

**MINNESOTA SUPREME COURT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

OCTOBER 1987

NOTICE

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

THE SUPREME COURT OF MINNESOTA

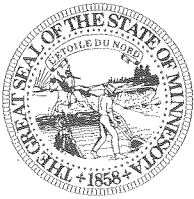
Report Summary October 1987

The Office of the Legislative Auditor has released an audit report on the Supreme Court of Minnesota, which also included the Minnesota Court of Appeals, the State Court Administrator, the Trial Courts, the Law Library, the Lawyers Professional Responsibility Board, the Law Examiners Board, the Continuing Legal Education Board, and the Judicial Standards Board for the three years ended June 30, 1986. The report contains 24 recommendations for improving procedures and controls at the court and ensuring compliance with applicable laws and regulations.

The first recommendation relates to judicial versus legislative roles and processes in the establishment of a board and a subsequent spending program under the direction of that board. While not questioning the court's inherent judicial authority to regulate the practice of law or its rule making authority, we have recommended that the court seek legislation to establish the board and its program into state law. We have also recommended that the Court of Appeals seek clarifying legislation of Minn. Stat. Section 484.54, Subd. 2, concerning the distinction between travel and subsistence expenses incurred and those eligible for reimbursement to judges during the first two years of their office. We recommended that the Law Librarian resign as the president and chief executive officer of the nonoperative Friends of the Minnesota State Law Library.

The remaining 21 recommendations related to various internal control issues over receipts (9), disbursements (7), payroll (3) and fixed assets (2).

The response of the Minnesota Supreme Court to our findings and recommendations and their plans for implementation are included within the report.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Douglas K. Amdahl, Chief Justice
Minnesota Supreme Court

Audit Scope

We have completed a financial and compliance audit of the Minnesota Supreme Court, including the Court of Appeals, the State Court Administrator, the Trial Courts, the Law Library, the Lawyers Professional Responsibility Board, the Law Examiners Board, the Continuing Legal Education Board, and the Judicial Standards Board for the three years ended June 30, 1986. Section I provides a brief description of the Minnesota Supreme Court's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 20, 1987.

The objectives of the audit were to:

- study and evaluate major internal control systems at the Court and those agencies under the Court's jurisdiction, including a review of receipts, payroll, other administrative expenditures and fixed assets;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 480, 480A, 481, 484, and 490, and other finance-related laws and regulations;
- verify that financial transactions were properly recorded in the statewide accounting system; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of the Minnesota Supreme Court, through the State Court Administrator, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates

and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Supreme Court is also responsible for the Court's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Court. The purpose of our testing of transactions was to obtain reasonable assurance that the Supreme Court had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions

In our opinion, except for the issues raised in Section II, recommendations 2, 4, and 6-24, the Minnesota Supreme Court's system of internal accounting control in effect on June 30, 1986, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, except for the issues raised in Section II, recommendations 1, 3, and 5, for the three years ended June 30, 1986, the Minnesota Supreme Court administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

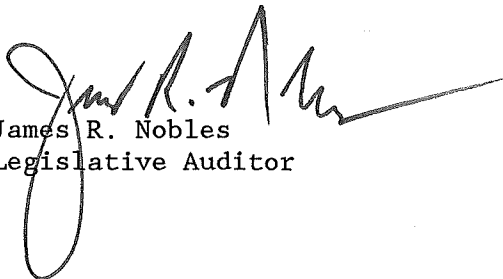
In our opinion, for the three years ended June 30, 1986, the Minnesota Supreme Court's financial transactions were properly recorded in the statewide accounting system.

The recommendations included in this audit report are presented to assist the Supreme Court in improving accounting procedures and controls. We will be monitoring and reviewing the Court's progress on implementing these recommendations after the dates projected for completion as identified in the response to this report. A summary of the progress made on all audit recommendations discussed in our last audit report covering

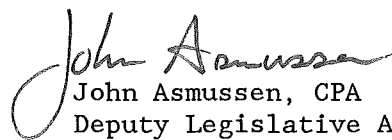
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the year ended June 30, 1983, dated August 29, 1984, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Minnesota Supreme Court and its staff for the cooperation extended to us during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

October 6, 1987

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Marla Conroy	Staff Auditor
Pat Ryan	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Supreme Court on April 10, 1987:

Judith Rehak	Director of Court Personnel and Budget
Virginia Hames	Accounting Officer
Eleanor Quandt	Accounting Officer
Lou Ann Martineau	Accounting Officer

MINNESOTA SUPREME COURT

I. INTRODUCTION

Article VI, Section 1 of the Constitution of the State of Minnesota provides that "The judicial power of the state is vested in a supreme court, a court of appeals, . . . a district court and such other courts, judicial officers and commissioners with jurisdiction inferior to the district court as the legislature may establish."

The Minnesota Supreme Court consists of one chief justice and six associate justices. The justices are elected to six year terms on a non-partisan ballot. Vacancies during a term on the court are filled by Governor's appointment. Douglas K. Amdahl, is the Chief Justice of the Supreme Court and has held that position since December 1981.

