OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota State Court System

Fourth Judicial District
Seventh Judicial District

AUGUST 26, 2004 04-35

Financial Audit Division

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- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OLA

OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Kathleen A. Blatz, Chief Justice
Minnesota Supreme Court

We have audited selected areas of the Minnesota State Court System. Our audit scope was limited to selected receipts and county-benefited employee payroll expenditures in Judicial Districts 4 and 7. We reviewed the activity in District 4 for the period July 1, 2003, through March 31, 2004. We reviewed the activity in District 7 for the period July 1, 2002, through March 31, 2004. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the court system for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in the organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the court system's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the Minnesota State Court System complied with finance-related legal provisions that are significant to the audit. In determining the system's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the system's financial policies and procedures relevant to our audit scope. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. On a test basis, we examined evidence supporting the department's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 9, 2004

Report Signed On: August 24, 2004

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

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Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Minnesota State Court System on August 16, 2004:

Sue Dosal	State Court Administrator
Jeff Shorba	Deputy State Court Administrator
Judy Rehak	Senior Legal Counsel
Bruce Biser	Finance Director
Roger Volk	Fiscal Services Supervisor
Mike Byzewski	Internal Audit Manager
Marsha Unthank	Asst. District Administrator, District 4
Paul Chaussee	Accounting Manager, District 4
Gregory Solien	District Administrator, District 7

Report Summary

Key Findings:

- The court system did not adequately monitor or pursue collection of accounts receivable. (Finding 1, page 9)
- District 7 did not monitor the adequacy of collateral for local bank accounts, resulting in noncompliance with statutory requirements. (Finding 4, page 10)
- District 4 did not adequately control or monitor access to private employee data kept on Hennepin County's payroll system. (Finding 6, page 15)
- The court system did not always promptly deposit and record receipts. (Finding 2, page 9)
- Some District 7 employees can adjust cases and post receipts in the case tracking system, which does not provide for an adequate separation of these duties. (Finding 3, page 10)

The report contained nine findings relating to internal control and legal compliance.

Audit Scope:

Audit Period:
District 4: July 2003 - March 2004
District 7: July 2002 - March 2004

Programs Audited:
Districts 4 and 7

- Selected receipt activity
- County-benefited employee payroll expenditures

Agency Background:

Minnesota's state court system includes trial courts, the Court of Appeals, and the Supreme Court. Our audit focused on selected trial court financial activities.

Trial courts are organized into ten judicial districts. Hennepin and Ramsey counties each are their own judicial districts, and the remaining eight districts include from 4 to 17 counties.

The responsibility for funding and managing trial courts began shifting from the counties to the state in 1989.

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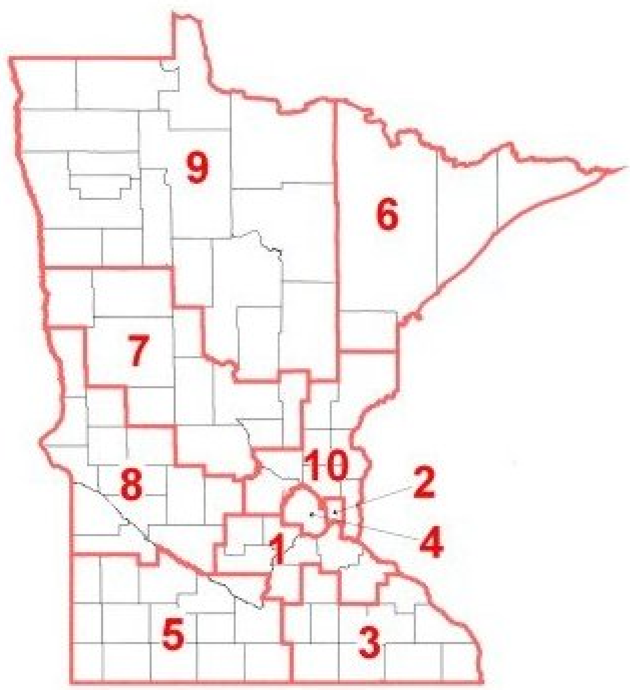
Chapter 1. Introduction

Minnesota's state court system includes trial courts, the Minnesota Court of Appeals, and the Minnesota Supreme Court. This audit focused on two financial processes within the trial courts: receipts and county-benefited employee payroll expenditures. We chose these areas because of the risks they pose to trial court operations and because they are processes common to most districts. We audited these functions in Districts 4 and 7. Although our audit reviewed only a small portion of the court system's operations, the court should consider this report's findings and recommendations to assess the adequacy of receipt and county-benefited payroll processes in other districts.

