

Financial Audit Division Report
Minnesota Judicial Branch
July 1, 2004, through June 30, 2005



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1235 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Chief Justice Russell A. Anderson, Chair
Minnesota Judicial Council

We conducted an audit of selected areas of the Minnesota Judicial Branch for the fiscal year ended June 30, 2005. The scope of the audit focused primarily on financial operations within the Third Judicial District and follow up on the status of prior audit findings related to payroll administration by the Minnesota Judicial Branch. Our audit scope in the Third Judicial District was limited to receipts collected by the Dodge County Court Administration, including a review of the conversion of its financial information to a new computer system; administrative expenditures; and payroll. Our objectives focused on a review of internal controls over these financial activities and compliance with applicable legal provisions. We emphasize that this has not been a comprehensive audit of the Minnesota Judicial Branch.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We thank the staff from the Minnesota Judicial Branch for their cooperation during this audit.

/s/ James R. Nobles

/s/ Cecile M. Ferkul

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: April 7, 2006

Report Signed On: June 13, 2006

Minnesota Judicial Branch

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Dodge County Court Administration Receipts	7
Chapter 3. Third Judicial District Nonpayroll Administrative Expenditures	11
Chapter 4. Third Judicial District Payroll	15
Status of Prior Audit Issues	19
Agency Response	21

Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Jennifer Chapin	Auditor
John Hakes, CPA	Auditor
Carl Otto, CPA, CISA	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Minnesota Judicial Branch at an exit conference on June 2, 2006:

Jeff Shorba	Deputy State Court Administrator
Lee Mehrkens	Finance Director
Roger Volk	Fiscal Services Supervisor
Mike Byzewski	Internal Audit Manager
Anita Hupfer	Court Operations Analyst
Diane Williams	Human Resources
Linda Herman	Financial Analyst
Shelley Ellefson	Third Judicial District Administrator
Dodge County Officials:	
Annette Hodge	Court Administrator
Deb Blaisdell	Senior Court Clerk
Cindy Quaale	Court Lead Worker

Report Summary

Conclusions:

The Dodge County Court Administration did not always adequately safeguard receipts, as explained below. In general, however, the administration promptly deposited receipts, accurately recorded receipts in the court information system, and adequately managed accounts receivable.

The Minnesota Judicial Branch (Judicial Branch) followed a systematic and reasonable approach when converting Dodge County financial data and establishing fees and fines information in the new court information system.

The Third Judicial District followed Judicial Branch policies when purchasing goods and services, except as noted below. Within the district, supplies and equipment were safeguarded, and expenditure transactions were accurately and timely recorded in the accounting records.

Changes to state-benefited payroll were authorized and in compliance with bargaining units, and changes to the amounts paid to county-benefited employees were adequately monitored.

The State Court Administrator's Office developed a policy, effective March 2006, to resolve the prior audit findings related to its administration and verification of payroll.

Findings:

- Dodge County Court Administration did not always adequately safeguard receipts (Finding 1, page 9).
- Court administration offices within the Third Judicial District did not develop contracts or agreements for certain services (Finding 2, page 12).

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

Audit Scope:

Audit Period:

July 1, 2004, through June 30, 2005

Programs Audited:

- Receipts collected by Dodge County Court Administration and a review of the conversion to a new computer system.
- Third Judicial District payroll and administrative expenditures.
- Status of Judicial Branch prior audit findings concerning payroll administration.

Agency Background:

The Judicial Branch includes the Supreme Court, the Court of Appeals, and the district or trial courts. Trial courts are organized into ten judicial districts. As of July 1, 2005, all ten districts were fully state-funded, with the Third Judicial District becoming state-funded on July 1, 2004. In June 2004, Dodge County Court Administration, located within the Third Judicial District, converted to the new Minnesota Court Information System. It was one of the first county court administrations to convert to the new system.

Minnesota Judicial Branch

This page intentionally left blank.

Chapter 1. Introduction

The Minnesota Judicial Branch (Judicial Branch) includes the Minnesota Supreme Court, the Minnesota Court of Appeals, and the trial or district courts. The trial court system is comprised of ten judicial districts. Each judicial district has one or more county court administration offices operating within its geographical boundaries.

