurement of goods and services, collection of peremptory challenge and court filing fees, and safeguarding of equipment.



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# Oversight of Procurement Activities Could Be Improved

In general, the Supreme Court has adequate controls over the procurement of goods and services. However, the Supreme Court can improve oversight of its procurement activities. Specifically, it needs to take additional action to help ensure multiple bids or quotes are obtained when selecting vendors. From our testing of the procurement of goods and services, we found that most procurements did not have documentation showing multiple bids or quotes were requested. As a result, the Supreme Court cannot demonstrate it received the best product at the best price. In addition, internal procurement policies and procedures were not always followed. Adequate oversight of procurement activities is important to help ensure the Court receives those goods and services desired, and that its interests are protected.

## **Vendors Selected Without Competition**

For 13 of 20 (65%) procurements tested, the Supreme Court did not solicit multiple bids or quotes, or did not document they were requested. The value of these procurements totaled over \$598,000. When competitive procedures are not used to select vendors, the Supreme Court does not have assurance it receives the best product at the best price. For example, one vendor that performs janitorial services has been under contract with the Supreme Court since 2006. The vendor's contract was amended in 2011, but multiple bids were not requested.

To test controls related to the procurement of goods and services, we judgmentally selected a total of 20 procurements made by the Supreme Court, 10 purchases of goods and 10 of services. For all 10 procurements of goods tested, we did not find documentation showing multiple quotes were requested. Obtaining multiple quotes would not have been necessary if these goods had been purchased from a vendor under contract with

State Purchasing. However, this was not true for the purchases of goods we tested.

When testing procurements of services, we determined five of the procurements tested did not lend themselves to competitive bidding because the services were for professional legal services, specialized work or work on a proprietary computer system, and specific staff training. However, 5 of 10 services procured should have been competitively bid. For three of these services, we did not find documentation showing multiple bids were requested. The services and contract amounts for these three vendors included:

- **Janitorial Services** – The contract amount was \$34,200 annually, and the vendor has been under contract with the Supreme Court since 2006.
- **Consulting Services and Coordination with State and Local Governments** – The contract amount was \$461,016 for a 4-year period. The contract summary sheet was marked as sole source, but only cited approval of contract by Justices and the vendor's expertise and knowledge in the area. While a vendor might have expertise and knowledge in an area, this does not make it a sole source procurement.
- **Creation of Computer Database and Electronic Reports** – The contract amount was \$62,000. The contract summary sheet was marked as sole source, but only cited past contracts with vendor and excellent service provided. The services provided under this contract were for common programming tasks and therefore could have been provided by other vendors.

A review of procurement documentation and discussions with staff found that multiple quotes or bids were not solicited for several reasons. For example, contract summary sheets often cited past contracts and experience with vendors as justification for selecting the vendor. In addition, staff members indicated multiple quotes or bids were solicited, but documentation was not maintained; there was only one vendor that offered the desired product; the vendor was used previously; or time was a factor.

Seeking multiple quotes or bids is a best practice and helps

ensure the State receives the best value for goods and services purchased. In addition, internal control standards require entities to retain documentation to ensure effective and efficient use of resources.

The lack of multiple bids does not mean the Supreme Court did not obtain goods and services at a reasonable price. However, requesting and documenting the solicitation of multiple quotes or bids would help management ensure it received the best product at the best price. The Supreme Court's policies and procedures do not require staff to actively seek multiple quotes or bids, or document they were requested.

## **Procurement Procedures Not Always Followed**

The Supreme Court has developed procedures to help control its procurement activities. Our testing of over \$1.8 million in procurements of goods and services found that for the most part these procedures were followed. For example, all 10 procurements of goods tested received the proper approvals before being purchased, and payments were made after the execution of the contract for all procurements of services tested. However, we observed that staff did not always follow internal policies and procedures for procuring goods and services. Adequate controls and oversight of procurement activities is important to help ensure the Court receives those goods and services desired.

During our testing, we observed policies and procedures related to the procurement of goods and services were not always followed. Exceptions to the Court's policies and procedures included:

- **Contract Summary Sheets Not Used** – For 3 of 10 (30%) procurements of services tested, a contract summary sheet was not documented. Contract summary sheets are to be completed for original contracts and amendments. These summary sheets serve as a control by summarizing the purpose of the contract, the solicitation process used, the contract terms and maximums, and management approvals.
- **Receipt of Item Not Documented** – For 5 of 10 (50%) procurements of goods tested, receipt of the purchased item was not properly documented. The Court's

procedures require the packing slip to be signed by staff. In all five instances, the packing slip was not retained, or lacked signatures attesting to the receipt of the items purchased.