Minnesota's Ten Judicial Districts



The trial courts are organized into ten judicial districts. District boundaries follow county lines and serve as election districts for the judges. Hennepin and Ramsey counties each are their own judicial district, and the remaining eight districts include from 4 to 17 counties. About 275 trial court judges hear cases in Minnesota's 87 counties.

The responsibility for funding and managing trial courts began shifting from the counties to the state in 1989. The goal of the state assumption of the responsibility for trial courts is to provide a more consistent, equitable level of judicial services throughout the state in a more cost-efficient manner. District administration, law clerks, and court reporters gradually transferred to the state after 1989. A pilot project also transferred responsibility for all court administrative functions in the 8th judicial district to the state. The 1999 Legislature approved the state taking administrative and financial responsibility for additional district court costs. On July 1, 2000, the state began funding trial courts in the 5th, 7th, and 9th judicial districts. Districts 2 and 4 became state-funded on July 1, 2003, and Districts 1 and 3 transitioned on July 1, 2004. The final two districts, Districts 6 and 10, are scheduled to become state-funded on July 1, 2005. To finance the transition, the state reduced some state aid payments to counties and retained court imposed fine revenue previously directed to the counties.

Minnesota State Court System

Due to their physical locations within county government buildings and their past integration with county government operations, many trial courts continue to share services with county governments after they transition into the state court system. For example, courts often share janitorial services and continue to use space provided by county government. These shared services arrangements are sometimes not formally negotiated or documented. The state court administrator's office or the district court administrators should review the extent of shared services and determine whether there are formal agreements in place. Anticipating the need for continued sharing of county/court services, District 4 and Hennepin County began working on an agreement about a year before the transition of District 4 into the state court system. Complicated negotiations over information technology services, however, delayed the signing of the agreement until almost a year after the district became state funded. As other districts transition into the state court system, they should begin negotiating shared service agreements with county governments well in advance of the transition date.

The court system is also making a significant technology change. In 2003, the court began to implement the Minnesota Court Information System (MNCIS), which will link court records across the state and significantly improve the collection, storage, tracking, and sharing of court information, including financial activity. The court's plan to have all 87 counties using MNCIS by the end of fiscal year 2007. Because of this technological change, we did not directly review the court's current information systems, including the Trial Courts Information System.

Chapter 2. Receipts

Chapter Conclusions

Districts 4 and 7 adequately safeguarded receipts. The districts recorded all receipts in the appropriate software systems and the state's accounting system. The districts allocated receipts to local and state governments based on calculations by the Trial Court Information System or other designated software system. However, the court system did not adequately monitor, resolve, and report accounts receivable, as noted in Finding 1. In addition, the court system did not always comply with legal provisions over prompt depositing, and District 7 did not comply with statutory collateral requirements, as noted in Findings 2 and 4. Finding 3 discusses how District 7 did not adequately restrict and control access to one of its computer systems. Finally, as explained in Finding 5, the court did not control the contracts for District 7's local bank accounts.

Audit Objectives

We focused on the following questions in our review of receipts:

- Did the districts adequately safeguard and properly deposit trial court receipts?
- Did the districts accurately record all receipts in the Trial Court Information System or other designated software system?
- Did the districts accurately record all receipts collected by the trial courts in the state's accounting system?
- Did the districts allocate receipts to local and state governments based on calculations by the Trial Court Information System or other designated software system?
- Did the districts comply with significant finance-related legal provisions, specifically those provisions related to prompt depositing and bank account collateral requirements?
- Did the districts adequately follow up on accounts receivable?

Background

The trial courts collect fees, fines, and surcharges.

- A fee is a payment to the court for a service it provides. State statutes specify the types and amounts of fees the court can charge. For example, the court charges a fee for providing copies of documents and for determining if someone is chemically dependent. Statutes specify that every person who transacts business in the district court shall pay to the court administrator the established fees.

- A fine is a charge for violating some law or provision.

- A surcharge is an addition to a fee or fine. Statutes authorize the court to add surcharges to fines for criminal and traffic offenses.