The Judicial Branch established the Judicial Council effective July 1, 2005. The purpose of the Judicial Council is to govern the Judicial Branch through the establishment and monitoring of administrative policies designed to achieve an accessible, fair, and timely system of justice statewide and to ensure that the Judicial Branch functions as an independent and accountable branch of government. The Judicial Council replaced the Conference of Chief Judges that previously governed the trial courts.

The Judicial Council created bylaws and policies that cover all three levels of the Judicial Branch. State Court Administration developed State Court Finance Policies and Procedures that provide more specific guidance on fixed asset management, procurement, contracts, and other financial management functions.

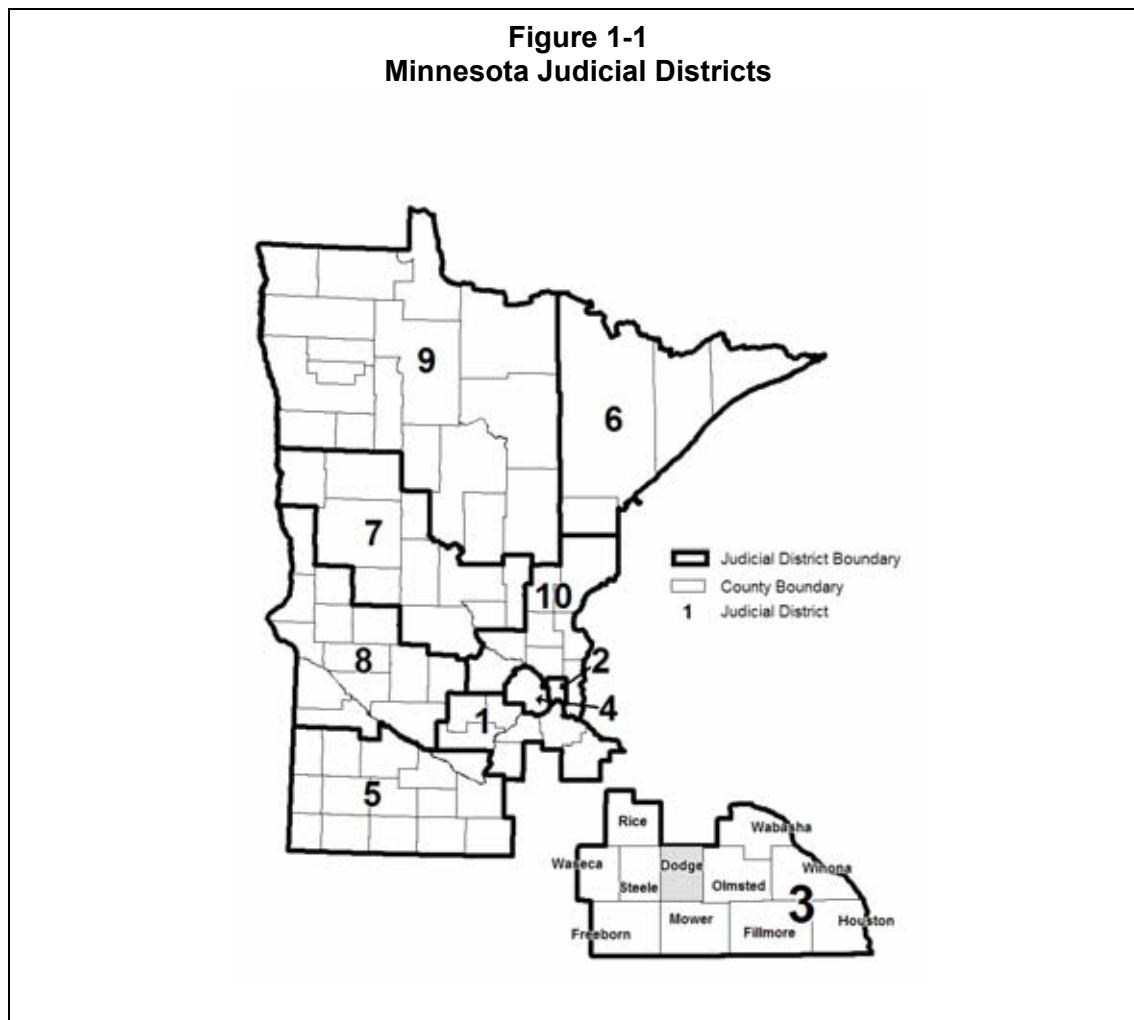
Since fiscal year 2000, the Legislature has been shifting the cost of the trial courts from the counties to the state. The state has paid for some trial court payroll costs (including judges and district court administration personnel) for over a decade. The more recent transition of costs to state funding is for county court administration costs. The funding and administrative shift to the state is intended to provide a more consistent, equitable level of judicial services throughout the state in a more cost-efficient manner. As of July 1, 2005, all ten judicial districts were fully state-funded.