Internal policies and procedures require contract summary sheets be completed and two staff members' signatures be documented on the invoices for goods received. Enhancement of and compliance with existing policies and procedures will help ensure the Court receives those goods and services desired, and that its interests are protected.

### **Recommendations**

1. Revise policies and procedures to help ensure competitive bids or quotes are solicited when procuring goods and services, including documenting the rationale when a vendor is deemed sole source.
2. Monitor procurement activities to ensure compliance with policies and procedures.

# Peremptory Challenge and Filing Fees Deposited Properly

The Supreme Court has effective controls to ensure the timely deposit of peremptory challenge and filing fees. We tested 90 transactions and found these fees were deposited timely. However, additional controls are needed to reduce the risk of loss of these fees. Specifically, checks need to be restrictively endorsed immediately upon receipt, and recorded and reconciled properly. During fiscal year 2014, the Court received over \$565,000 in peremptory challenge and filing fees.

## **Additional Controls Needed to Safeguard Fees**

Although peremptory challenge and filing fees were deposited timely, additional controls are needed to properly safeguard these receipts. The Supreme Court receives peremptory challenge fees from district courts when a party to a case seeks a change in the judge hearing the case. Filing fees are collected when a special proceeding is brought to the Supreme Court, like an appeal. Key controls to log, restrictively endorse, and reconcile receipts were not performed or not performed timely. Our testing did not identify missing funds; however, additional controls over cash receipts are needed to help ensure they are not lost or stolen.

During our audit work, we tested 30 filing fee and 60 peremptory challenge fee transactions and found that for the transactions tested the correct fee amount was collected and deposited timely. However, we observed the following control weaknesses related to the receipt of these fees:

- **Fees Not Restrictively Endorsed Timely** – Peremptory challenge and filing fee checks or money orders are not restrictively endorsed immediately upon receipt. When Supreme Court personnel open mail containing these fees, the check or money order is date-stamped, but not restrictively endorsed. In the case of peremptory challenge

fees, a restrictive endorsement is not applied until the deposit is prepared, which can be several days after receipt.

- **Peremptory Challenge Fees Not Recorded Properly –**  
The receipt of peremptory challenge fees is not properly recorded. These fees are collected at the district courts and forwarded to the Supreme Court. Most peremptory challenge fees are received through the mail and contain a check or money order and case information. Once the mail is opened, the cash receipts are placed in a locked cash box until deposit. However, the person opening the mail does not record receipt of these fees. These fees are recorded several days later when the deposit is prepared.
- **Proper Reconciliation of Fee Deposits Not Performed –**  
As mentioned above, the person who initially receives the money does not record peremptory challenge fees received. Therefore, a proper reconciliation of cash receipts to deposits in the state accounting system cannot be performed. Furthermore, although filing fees are recorded in the Supreme Court's case management system, the receipt information in the case management system is not reconciled to deposits.

Standard internal controls over cash receipts require that checks and money orders be restrictively endorsed immediately upon receipt. In addition, they require cash receipts to be recorded and reconciled to deposits. When we discussed this issue with Supreme Court personnel, they agreed cash receipts need to be endorsed sooner, and properly recorded and reconciled to deposit information.

Although the Supreme Court's written procedures require cash receipts to be endorsed immediately, this was not done for peremptory challenge and filing fees. In addition, the Court's written procedures do not address properly recording peremptory challenge fees, or reconciling peremptory challenge and filing fees to deposit records. Improving controls over peremptory challenge and filing fee receipts will reduce the risk that these cash receipts could become lost or stolen, and not be detected by the Supreme Court.

### **Recommendations**

3. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
4. Revise written procedures to ensure fees are properly recorded and reconciled to deposits in the state accounting system.

# Controls to Safeguard Equipment Need Strengthening

The Supreme Court needs to strengthen its controls over equipment. We found the Court did not properly track its equipment, and as a result its equipment records were not accurate. In addition, the proper disposal of some equipment, such as computers and monitors, could not be verified. Adequate controls in these areas are important to help ensure equipment is properly safeguarded, including items with a high susceptibility to theft or loss, such as laptop computers. State property records indicate the total acquisition cost of items held by the Court is over \$4.1 million.