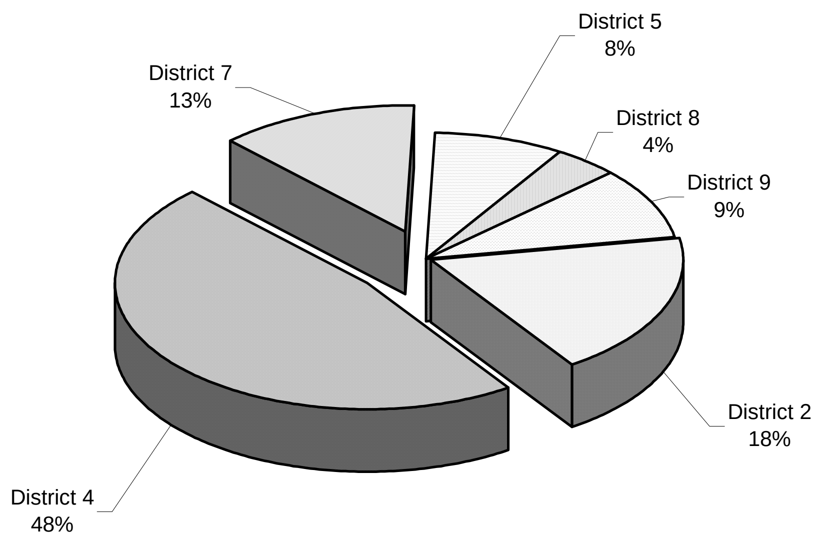
Although statutes established these fees, fines, and surcharges, the judges ultimately use their discretion to assess fees, fines, and surcharges for the cases they hear. Judges can even waive those charges.

The Conference of Chief Judges recently developed a priority of payments schedule to guide the allocation of partial receipts of various fees, fines, and surcharges. Typically, district and county level court staff had made these posting decisions; restitution often was the highest priority, but the posting of other fines, fees, and surcharges varied. To address this inconsistency, the judges agreed to the posting priorities and included them in the receipt component of the new Minnesota Court Information System. Until the new system is operational, the court has the option of using the judges' priority posting schedule or continuing their current practices.

The State Court Administrator's Office updates and distributes a "Payables List" each year. This list shows the specific fine amounts established by the Legislature. Usually, these fines are for lower level traffic and licensing violations, which are petty misdemeanors or misdemeanors. These violations do not result in court appearances and are generally uncontested. Some examples are missing lights on a trailer, nonworking headlights, or not displaying a school bus inspection certificate.

For the six judicial districts that were state funded, Figure 2-1 shows each district's percentage of receipts collected and recorded on the state's accounting system between July 1, 2003, and March 31, 2004.

Figure 2-1
Minnesota State Court System
Fines, Fees, and Surcharges[1]
State Funded Districts
July 1, 2003, through March 31, 2004



Note 1: Since these six judicial districts were state funded as of July 2003, they recorded all receipts on the state's accounting system. The four county-funded districts are not included in this chart because only the state share of their receipts is recorded on the state's accounting system. Thus, the data is not comparable.

Source: State of Minnesota accounting system.

District 4 Receipts

The Fourth Judicial District provides court services in Hennepin County. From July 1, 2003, when the district became integrated into the state court system, through March 31, 2004, District 4 recorded $39,773,284 in fees, fines, and surcharge revenue. This was about 48 percent of the total fees, fines, and surcharge revenue during this time. More than half of the amount recorded by District 4 was from traffic and criminal fines.

District 4's main receipt collection sites were in the Hennepin County Government Center in downtown Minneapolis. The largest point of receipt collection is the center's Public Service Level. The district also has three suburban locations. Customers can pay in person, through the mail, by credit card, or by electronic payment.

The Public Service Level is divided into two sections, civil and traffic/criminal. The civil section collects fees charged for civil court services. The traffic/criminal section collects fines that have been assessed based on statutory citation or court judgment. In the civil section, most customers pay in person, and court employees record the receipts on a cash register. Each cash register button represents a specific type of fee. At the end of the day, employees run a program that totals receipts by fee type.

The traffic/criminal section has eight cash registers. The majority of receipts arrive by mail. Each cash register is programmed with two software packages, one that records information from outstanding citations and one that records fines determined by court judgments. To record a receipt, the cashier enters the citation or case number, and the register displays the associated charges and the amount of the fine. The cashier then records the type and amount of fines collected from the customer. At the end of the day, the software totaled the receipts by type. The cashier compared the receipts collected to the totals calculated by the register. A second person prepared the bank deposit. The district then deposited the funds into a state depository bank account and recorded the receipts in a clearing account on the state's accounting system.

Each month, the district allocated the receipts to the state and local governments as directed by state statute. The district entered the payments in the state's accounting system, which moved the receipts to the appropriate state accounts or generated a payment to the local government. The district accounting department also recorded on a spreadsheet all receipts by source and reconciled the amount collected to the amount disbursed.