The Third Judicial District became state-funded on July 1, 2004. In June 2004, Dodge County Court Administration, one of the court administration offices within the Third Judicial District, converted to the new trial court information system¹. Dodge County was one of the first county court administration offices to convert to the new computer system. Figure 1-1 shows the ten judicial districts in Minnesota and highlights the Third Judicial District which was the focus of our audit.

The Office of the Legislative Auditor selected the Judicial Branch 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.

¹ Minnesota Court Information System or MNCIS.

Minnesota Judicial Branch



Audit Approach

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 department'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,² as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the Judicial Branch 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, contracts, and Judicial Branch policies.

² The Treadway Commission (formally known as the National Commission on Fraudulent Financial Reporting) and its Committee of Sponsoring Organizations (COSO) were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of "internal control" that organizations should have in place to prevent inappropriate financial activity.

Minnesota Judicial Branch

To meet the audit objectives, we gained an understanding of the Judicial Branch's financial policies and procedures relevant to our audit scope. We considered the risk of errors 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 documents supporting the department's internal controls and compliance with laws, contracts, and Judicial Branch policies.

Minnesota Judicial Branch

This page intentionally left blank.

Chapter 2. Dodge County Court Administration Receipts

Chapter Conclusions

Dodge County Court Administration did not adequately safeguard receipts since it did not sufficiently separate duties over the processing of receipts. In general, Dodge County Court Administration promptly deposited receipts, recorded all receipts in the court information system, and adequately managed accounts receivable. However, Dodge County could improve controls over receipts by formalizing the arrangements with the county for securing receipts overnight.

The Third Judicial District Court Administration accurately and timely recorded transactions in the state's accounting records based on the daily receipts and the monthly allocations.

The Judicial Branch followed a systematic, reasonable approach when converting financial data and establishing fees and fines in the new court information system.

Audit Objectives and Methodology

The primary objectives of our review of the Dodge County Court Administration's receipts process and the conversion of financial data to a new computer system were to answer the following questions:

- Did Dodge County Court Administration adequately safeguard and accurately record receipts in the court information system and manage accounts receivable balances?
- Did the Third Judicial District Court Administration accurately record in the state's accounting records all receipts collected by the Dodge County Court Administration and accurately record the monthly allocations of receipts in the state's accounting system?
- Did Dodge County Court Administration comply with significant finance-related legal provisions related to prompt depositing³ and collateral requirements⁴?

³ Minnesota Statutes 2005, 16A.275

⁴ Minnesota Statutes 2005, 9.031

Minnesota Judicial Branch

- Did the Judicial Branch follow a systematic, reasonable approach when converting financial data and establishing fees and fines in the new court information system⁵?

To answer these questions, we interviewed Judicial Branch employees located in Dodge County, the Third Judicial District Court Administration, and the State Court Administrator's Office. We reviewed daily and monthly receipts documentation and tested a sample of adjustments made to assessed fines and fees. We learned about the process for converting data to a new computer system and reviewed the resolution of the exceptions generated during the conversion. We also learned how fees and fines were entered into the court information system.

Background

The Dodge County Court Administration was one of the first county court administrations to begin using the new court information system. It started using this system in June 2004, when the Judicial Branch began replacing a computerized system designed in the early 1980s. The Judicial Branch worked with a vendor to customize and implement a purchased case management system. The system includes document imaging, financial management, forms processing, reporting, and case management functions. The system is person-based, which means that each person is entered only one time into the system, and all cases related to that person are attached to the person's record. The system is able to process criminal, civil, family, probate, and mental health cases.

The Judicial Branch and the vendor developed a process to convert the former court information system to the new court information system. This process included establishing fee tables in the new system as well as converting existing case and financial data.