## **Tracking of Equipment Not Adequate**

The Court did not perform an annual inventory of equipment in its custody. According to the Court's records, its most recent inventory of information technology (IT) equipment was performed in February 2012, which was over 2 years ago. In addition, the Court did not have records of when the last inventory of non-IT equipment was performed. Nevertheless, our testing of equipment did not find significant problems. However, the Court has less assurance equipment is properly safeguarded, and that records are accurate when physical inventories are not performed.

As part of our testing of equipment, we reviewed the list of equipment recorded in the state's property records. We found some of the items listed were last inventoried over 10 years ago, according to the property records. Supreme Court staff stated the listing in the state's property records is not accurate and they have discussed the need to update the information.

Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized use or disposition of an entity's assets. Although the



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Supreme Court has developed policies and procedures regarding its equipment, they do not address an annual physical count of property and reconciliation to property records.

When physical inventories are not performed regularly, the Court has less assurance equipment is properly safeguarded and that records are accurate, especially equipment that has value and is portable. For example, four items selected and traced to the Supreme Court's IT equipment list were not recorded on the list. These items included two computer storage hardware devices and two printers. The Court paid about \$29,000 for these items.

### **Proper Disposal of IT Equipment Could Not Be Verified**

Our review of documentation related to the Court's disposal of IT equipment found discrepancies between the Court's disposal lists and the receipts provided by the entity receiving the equipment. For example, for one disposal, the Court's records showed 49 computers were included, but the receipt from the receiving entity showed only 29 were received. In addition, the Court does not have a receipt for one disposal documenting the entity received the equipment. Policies and procedures do not address the process needed to verify items approved for disposal were disposed of properly. Without adequate controls over the disposal of equipment, the Supreme Court's excess equipment could be stolen or given away improperly.

To test controls over IT equipment, we reviewed the Court's documentation associated with the three most recent disposals of IT equipment. For two instances, the number of computers, monitors, and printers documented on the Court's disposal list did not agree to the receipt provided by the entity to which the items were donated. For some items, the difference was substantial. For the third instance, a receipt from the entity to which the items were donated could not be located. Supreme Court staff acknowledges they do not reconcile surplus disposal records to disposal receipts and did not know why there were differences between the Court's list of approved items for disposal and the receipt from the entity receiving the items. We recognize that one possible explanation for the differences could be errors in the receipt prepared by the entity who received the item.