District 7 Receipts

Each of the ten counties in District 7 has a Trial Court Administrative Office that collects court fees, fines, and surcharges. From July 1, 2003, through March 31, 2004, District 7 recorded $10,815,773 in fees, fines, and surcharge revenue, about 13 percent of the total fees, fines, and surcharge revenue during this time. We reviewed the receipt collection process at the court offices located in Stearns ($3,304,812), Morrison ($865,501), and Benton counties ($721,960).

The Stearns County court has two collection points, one for civil and one for criminal/traffic. The Morrison County and Benton County courts each have one collection point. Employees in these offices recorded the receipts on the Trial Court Information System. Each day, an employee in each of the offices compared the receipts posted in the system to the actual cash, checks, and credit card receipts collected from customers. Employees then deposited the funds into a local bank account. After the end of each month, the county courts reported the monthly receipts to the District Court Administrator's Office and sent a check to the State Court Administrator's Office in St. Paul. The State Court Administrator's Office deposited the receipts into the state's main bank account and recorded the receipts in a clearing account on the state's accounting system. The District Office then allocated the receipts to state and local governments based on reports produced by the Trial Court Information System and recorded the transactions on the state's accounting system, which moved the receipts to the appropriate state accounts or generated a payment to the local government.

As explained in Findings 1 through 5, the court system had some weakness in their receipt processes.

1. The court system did not adequately monitor, resolve, and report accounts receivable.

Neither District 4 nor District 7 had standardized practices for the collection of accounts receivable balances. The Trial Court Information System did not have good accounts receivable tracking capabilities. In addition, the districts had not determined the practices it should use to monitor or pursue collection of accounts receivable. Lacking consistent procedures and guidance, district and county court level employees pursued collection of accounts receivable inconsistently. Without a consistently applied process for pursuing overdue accounts, the court may not have maximized its revenue. The court's new information system (MNCIS), which will not be implemented throughout the court system for several years, should provide better summary accounts receivable information. However, the court will still need to determine how best to pursue those receivables.

In addition, based on its understanding of Department of Finance requirements, the court had not reported its accounts receivable to the Department of Finance for inclusion in the state's financial statements. The court should work with the Department of Finance to determine if an estimate of the receivable amount is required for financial reporting purposes.

Recommendations

- *The court should establish a process for monitoring accounts receivable and pursuing overdue accounts.*

- *The court should work with the Department of Finance to determine whether it needs to estimate its accounts receivable for financial reporting purposes.*

2. The court system did not always promptly deposit and record receipts.

Certain court administrative offices did not always promptly deposit receipts and promptly record the transactions in the state's accounting system. For example, the juvenile department of District 4's civil division deposited receipts three times per week. In addition, we found depositing delays in both Morrison and Benton counties of District 7. Morrison County had seven depositing delays in the three months tested where receipts were not deposited until two days after collection; Benton County had three such instances in the four months tested. Also, the State Court Administrator's Office deposited receipts twice a week. Daily receipts at these locations usually exceeded $1,000. Statutes require that an agency daily deposit receipts totaling $250 or more. By not complying with this provision, the court system increases the risk of loss from theft or misappropriation.

District 4 did not always timely record receipt transactions in the state's accounting system. The accounting department did not record the transactions until two to three days after the actual deposit, after it verified the posting on the bank's records. The recording of the deposit on the state's accounting system is the transaction that notifies the state treasury division that funds are in the depository account, waiting to be swept into the state treasury for optimal investment returns. By delaying this transaction, District 4 allowed the depository bank to earn investment income that would have accrued to the state.

Recommendations

- *The State Court Administrator's Office and Districts 4 and 7 should deposit the receipts daily when the receipts are greater than $250, as required by statute.*

- *District 4 should timely enter receipt transactions in the state's accounting system.*

3. District 7 did not adequately restrict access to one of its computer systems.

In the three District 7 counties we visited, some employees had access to cash and had a security profile on the Trial Court Information System that allowed them to adjust the account receivable records. These employees could eliminate or adjust an accounts receivable balance and keep the money without detection. Good internal control over receipts would normally separate accounting duties from cash handling duties. Usually, the employees who had this incompatible security profile did not have the job responsibilities to adjust the accounts receivable records and handle receipts, but a few employees did have both the job responsibilities and the security clearances. Having employees with incompatible security profiles increases the risk that errors or irregularities may not be prevented or detected.

We also found two instances where District 7 did not terminate access to the Trial Court Information System for nonstate employees after they no longer needed it. Both employees had update access to the system because they had performed cashiering duties for the court. However, when they no longer performed those duties, the court did not remove their access.