Dodge County Court Administration employees enter citation information into the court information system upon receiving the citation from local law enforcement agencies. Court employees assign fines and fees to the case using the legal citation. Approximately ten percent of the fine amounts are coded in a table (the offense table) within the court information system and do not have to be manually entered by court employees. Other fees and fines are documented on a schedule approved by the Judicial Council; court employees refer to this schedule when manually entering the fees and fines.

The Dodge County Court Administration receives receipts through the mail and over the counter. Employees also collect credit card information from defendants who pay by credit card over the telephone. Employees post the receipts to the case established in the court information system. At the end of each day, court employees close out cash register sessions and compare the receipts on hand to the receipts posted to the court information system. Court employees store the receipts in the county's vault overnight, depositing the funds into a local bank account the next day. Court employees electronically send receipts and accounting information to the Third Judicial District Court Administration each day, where employees enter summarized daily receipts transactions into the state's accounting system.

⁵ Minnesota Court Information System (MNCIS).

Minnesota Judicial Branch

A court employee contacts defendants who have not paid the assessed fees and fines. In some cases, unpaid fees and fines result in the suspension of a driver's license. Unpaid accounts are also turned over to the Minnesota Department of Revenue, where state tax refunds are withheld from the defendant and used to pay the fees and fines.

At the end of each month, the Dodge County Court Administration employees compare transactions posted in the court information system to transactions posted to the bank account. Using summary reports generated by the court information system, the Third Judicial District court employees enter transactions into the state's accounting system to disburse the funds collected during the month to the final recipient. These recipients include other state agencies, nonprofit organizations, municipalities located within the district, and Dodge County, as specified in statute.

As explained in Finding 1, we noted several areas where Dodge County Court Administration can strengthen controls over the processing of receipts.

Finding and Recommendations

1. Dodge County Court Administration did not always adequately safeguard receipts.

Dodge County Court Administration did not adequately safeguard receipts in several ways. First, the administration did not adequately separate the physical duties and the court information system access for the receipts process. All six employees in the Dodge County Court Administration post charges, receipts, adjustments, and credits to customer accounts. One or more of these same employees also review accounts receivable for accounts with no established payment plan. There are no alternate controls, such as an independent review of adjustments and credits to accounts, to ensure the propriety of those transactions. Good internal controls require that duties be separated so a person who has access to cash cannot both post receipts to an account and adjust the amount due. If management decides not to separate duties, they should design effective detective controls and, at a minimum, an independent person should review the propriety of adjustments and credits to customer accounts.

Second, Dodge County did not periodically review court information system security clearances. This review would help ensure that employees have access to only those processes needed to perform their job duties.

Third, Dodge County Court Administration stores receipts in Dodge County's locked vault each night. However, the court does not obtain a receipt from the county showing the amount held in safekeeping. Strong internal control provides an accounting whenever physical custody of the funds changes. Furthermore, the court administration does not transport receipts to the county vault in a locked bag or box, and there is no written agreement between the court and the county for the safekeeping of deposits. A written agreement should address liability, assumption of risk, and other considerations.

Minnesota Judicial Branch

Recommendations

- *The Dodge County Court Administration should separate duties over the receipts functions. If management decides not to separate duties, they should design effective detective controls and, at a minimum, the court should have an independent person periodically review the propriety of charges and adjustments to accounts.*
- *The Judicial Branch should periodically review court information system security clearances.*
- *The Dodge County Court Administration should develop a written agreement with Dodge County for the safekeeping of funds. In addition, the county court administration should transport funds to the Dodge County Office in a locked bag or box and require a receipt from Dodge County showing the amount of funds held for safekeeping.*

Chapter 3. Third Judicial District Nonpayroll Administrative Expenditures

Chapter Conclusions

Court administration offices within the Third Judicial District followed the Judicial Branch's policies when procuring goods and services and safeguarding supplies and equipment, except that contracts were not prepared for psychological examination services or for services provided to the district by county offices.

The Third Judicial District Court Administration followed the Judicial Branch's policies when paying for goods and services.

Audit Objectives and Methodology

The primary objectives of our review of the Third Judicial District's administrative expenditures were to answer the following question:

- Did court administration offices within the Third Judicial District follow the Judicial Branch's policies when procuring goods and services and safeguarding assets?
- Did the Third Judicial District Court Administration follow the Judicial Branch's policies when paying for goods and services?