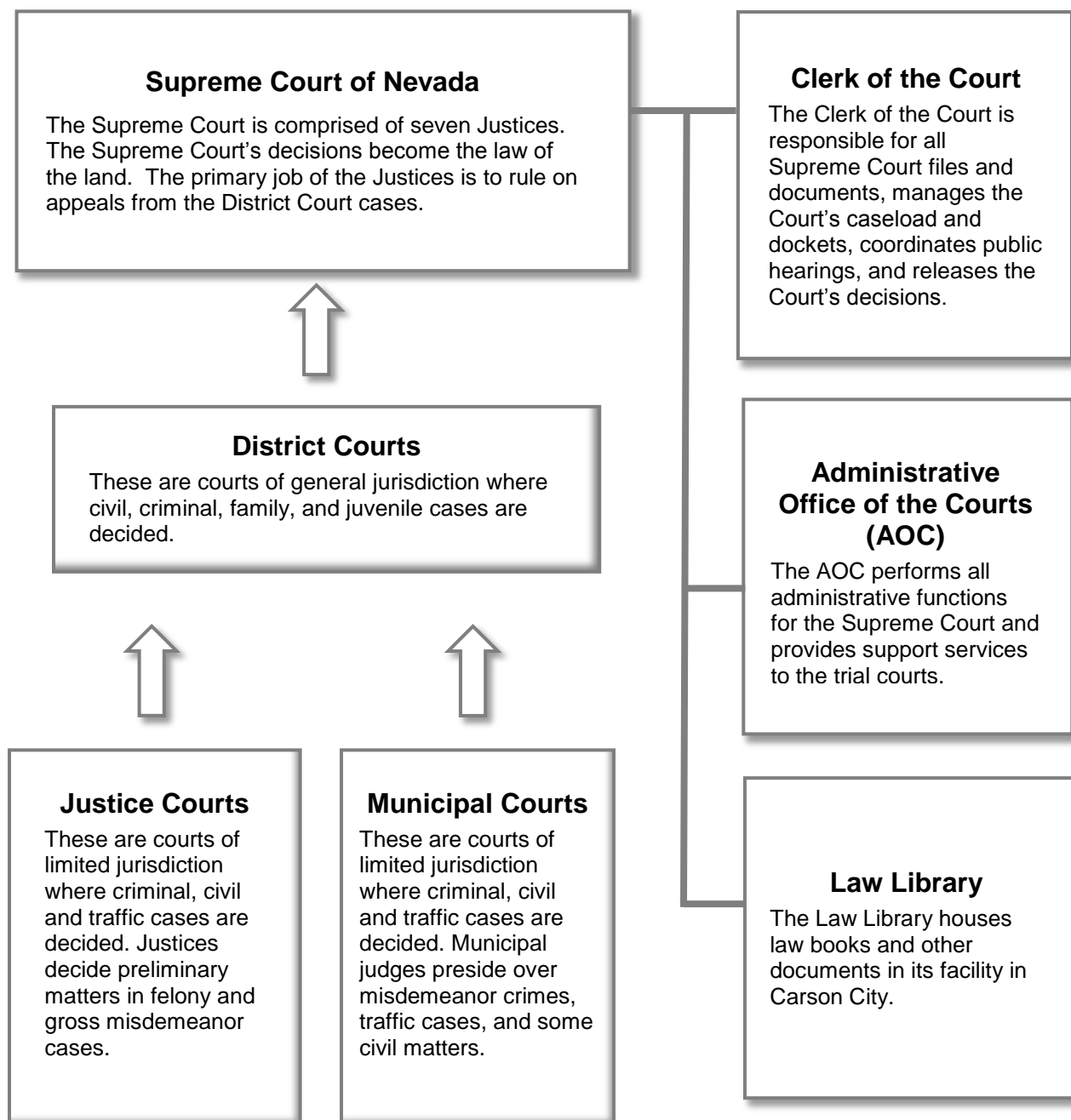
Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized use or disposal of assets. Although the Court has procedures regarding equipment disposal, they do not address the need to compare the receipt from the entity receiving excess equipment with the list of equipment approved for disposal.

### **Recommendations**

5. Perform an annual inventory of equipment, including reconciliation to equipment inventory records.
6. Enhance written procedures to ensure disposal of equipment is properly recorded and verified.

# Appendix A

## Organizational Chart of the Nevada Court System



Source: Supreme Court 2013 Annual Report.

# Appendix B

## Audit Methodology

To gain an understanding of the Supreme Court, we interviewed staff and reviewed statutes, and policies and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the Court's operations. Furthermore, we documented and assessed the adequacy of the Court's internal controls over its financial activities and equipment.

To evaluate if the Supreme Court has effective controls over the procurement of goods and services, we tested the Court's procedures for selecting vendors to acquire goods and services. We judgmentally selected a total of 20 vendors, 10 vendors for goods and 10 vendors for services. Our judgmental sample was based on the vendor payment amounts and vendor type for the 12 months ending March 31, 2014. When items are judgmentally selected, the test results cannot be projected to the total population of items.

For the 10 vendors tested that provided goods, we determined if the appropriate approvals and authorization were received; if multiple quotes were obtained or justification was documented for purchases deemed sole source; if the equipment was properly recorded on equipment inventory lists; and if payment to the vendor was made after approval by the appropriate manager.

For the 10 vendors tested that provided services, we determined if the program manager completed a scope of work and contract cover sheet and if verification of available funding was obtained; if there was a Request for Proposal (RFP) or multiple bids requested; if there was a written contract prepared, and the contract contained adequate provisions to protect the State; if the vendor was licensed in Nevada; a certificate of proof of insurance

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documented; and if payment to the vendor was made after the contract was executed.

To determine if the Supreme Court properly received and deposited peremptory challenge and filing fees, we randomly selected a total of 90 fees, 60 peremptory challenge fees, and 30 filing fees. For both the peremptory challenge and filing fees, we reviewed the Court's deposit documentation and verified the fee was correct, the payment was deposited, and deposited timely.