Recommendations

- *District 7 should adequately separate duties and ensure that the computer system security maintains this separation of duties.*

- *District 7 should limit computer system access to only those employees who need it to perform their job functions.*

4. District 7 did not monitor the adequacy of collateral for local bank accounts, resulting in noncompliance with statutory requirements.

The court bank accounts in Morrison and Benton counties were not secured by adequate collateral, as required by statute. Court employees did not monitor whether the banks provided statutorily required collateral for the bank account balances. Statutory provisions establish collateral requirements on all bank accounts holding state funds when the balances exceed the federal depository insurance amount ($100,000). The court's local bank account in Benton County did not have sufficient collateral at any time during the 60 days tested in 2004, sometimes falling short of the required amount by over $110,000. The court's local bank account in Morrison County only had sufficient collateral on 10 of the 60 days tested in 2004. At times, collateral was short of the required amount by over $70,000.

Recommendation

- *District 7 should monitor collateral on local bank accounts to ensure compliance with the statutory provisions.*

5. The court did not control the contracts for District 7's local bank accounts.

District 7 and other court administrators did not know the terms and conditions of the court's local bank accounts. The local bank accounts are not state depository accounts and are not established by the Department of Finance's Treasury Division. However, these accounts are state bank accounts subject to various requirements. For example, the agreement with the local bank should include the statutory collateral requirements and define the bank's responsibilities to report collateral changes. Also, the agreement should address how the bank will charge credit card processing costs. For example, the local bank account used by the court in Stearns County bills the court for credit card processing costs that exceed the earnings of the account.

In addition, employees who review the bank statements should know the terms of these agreements to ensure that the bank complies with various provisions such as bank service fees.

Recommendations

- *The state court administrator's office and/or the district court administrators should provide guidance about the terms and conditions for local bank accounts.*

- *The district court should ensure that local banks comply with the terms and conditions of these agreements.*

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Chapter 3. County-benefited Employee Payroll Expenditures

Chapter Conclusions

Districts 4 and 7 generally ensured that counties paid county-benefited employees the authorized amount and, in District 7, that the request for reimbursement reflected the authorized amount. However, as explained in Finding 7, District 4 did not adequately review payroll reimbursements to Hennepin County for county-benefited employees. District 4 also did not adequately monitor access to its employee data kept on the Hennepin County payroll system, as discussed in Finding 6.

District 7 did not routinely monitor leave balances and leave activity for county-benefited employees in a county, as noted in Finding 8. Finally, Finding 9 discusses the lack of review and authorization of a District 7 court administrator's timesheet.

Audit Objectives

We focused on the following questions in our review of county-benefited employee payroll expenditures:

- Did the court system properly review and authorize county-benefited payroll expenditures before reimbursing counties?
- Did the court system ensure that counties paid county-benefited employees the authorized amount and that the request for reimbursement reflected the correct amounts?
- Did the court system accurately reimburse counties and properly record the transactions in the accounting system?

Background

As district courts transitioned from county to state funding, county court employees became state court employees. Statutory provisions allowed these employees to retain the benefits provided by the county (county-benefited employees) or elect a new set of benefits provided by the state. Employees considered differences in benefits such as leave accruals, insurance coverage, and severance packages when making the decision. Employees also had the option to keep their pension in the Public Employees Retirement Association or transfer their pension to the Minnesota State Retirement System. Employees who initially elected to retain county benefits had a one-time option to revoke that decision and become state benefited. Also, all subsequently hired employees were state employees. Thus, due to retirements, resignations, and county-benefited employees choosing to become state benefited, the number of county-benefited employees decreases over time. For example, District 8, which became part of the state court system in the early 1990s, no longer has any county-benefited employees.

Regardless of whether employees chose state or county benefits, the state funded the cost of all payroll and benefits. County-benefited employees remained on the county payroll systems and received their payroll checks through the counties. Each district reimbursed the counties through the state's accounting system and uniquely coded the payments to identify them as payroll and benefit reimbursements.

District 4 County-benefited Employee Payroll

District 4 became state funded on July 1, 2003. As of May 2004, over 200 of District 4's nearly 600 employees had elected to retain their Hennepin County insurance and leave benefits.

District 4's human resources staff worked with the Hennepin County human resources and payroll staff to process the district's county-benefited employee payroll. The district's staff entered its employee salary information into the county's payroll system and forwarded all insurance election forms to the county for processing. The county's payroll system included an electronic timesheet. The district's county-benefited employees entered the hours worked and leave taken on the electronic timesheets, and their supervisors approved the information on-line. Certain county-benefited employees, such as court reporters, referees, and judicial clerks, submitted paper timesheets to their supervisors for approval. The district then forwarded the paper timesheets to the county for entry into the payroll system.