Background

Administrative expenditures in the Third Judicial District during fiscal year 2005 excluding payroll were over \$3.2 million. As shown in Table 3-1, the largest administrative expenditure category was professional and technical services, comprising about 35 percent of all administrative expenditures. These expenditures include psychological evaluations, legal and paralegal services, language interpreter services, transcription services, and other types of services. The next largest type of administrative expenditure was supplies and equipment that accounted for about 28 percent of all administrative expenditures. Supplies and equipment include computers, printers, copiers, and general office supplies. Other purchased services totaled about 22 percent of the administrative expenditures and included payments to jurors for mileage and per diems.

Minnesota Judicial Branch

Table 3-1
Third Judicial District Administrative Expenditures
For the Fiscal Year Ended June 30, 2005

Professional and Technical Services	\$1,128,865
Supplies and Equipment	900,658
Other Purchased Services	721,662
Postage, Delivery, and Network Services	210,212
Rent and Repairs	91,407
Printing and Advertising	82,567
Other	<u>95,578</u>
Total	<u>\$3,230,949</u>

Source: Minnesota Accounting and Procurement System.

Once the need for goods and services was identified, employees in the county court administration offices contacted multiple vendors to obtain bid quotations when required. After selecting the winning bid, the employees forwarded the bids and other documentation to the Third Judicial District Administration where the purchase order was processed. County court administration employees documented the receipt of goods and authorized the invoice for payment. District employees then made the payment to the vendor using the state's accounting system.

District employees recorded certain equipment purchases in a fixed asset inventory system. Equipment with a value of more than \$5,000 and an anticipated useful life of more than two years was classified as a fixed asset. In addition, all laptop computers were considered fixed assets, as was other equipment that was susceptible to theft but had a value of less than \$5,000. All assets in the inventory were required to have an asset identification tag and were subject to a physical inventory once every two years.

Employees in the Third Judicial District prepared contracts for services based on requests from the county court administration offices, except as noted in the following finding. The recipient of the contracted services ensured that the vendor's performance was satisfactory and that the invoice was correct. District office employees processed the payment to the contractor through the state's accounting system based upon the approved invoice.

Finding and Recommendation

2. Court administration offices within the Third Judicial District did not develop contracts or agreements for all services.

The county court administration offices did not execute contracts for most psychological evaluation services and for services provided by the county to the court, such as telephones and copies. Approximately 58 percent of the district's service-type expenditures we tested were

Minnesota Judicial Branch

payments for psychological services that were not supported by written contracts.⁶ Court policies⁷ require written contracts for all services, regardless of the dollar amount. Written contracts would document the duties and obligations of the parties and would show that the parties agreed to the terms. This understanding is important regarding the services the courts receive from the counties now that the courts are part of the Judicial Branch and not part of the county administration.

Recommendation

- *The court administration offices within the Third Judicial District should develop contracts or agreements for all services.*

⁶ We tested 12 expenditure transactions, totaling \$70,656, related to services received by the district. Seven payments were for psychological evaluations and totaled \$41,343.

⁷ State Court Finance Policy and Procedure Number 10, Section 4.1

Minnesota Judicial Branch

This page intentionally left blank.

Chapter 4. Third Judicial District Payroll

Chapter Conclusions

The State Court Administrator's Office developed a policy, effective in March 2006, to resolve the prior audit findings related to the entry, approval, and verification of the Judicial Branch's payroll transactions.

The Third Judicial District Court Administration ensured that changes to state-benefited employee payroll within the district were properly authorized and in compliance with applicable bargaining unit provisions. Also, the county court administrators within the Third Judicial District tracked and reviewed changes to the amounts paid to county-benefited employees.⁸

Audit Objectives

We focused on the following questions during our review of select payroll and personnel transactions:

- Did the Judicial Branch resolve the prior audit findings related to the entry and approval of payroll transactions processed through the Self Service Time Entry system and the finding related to the review of standard payroll and personnel reports?
- Did the Third Judicial District Court Administration ensure that changes to state-benefited employee payroll were properly authorized and in compliance with applicable bargaining unit provisions?
- Did the county court administrators within the Third Judicial District track and review changes to the amounts paid to county-benefited employees?