The peremptory challenge fees were selected from those submitted by the district courts in Carson City, Clark, and Washoe counties for the 12 months ending March 31, 2014. These three district courts were selected based on the percentage of challenge fees submitted by each district court to the total amount of challenge fees collected by the Supreme Court for the 12-month period.

To obtain some assurance the information provided by these three district courts was reliable, we requested each district court to provide a report of challenge fees they had sent to the Supreme Court. Next, we compared the number of challenge fees recorded in the district's report to the number of challenge fees deposited in the state accounting system. In addition, we reviewed with each district court their process used to compile the report.

For the 30 filing fees selected, we requested the Supreme Court generate a report of filing fees according to its electronic case management system for the 12 months ending March 31, 2014. To gain assurance that the filing fee report was reliable, we performed testing. The testing consisted of obtaining the deposit detail for filing fees from the Supreme Court for the 12 months ending March 31, 2014. We then judgmentally selected one case from each month and verified the deposit amount and date agreed to the state accounting system.

To determine if the Supreme Court has adequate controls to safeguard equipment, we selected a total of 60 pieces of equipment, 50 IT and 10 non-IT. For each piece of equipment, we physically verified that it was in the location listed in the equipment

inventory records, and that the serial number and asset number agreed to the records.

We selected the 50 pieces of IT equipment by requesting IT inventory records at the Court. Next, we analyzed the information and determined the percentage of computers assigned to each of the Court's three office locations. Based on the percentage of computers assigned to each location, we randomly selected the pieces of IT equipment to test.

To select 10 non-IT equipment items to test, we used the Court's equipment inventory records and judgmentally selected the items. Our judgmental selection was based on the age and type of the item, and its reported value. We selected the oldest items on the list and avoided duplicating the same type of item.

In addition to those pieces of equipment tested above, we judgmentally selected 15 pieces of IT equipment we observed in various Supreme Court offices during our testing. We then traced the items to the appropriate equipment inventory records. Our judgmental selection was based on the item's location relative to our testing of other equipment, type of item, and perceived value.

Our audit work was conducted from February to June 2014. 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.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Chief Justice of the Supreme Court. On August 27, 2014, we met with Supreme Court officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 20.

Contributors to this report included:

Todd Peterson, MPA  
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Rick Neil, CPA  
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Tom Tittle, CPA, CIA, CFE  
Deputy Legislative Auditor

# Appendix C

## Response From the Supreme Court of Nevada

SUPREME COURT OF NEVADA  
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201 SOUTH CARSON STREET  
CARSON CITY, NEVADA 89701-4702  
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September 9, 2014

Mr. Paul Townsend, CPA  
Legislative Auditor  
Nevada Legislature  
401 South Carson Street  
Carson City, Nevada 89701

Dear Mr. Townsend:

We appreciate the opportunity to respond to the report of the audit on the *Judicial Branch of Government, Supreme Court of Nevada*. We were pleased that the audit confirmed no indications of malfeasance or misappropriation of funds, and we appreciate the auditors' observations when noting that the Court has adequate financial controls in place.

Before we address your specific recommendations, we would like to express our concern with the auditors' sampling methods that can influence some of your conclusions. In Appendix B, you explain that the judgmental sampling method for this performance audit was an important element to the overall application of the audit findings to the remainder of our procurement and receipting efforts. Judgmental sampling has a different level of application than a random sampling effort. That is, because many of the items reviewed were judgmentally selected, the results cannot, and we believe should not, be projected to all the items as inferred in the key findings throughout the report and on the audit highlights page.

We generally support most of the recommendations enumerated in the report except one. For the remaining five, we have already made changes, reminded staff of policies and procedures, or commenced the process to implement changes based on the recommendation. The numbered responses below relate to your recommendations and the findings or comments therein.

**Recommendation 1.** Revise policies and procedures to help ensure competitive bids or quotes are solicited when procuring goods and services, including documenting the rationale when a vendor is deemed sole source.



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We reject this recommendation. First and foremost, the Judicial Branch is not required under the Nevada Constitution or State law to conform to the competitive bid process. While the auditors note it is best practice, they failed to provide any source for that opinion or that requires the Supreme Court to follow this recommendation.