Each month, District 4 reimbursed Hennepin County for the county-benefited employee payroll expenditures. The district based the reimbursement on the county's general ledger system. Payroll data from the county's payroll system interfaced into the county's general ledger, and the county set up a separate fund to track the district's payroll expenditures. The district's accounting staff paid the reimbursement using the state's accounting system. During the nine months from July 2003 through March 2004, the district reimbursed the county over $11 million, about $1.2 million per month.

District 7 County-benefited Employee Payroll

District 7 became state funded on July 1, 2000. As of May 2004, only two of the ten counties within this district had county-benefited employees. The court offices in Becker County had three county-benefited employees; the court offices in Stearns County had ten county-benefited employees. The district reimbursed these counties about $56,000 each month.

Two of the county-benefited employees paid by Stearns County were court reporters. The union agreements made significant changes in leave benefits after court reporters became state employees. Court reporters who chose to retain Stearns County benefits did not earn vacation leave but received paid time off whenever the judge was absent. Court reporters who chose state benefits earned vacation leave according to state policy and were expected to use it whenever they were absent from work for reasons other than holidays and sick days. This difference led to some administrative difficulties. The district continues to address these concerns.

Stearns and Becker counties processed the payroll and human resources transactions for District 7's county-benefited employees. District 7's human resources employees notified the counties and the district's finance personnel of payroll and human resources changes, such as pay increases. County-benefited employees prepared timesheets to document hours worked and leave taken. Supervisors reviewed the timesheets and forwarded them to the counties for input into the counties' payroll systems.

After paying the employees, the counties requested reimbursement for the payroll and benefit costs for the county-benefited employees. Before reimbursing the counties, a District 7 finance employee reviewed the reimbursement requests and compared them to prior requests on an employee-by-employee basis. When there were differences, the finance employee reviewed the payroll and human resources changes initiated by district human resources employees to determine if the differences were authorized.

At court offices in Stearns County, supervisors of county-benefited employees received leave reports from the county. The supervisors compared the leave usage recorded on the timesheets to the leave usage recorded on the county's payroll system to ensure that the county processed the payroll appropriately. At court offices in Becker County, supervisors did not routinely perform this same review, as noted in Finding 8.

Districts 4 and 7 had several weaknesses in their controls over the processing of county-benefited employee payroll.

6. District 4 did not adequately control or monitor access to private employee data kept on Hennepin County's payroll system.

District 4 did not adequately control or monitor access to private data about county-benefited employees kept on Hennepin County's payroll system. Judicial rules over public access to court data define all employee data as private, except for certain information such as employee name and actual gross salary. Counties that process payroll transactions for county-benefited employees often have this private data on their county payroll systems.

District 4 administrators did not know who had access to view and update the district's county-benefited employee data. Some of the information on the county payroll system, such as social security numbers and home addresses, is private but was inappropriately available to many county employees. Prompted by our audit inquiries, the district requested access information from Hennepin County. The county reported that 131 of its employees had access to private court employee data, and that 83 of these employees had no business purpose requiring that access. The district should evaluate the county's assessment of the business need for county employee access and further restrict access if necessary.

In District 7, the two counties that processed county-benefited employee payroll also had private employee data on their payroll systems, but we did not determine whether the court ensured that those counties adequately restricted access to this data.

As an employer, the court has the responsibility to ensure that private data about its employees is available only to people who need it to perform their job responsibilities. The court should incorporate data access and private data provisions into its shared services agreements with the counties. The court should periodically review access to private employee data to ensure that access is only allowed to those employees with a demonstrated business need.

Recommendations

- *District 4 should work with Hennepin County to restrict access to the district's employee payroll data.*

- *The court system should work with all counties that have private data about state employees on their payroll systems to ensure that the counties restrict access to this data to employees with a business need.*

7. District 4 did not adequately review payroll reimbursements to Hennepin County for county-benefited court employees.

The district's accounting office did not verify the integrity of the payroll expenditures on the county's general ledger reports. The district used summarized county general ledger reports as a basis for payroll reimbursement to the county. District accounting personnel relied on the various district managers to review detailed electronic payroll reports that listed the specific employees paid. Certain managers reviewed these payroll reports in detail, while others did not. At a minimum, the district's accounting office should work with its human resources office to identify any unusual trends in the county's general ledger reports.