Background Information

Payroll is the most significant administrative expenditure the Judicial Branch incurs. In fiscal year 2005, payroll amounted to \$194.8 million, or about 72 percent of the total expenditures. The Judicial Branch's payroll encompasses the Supreme Court, Court of Appeals, and the trial courts and includes both state-benefited and county-benefited employees. In fiscal year 2004, the Judicial Branch began using the Self Service Time Entry system to process its payroll.

⁸ Refer to the explanation of state-benefited and county-benefited payroll in the background section of this chapter.

Minnesota Judicial Branch

Self-Service Time Entry Payroll

Beginning in fiscal year 2004, many Judicial Branch employees began recording hours worked each pay period using the state's Self Service Time Entry process. The Judicial Branch was among the first agencies to use the process created by the Department of Finance for employees to electronically record time worked and supervisors to electronically authorize hours worked.

The number of Judicial Branch employees who use the Self Service Time Entry process is growing. Currently, about 66 percent of the Judicial Branch employees record hours using this process as compared to about 20 percent in July 2004. In 2005 we reported a significant finding⁹ that resulted in five recommendations designed to strengthen the Judicial Branch's administration of Self Service Time Entry payroll. Recommendations pertained primarily to improving controls over who authorized employee payroll and the use of standard payroll audit reports to verify payroll expenditures.

In its response to the prior audit report, the Judicial Branch stated it would issue new processing instructions to employees by December 31, 2005. Although not as timely as originally projected, the Judicial Branch did take action and issued State Court Finance Policy and Procedure 2.06a, effective March 20, 2006. It also developed step-by-step instructions showing how employees should prepare their electronic time entries and how supervisors and managers should approve these electronic timesheets. The implementation of these policies and procedures should adequately resolve the prior audit findings related to Self Service Time Entry payroll responsibilities and the use of standard payroll audit reports.

State and County-Benefited Employee Payroll in the Third Judicial District

The Third Judicial District became state-funded on July 1, 2004, and all county court employees became state employees on this date. Statutory provisions allowed these employees to retain the benefits provided by the county 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 to be county-benefited or state-benefited. Employees also had the option to keep their pension in the Public Employees Retirement Association or to transfer their pension to the Minnesota State Retirement Association. 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 must be state-benefited employees. Thus, the number of county-benefited employees continues to decrease over time.

Regardless of whether employees chose state or county benefits, the state funds the cost of all payroll and benefits. County-benefited employees remain on the county payroll systems and receive their payroll checks through the counties. The counties submit invoices to the county court administrator, who approves the invoices for payment. The Third Judicial District Court Administration processes the reimbursement to the counties through the state's accounting system. Seven of the eleven counties within the Third Judicial District had county-benefited employees, and these employees currently comprise about nine percent of the total employees in

⁹ Office of the Legislative Auditor Report 05-34, issued June 9, 2005.

Minnesota Judicial Branch

the district. During fiscal year 2005, the Third Judicial District reimbursed counties for about \$1 million in salaries and benefits for county-benefited employees.

In contrast to county-benefited employees, the Judicial Branch pays state-benefited employees through the state's personnel and payroll system. Hiring and firing decisions, as well as reclassification and pay increase decisions, are made at the county or district court level but are processed by the State Court Administrator's Office. During fiscal year 2005, state-benefited employees within the Third Judicial District were paid over \$9.2 million in salaries and benefits.

We did not have any findings pertaining to the administration of payroll in the Third Judicial District.

Minnesota Judicial Branch

This page intentionally left blank.

Status of Prior Audit Issues
As of April 7, 2006

Prior Financial Audits

June 9, 2005, Legislative Audit Report (Report 05-34) focused on payroll paid through the state's personnel and payroll system and the trial court employees' transition to state-funded positions for the period July 1, 2001, through June 30, 2004. The report contained three findings; we discuss the status of the findings in Chapter 4 of the current report.

August 26, 2004, Legislative Audit Report (Report 04-35) focused on selected receipts and county-benefited employee payroll expenditures in the Fourth and Seventh Judicial Districts for certain periods ending March 2004. The report contained nine findings. We did not review the status of these findings since our current audit primarily pertained to the Third Judicial District.

Minnesota Judicial Branch

This page intentionally left blank.