Of the 20 contracts that were judgmentally selected, only 2 of those contracts would be subject to the Executive Branch procurement process. The audit report's discussion regarding one of the contracts has misrepresented the value of the contract in relation to the annual nature of the audit. This misrepresentation substantially increases the total amount included in the findings.<sup>1</sup>

The Supreme Court also disagrees with the consideration of two of these contracts as exceptions as we believe them to be sole source contracts. Both the government relations and computer programming contracts involve special legal and subject area knowledge including a high level of understanding of the Judicial Branch and related case processing among other topics. With the auditors' recognition of professional legal services and specialized work on computer systems as services that can qualify for the sole-source exception, it is incongruous why these two contracts are not considered sole source given the specialized knowledge needed by individuals for their work with the Judicial Branch.

For all purported deficiencies noted in the discussion of this recommendation, the auditors failed to demonstrate any financial loss or failure of the Supreme Court to receive the best product at the best price.

The Court will require competitive bids when the estimated price warrants such efforts.

**Recommendation 2.** Monitor procurement activities to ensure compliance with policies and procedures.

We accept this recommendation while noting that there was no malfeasance or misappropriated payments found in any of these findings. The few judgmentally selected contracts that had no contract cover sheet or documents without an additional signature of receipt are de minimis and not material. Furthermore, the contract cover sheet is purely an administrative tool designed to aid in the review and processing of contracts. The cover

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<sup>1</sup>Of note, the Consulting Services & Coordination with State and Local Governments contract in the amount of \$461,016 for 4 years, referenced on p. 6 of the audit report, is included in total while all other references to values in the audit are for annual costs. Additionally, if included as annual expenses, the approximately \$200,000 total for these three contracts is less than 1 percent of the Supreme Court budget. We should also remind readers that the Supreme Court budget is less than 1 percent of the total State General Fund.

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sheet does not affect the legality or performance of the contract nor the processing of payments under the contract for the work performed.

The Supreme Court acknowledges that in the few instances noted in the audit report, the staff erred in not following our internal procedures.

The Supreme Court will monitor procurement activities to ensure compliance.

**Recommendation 3.** Ensure checks and money orders are restrictively endorsed immediately upon receipt.

We accept this recommendation and have made changes to the processing to include restrictively endorsing checks immediately upon receipt as well as creating a log to record the receipt of checks.

**Recommendation 4.** Revised written procedures to ensure fees are properly recorded and reconciled to deposits in the state accounting system.

We accept this recommendation to revise our procedures and have made changes as noted in recommendation 3, including revision of the written procedures.

While recognizing that neither the Court nor the auditors found any evidence of loss, reconciliation of funds deposited against independently recorded information is important. As noted at the bottom of p. 10 of the audit report, the Court will determine how best to ensure that an independent record of peremptory challenge fees is submitted to the Court. We will also evaluate whether changes to the case management system can be made to improve the reconciliation of filing fees received.

**Recommendation 5.** Perform an annual inventory of equipment, including reconciliation to equipment inventory records.

We agree with this recommendation. Court staff will perform an annual inventory and ensure that equipment records are updated following the inventory.

**Recommendation 6.** Enhance written procedures to ensure disposal of equipment is properly recorded and verified.

We agree with this recommendation. Last fiscal year, the Court purchased new asset management software after reviewing and analyzing software from three vendors. Policies and procedures are being revised accordingly and the revision will include this recommendation.

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We appreciate the professionalism displayed by the auditors throughout the process. While asking questions and making recommendations, the conversations were positive and productive exchanges. Most of these recommendations have already been implemented by the Court staff who are committed to the maintaining the positive reputation of the Judicial Branch.

Respectfully,



MARK GIBBONS  
Chief Justice

cc: Tracie Lindeman, Clerk of the Court  
Robin Sweet, Director, Administrative Office of the Courts  
Deanna Bjork, Manager of Budgets

## Supreme Court's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Revise policies and procedures to help ensure competitive bids or quotes are solicited when procuring goods and services, including documenting the rationale when a vendor is deemed sole source.....	_____	_____X_____
2. Monitor procurement activities to ensure compliance with policies and procedures.....	_____X_____	_____
3. Ensure checks and money orders are restrictively endorsed immediately upon receipt.....	_____X_____	_____
4. Revise written procedures to ensure fees are properly recorded and reconciled to deposits in the state accounting system.....	_____X_____	_____
5. Perform an annual inventory of equipment, including reconciliation to equipment inventory records.....	_____X_____	_____
6. Enhance written procedures to ensure disposal of equipment is properly recorded and verified. ....	_____X_____	_____
TOTALS	_____5_____	_____1_____