Recommendation

- *District 4 should verify the integrity of the Hennepin County general ledger payroll data before it reimburses the county for state employee payroll and benefits.*

8. District 7 did not routinely monitor the leave activity for county-benefited employees in Becker County.

District 7 did not regularly obtain leave reports from Becker County. Therefore, it did not routinely monitor the leave activity for these county-benefited employees to ensure that leave recorded on the timesheet and authorized by the supervisor was deducted from the employee's leave balance by the county. Without this monitoring, the district could not ensure that employees' leave balances were appropriately adjusted for leave used.

Recommendation

- *District 7 should routinely monitor the leave activity of county-benefited employees to ensure that the leave recorded on the timesheet and authorized by the supervisor is being deducted from the employee's leave balance.*

9. The District 7 court administrator did not authorize the timesheet for the court administrator in Becker County.

The District 7 court administrator did not review and authorize the timesheet for the court administrator in Becker County. The court administrator in Becker County was county-benefited and paid through the Becker County payroll system. Therefore, the court system forwarded the timesheet to the county for input into the county's payroll system. The district court administrator reviewed and authorized the timesheets for all other court administrators. Good controls require that someone review and authorize the timesheets of employees to ensure that employees accurately recorded time worked and leave taken.

Recommendation

- *The District 7 court administrator should review and authorize the timesheet for the court administrator in Becker County.*

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Status of Prior Audit Issues
As of June 9, 2004

Prior Financial Audits and Program Evaluations

March 3, 2004, Legislative Audit Report (Report 4-08) focused on the CriMNet project for the period July 1, 1995, through December 31, 2003. CriMNet is the state's project to integrate various information systems to allow for the sharing of data by local law enforcement, the court system, and the state's correctional system. The Minnesota Court Information System (MnCIS) is a part of the CriMNet system. The audit scope included professional/technical contracts, grants, payroll, equipment, and other administrative expenditures. In addition to the financial audit, the Legislative Audit Commission directed the Legislative Auditor's Office to conduct a program evaluation of CriMNet. **March 2004 Evaluation Report on CriMNet (Report 04-05)** evaluated the status of information integration to date; the extent to which state agency integration projects have met time, cost, and result expectations; and how well the CriMNet program as a whole has been managed.

March 1, 2002 Legislative Audit Report (Report 2-12) focused on selected Supreme Court activities for the period July 1, 1997, through June 30, 2001. The audit scope included attorney registration fees, payroll, grants, rent, purchased services, supplies, equipment, travel, and other operating costs. The report contained three findings. We did not review the status of these findings since our current audit scope only included selected trial court financial activities.

THE SUPREME COURT OF MINNESOTA
MINNESOTA JUDICIAL CENTER
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August 20, 2004

Mr. James Nobles
Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

This letter conveys our response to the final audit report of the state court system we received dated August 20, 2004.

We appreciate the opportunity to respond to the findings and recommendations included in your report. Your audit covered selected receipts and county-benefited employee payroll expenditures in Judicial Districts 4 and 7 and the State Court Administrator's Office for the periods July 1, 2003, through March 31, 2004, and July 1, 2002, through March 31, 2004, respectively.

We found the information in your report and in the exit conference to be very informative and helpful in our continuing transition to a fully state funded Judicial Branch.

Listed below are your findings and the Judicial Branch's plan to implement the recommendations.

Sincerely yours,

/s/ Sue K. Dosal

Sue K. Dosal
State Court Administrator

C: Hon. Kathleen A. Blatz, Chief Justice
Hon. Dennis Murphy, Conference of Chief Judges Chair

MINNESOTA SUPREME COURT

Finding 1: The court system did not adequately monitor, resolve, and report accounts receivable.

Response: The Minnesota Court Information System (MNCIS) is designed to provide better tracking of accounts receivable and to assist in more aggressive collection practices. In the interim, courts monitor accounts using tools available. Courts use the Trial Court Information System (TCIS) month-end Special Account Status Report and the Special Account Exception Report to monitor accounts. These reports provide a list of the original amounts for fines, court costs, surcharges, and restitution that each participant owes, total amount of payments made, aging, and remaining balances. As part of the collections process, the courts employ a variety of methods such as sending out delinquent notices, suspending driver's licenses, issuing warrants, and referring accounts to the Minnesota Department of Revenue for revenue recapture.