THE SUPREME COURT OF MINNESOTA
MINNESOTA JUDICIAL CENTER
25 REV. DR. MARTIN LUTHER KING JR. BLVD.
SAINT PAUL, MINNESOTA 55155

SUE K. DOSAL
STATE COURT ADMINISTRATOR

(651) 296-2474
Fax (651) 215-6004
E-mail: Sue.Dosal@courts.state.mn.us

June 12, 2006

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 findings and recommendations contained in the audit of selected areas of the Minnesota Judicial Branch for the fiscal year ended June 30, 2005. The scope of your audit focused primarily on financial operations within the Third Judicial District and follow up on the status of prior audit findings related to payroll administration.

We appreciate the opportunity to respond. We found the information in your report and in the exit conference to be very informative and helpful.

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

cc: Chief Justice Russell A. Anderson, Chair
Minnesota Judicial Council

Finding 1: Dodge County Court Administration did not always adequately safeguard receipts.

Auditor's Recommendation: The Dodge County Court Administration should separate duties over the receipts functions. If management decides not to separate duties, they should design effective detective controls, and at a minimum, the court should have an independent person periodically review the propriety of charges and adjustments to accounts.

Response: The Court Administrator has begun ordering a monthly transaction listing report which shows all credits and adjustments entered. The report specifies type, reason, user, and date of transaction. The Court Administrator compares a sample of credits/adjustments listed on the report to the court minutes and/or the court file to ensure proper authorization. After a review is completed, the Court Administrator initials the report and files it with the entire month-end package.

Persons responsible for resolving finding: Annette Hodge

Implementation date: Resolved June 2006

Auditor's Recommendation: The court system should periodically review court information system security clearances.

Response: Prior to converting from TCIS to MNCIS, the Court Administrator completes a security related Configuration Assessment Tool (CAT). The CAT is used to assign various rights to staff members based on their job duties. Dodge County Court Administration staff members and their respective job duties have not changed since the original security CAT was submitted to the MNCIS Configuration Team. In the event a new employee is hired, a request form is completed which allows access to MNCIS. At that time, security rights are also assigned. In the event of termination or resignation, the same procedure would follow so there is a tickler system in place when an employee's status changes.

At the branch-wide level, we will explore the feasibility of using a query or other tool which will allow supervisors to review the financial roles assigned to each individual.

Persons responsible for resolving finding: Annette Hodge and Finance Division

Implementation date: Approximately December 2006 but efforts may be ongoing.

Auditor's Recommendation: The Dodge County Court Administration should develop a written agreement with Dodge County for the safekeeping of funds. In addition, the court system should transport funds to the Dodge County Office in a locked bag or box and require a receipt from Dodge County showing the amount of funds held for safekeeping.

Response: Dodge County Court Administration no longer uses the County Treasurer's Office for the safekeeping of funds. Funds are now kept in another secure location.

Persons responsible for resolving finding: Annette Hodge

Implementation date: Resolved June 2006

Finding 2: Court administration offices within the Third Judicial District did not develop contracts or agreements for all services.

Auditor's Recommendation: The court administration offices within the Third Judicial District should develop contracts or agreements for all services.

Response: With respect to use of county services, the courts have relied on Minnesota Statute § 484.77 and past practice to govern the relationship between the district court and the counties. However, as the more immediate transition needs are carried out, the courts are exploring how the infrastructure requirements in each jurisdiction will be met in the future. In some instances, courts are transitioning away from shared district court/county services and replacing with private vendors. In some instances neither the county nor the court is prepared to determine alternative means of providing the services in the short term. In many instances the current practice is satisfactory to both the court and the county.

The Judicial Branch will continue over time to review the services provided by the counties in each location and determine on a county by county basis whether the county provides the best value for those services upon which the courts are dependent. Where a formal agreement is deemed to be necessary to document the delivery and financial arrangement for those services, an interagency agreement will be prepared.

With respect to contracting for psychological exam services, we acknowledge that our policy requires contracting for all services. However, the nature of psychological exams does not easily lend themselves to a competitive bid process. Given the scarce resources available and its sporadic use, we are, as of yet, uncertain if a contracting process is workable.

The Judicial Branch will continue to review psychological exam practices and will either amend our contracting policy to allow for limited exceptions to the need for a written contract in certain situations or develop a process for obtaining written agreements.

Persons responsible for resolving finding: Finance Division along with Judicial District Administrators

Implementation date: Ongoing