# Appendix D

## Auditor's Comments on Supreme Court Response

The Supreme Court, in its response, does not agree with some of our findings and conclusions and rejected one recommendation. The following identifies areas of the report where the Court has some concerns. We have provided our comments on the issues raised in the Court's response to assure the reader that we believe our findings, conclusions, and recommendations, as stated in the report, are appropriate.

1. The Court in its response to the report expressed concern regarding our sampling methods. This primarily relates to the report section "Vendors Selected Without Competition." The Court states:

***In Appendix B, you explain that the judgmental sampling method for this performance audit was an important element to the overall application of the audit findings to the remainder of our procurement and receipting efforts. Judgmental sampling has a different level of application than a random sampling effort. That is, because many of the items reviewed were judgmentally selected, the results cannot and we believe should not, be projected to all the items as inferred in the key findings throughout the report and on the audit highlights page.***

(see page 20)

### Legislative Auditor's Comments

As reported on page 16 of the report, 20 vendors were judgmentally selected based on the vendor payment amounts (smaller amounts were excluded) and vendor type (vendors such as utilities were excluded since no solicitation of bids could be expected). In addition, we agree that judgmental sample selection does not allow the results to be projected to the total population, and no attempt to do so is found in the report. As stated on page 16, "When items are judgmentally selected, the results cannot be projected to the total population of items." However, this does not mean auditors are not able to use the results of judgmental samples to conclude on the practices and operations of an entity and show vulnerabilities in those areas. Generally accepted government auditing standards allow for the use of judgmental sample selection, and it is commonly used. Overall, auditing standards require that auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their conclusions. We believe the evidence gathered during our audit supports our conclusions.

2. The Court in its response to the report rejected Recommendation 1: "Revise policies and procedures to help ensure competitive bids or quotes are solicited when procuring goods and services, including documenting the rationale when a vendor is deemed sole source." The Court states:

***We reject this recommendation. First and foremost, the Judicial Branch is not required under the Nevada Constitution or State law to conform to the competitive bid process. While the auditors note it is best practice, they failed to provide any source for that opinion or that requires the Supreme Court to follow this recommendation.***

(see page 21)

### Legislative Auditor's Comments

As stated in our report on pages 6 and 7, seeking multiple quotes or bids is a best practice; however, the Supreme Court's policies and procedures do not require staff to seek multiple quotes or bids. This practice is universally recognized and used by local, state, and federal governments to help ensure they receive the best value for goods and services purchased. A best practice is a method or technique that has consistently shown results superior to those achieved with other means, and is used to maintain quality as an alternative to mandatory legislated standards. Developing policies and procedures regarding the solicitation of quotes or bids would help ensure Supreme Court staff procure goods or services that are the best value.

3. The Court in its response to the report section "Vendors Selected Without Competition" indicated the entire value of one contract should not have been reported and two contracts should not have been included as exceptions. The Court states:

***The audit report's discussion regarding one of the contracts has misrepresented the value of the contract in relation to the annual nature of the audit. This misrepresentation substantially increases the total amount included in the findings.***

***The Supreme Court also disagrees with the consideration of two of these contracts as exceptions as we believe them to be sole source contracts. Both the government relations and computer programming contracts involve special legal and subject area knowledge including a high level of understanding of the Judicial Branch and related case processing among other topics.***

(see page 21)

### Legislative Auditor's Comments

We believe the reporting of the entire contract amount is appropriate to help readers understand the full dollar amount awarded to the contractor. The scope of our audit was for a 12-month period, but that only affects the items we select for testing. It does not limit what we report regarding the nature of those items tested and possible effects.

Although the Court expressed concern regarding two contracts being reported as exceptions, the Court did not have sufficient documentation to show these two contracts were sole source. As indicated in the last two bullets on page 6 of the report, Supreme Court records cited justification for sole source as the vendors' expertise or knowledge in the area or excellent service provided on past contracts. This is appropriate information to consider when selecting a contractor; however, it does not mean that a vendor is the only source that can provide a service.