The Fourth Judicial District runs an annual report of all accounts receivable and pursues collections as prescribed by existing policies. In the Seventh Judicial District, Stearns County also submits claims to the Minnesota Collection Enterprise. Since tickets are not receipted through special accounts, a system generated "Pay or Appear" notice is produced

The State Court Administrator's Office (SCAO) Finance Division has recently hired a statewide banking and collections analyst to assist in standardizing collection policies and practices throughout the court system. Collections policies are being revised to give guidance and clarify effective practices that reflect Judicial Branch philosophies.

No automated summary reports of accounts receivable data exist currently. However, the Finance Division will work with the Department of Finance to determine an acceptable method to report accounts receivable for inclusion in the state's financial statements.

Persons responsible for resolving finding: Bruce Biser, SCAO Director of Finance (policies and state financial statements), Mark Thompson, Fourth Judicial District Administrator, Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: Policy revision, 12/31/04; State financial statement input, 9/30/04; Appropriate TCIS usage (Seventh Judicial District), Done.

Finding 2: The court system did not always promptly deposit and record receipts.

Response: District courts and SCAO will revise their practices so deposits are made on a daily basis when balances are over $250 and receipts are recorded into the Minnesota Accounting and Procurement System (MAPS) when a day's business is reconciled (usually the following business day).

Banking policies are being revised to give guidance and clarify effective practices that reflect Judicial Branch philosophies.

Persons responsible for resolving finding: Bruce Biser, SCAO Director of Finance (banking policy and SCAO deposits), Mark Thompson, Fourth Judicial District Administrator, Greg Solien, Seventh Judicial District Administrator

Expected date issue will be resolved: Policy revision, 12/31/04; Appropriate district and SCAO accounting practices, 8/31/04

Finding 3: District 7 did not adequately restrict access to one of its computer systems.

Response: Although the adjustment of payout transactions, end of day balancing, and month end reporting processes can be restricted to certain finance staff, TCIS does not have the ability to give partial access. All employees who have the most limited access to TCIS have the ability to receipt. MNCIS will alleviate this problem as each job function will be restricted to a separate security right.

Many local court offices have a small number of court staff. Job responsibilities will be re-examined in all districts and, if feasible, accounting and receipting duties will be segregated. In addition, periodic monitoring by supervisory staff will be instituted to review transactions. Non-state employees in the Seventh Judicial District who no longer need TCIS access will have their access terminated.

Persons responsible for resolving finding: Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: Done. We will also be addressing the same TCIS issue in all other county courts.

Finding 4: District 7 did not monitor the adequacy of collateral for local bank accounts, resulting in noncompliance with statutory requirements.

Response: The Finance Division will provide guidance and oversight to the districts and counties in establishing and monitoring adequate collateral levels.

Persons responsible for resolving finding: Bruce Biser, SCAO Director of Finance (banking policy), Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: Policy revision, 12/31/04; Appropriate Seventh Judicial District accounting practices, 12/31/04.

Finding 5: The courts did not control the contracts for District 7's local bank accounts.

Response: The Finance Division will work with the district and counties to negotiate contracts with local banks. Appropriate documentation will be included in banking policies and a statewide contract considered.

Persons responsible for resolving finding: Bruce Biser, SCAO Director of Finance (banking policy), Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: 12/31/04.

Finding 6: District 4 did not adequately control or monitor access to private employee data kept on Hennepin County's payroll system.

Response: The Fourth Judicial District has received and evaluated the list of Hennepin County staff with access to court staff private data. Access was removed for Hennepin County staff with no business need for access to court staff private data pursuant to the Court's data privacy rules.

Persons responsible for resolving finding: Mark Thompson, Fourth Judicial District Administrator.

Expected date issue will be resolved: Done.

Finding 7: District 4 did not adequately review payroll reimbursements to Hennepin County for county-benefited court employees.

Response: The Fourth Judicial District will audit Hennepin County payroll reports of court county-benefited employees monthly to verify staff expense reimbursements to Hennepin County.

Persons responsible for resolving finding: Mark Thompson, Fourth Judicial District Administrator.

Expected date issue will be resolved: *Done.*

Finding 8: District 7 did not routinely monitor the leave activity for county-benefited employees in Becker County.

Response: There are only three county-benefited court employees in Becker County. The district will now monitor leave accruals, usage, and balances for county benefited court employees.

Persons responsible for resolving finding: Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: Done.

Finding 9: The District 7 court administrator did not authorize the timesheet for the court administrator in Becker County.

Response: The district administrator or delegate now reviews and authorizes the timesheet for the Becker County Court Administrator.

Persons responsible for resolving finding: Greg Solien, Seventh Judicial District Administrator.

Expected date issue will be resolved: Done.