The Minnesota Supreme Court, as the highest court in the state, is primarily engaged in adjudication. The court has jurisdiction over appeals from the workers' compensation court of appeals, the tax court, defendants convicted of first-degree murder, and discretionary review of decisions of the court of appeals. It also has jurisdiction over legislative election contests and may issue writs of mandamus, prohibition, and habeas corpus. The court is also responsible for administering the state's court system and regulating the practice of law. The opinions of the Minnesota Supreme Court can be appealed only to the United States Supreme Court, and then, only if a matter of the United States Constitution is involved.

During fiscal year ended June 30, 1986, total disbursements for the judicial agencies audited were \$26,907,966 of which 91 percent or \$24,408,248 was from the General Fund.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

The Supreme Court has allowed the Lawyer Trust Account Board (LTAB) to deposit interest on lawyer trust accounts outside of the state treasury and to appropriate those funds for specific purposes without legislative approval.

On July 1, 1983, the Minnesota Supreme Court established the Lawyers' Trust Accounts (IOLTA) program and the Lawyer Trust Account Board (LTAB) to receive, administer and disburse funds generated under the program. The Board, a nonprofit, unincorporated organization, consists of six lawyers and three public members, all appointed by the court to three year terms. The members of the Board serve without compensation, but all expenses of operation are paid from funds received on lawyers' interest bearing trust accounts.

The IOLTA program and the Board resulted from a petition to the Supreme Court on behalf of the Minnesota State Bar Association. Because it had been accomplished in several other states, the Bar Association believed that interest could be accrued on pooled client funds, which at the time were held by Minnesota attorneys in non-interest bearing checking accounts. Pooled client funds were identified as either nominal deposits, or larger deposits held in trust for short durations, on which interest could not economically or practically be identified or paid to specific clients. Interest on larger client funds which exceeded the cost of establishing and administering an individual account was (and still is) paid to the client. In the summer of 1981, the Bar Association had examined the impact of recent developments in banking law and computer technology to see if it would be possible to accrue and collect interest on pooled client trust accounts. The Bar Association concluded that it would be possible and practical to recover interest on such accounts through a so-called negotiable order of withdrawal account.

The Bar Association also concluded that a board under the jurisdiction of the court would be the best structure to administer the IOLTA program. It was the intent of the Bar Association that the Board would hold the entire beneficial interest in the funds earned under the newly created IOLTA program. As recommended by the Bar Association, the funds generated under the program would be limited to providing legal aid to the poor, law-related education, and projects to improve the administration of justice. The Bar Association also recommended that all Minnesota attorneys be required to participate.

During the process to establish the Board, there apparently was no serious consideration given by either the Bar Association or the Supreme Court to create the program and board through the legislative process or, for that matter, to the need to clarify entitlement to the interest earned on client trust funds.

As ordered by the Supreme Court, the rules of professional responsibility for attorneys and judges are promulgated within the Minnesota Rules of Professional Conduct. Rule 1.15 concerning the safekeeping of client property provides in 1.15(d) that:

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A lawyer who receives client funds shall maintain a pooled interest bearing trust account for deposit of client funds that are nominal in amount or expected to be held for a short period of time. The interest accruing on this account, net of any transaction costs, shall be paid to the Lawyer Trust Account Board established by the Minnesota Supreme Court.

The interest earned on these funds is submitted by the various financial institutions throughout the state to the Lawyer Trust Account Board. Interest deposits to the Board for fiscal year ended June 30, 1984 were \$1,025,853. For fiscal years 1985 and 1986, IOLTA deposits amounted to \$1,408,354 and \$1,449,090, respectively.

Under the IOLTA program, the Board solicits, reviews, approves and funds grant proposals from legal services organizations. The purpose of the program is to improve the delivery of legal services to the poor, promote development of law-related education for the public, and to develop programs to enhance the administration of justice. Actual grants paid out during the three fiscal years ended June 30, 1986 amounted to \$2,283,477. As of July 1, 1986, the Board had grant commitments of \$1,983,259 through fiscal year ended June 30, 1987.

The Board does not deposit its receipts into the state treasury but maintains both a checking and savings account at the First Bank of St. Paul. The executive director of the Board is responsible for making temporary investments of such funds pending grant disbursements. Cash and investment balances at June 30, 1986 were \$1,831,270.

We are concerned, first, that this program was established outside the legislative process. Typically, state programs, particularly those that generate revenues and expend funds, must be established by state law. Moreover, state receipts are to be deposited in the state treasury and may be expended only when provided for in state law. Section 1 of Article XI of the state constitution provides that, "No money shall be paid out of the treasury of this state except in pursuance of an appropriation by law." Minn. Stat. Section 16A.57 provides an even broader provision. It says, "Unless otherwise expressly provided by law, state money may not be spent or applied without an appropriation, an allotment, and issuance of a warrant." In addition, Minn. Stat. Section 15A.01, Subd. 3 provides that, "All fees of any nature collected by any officer or employee named in this chapter in the performance of official duties for the state shall be paid into the state treasury." The salaries of the Supreme Court Justices are established within Minn. Stat. Section 15A.083.

Arguably, Minn. Stat. Section 481.01 could be construed as allowing the collection of these funds. The section pertains to the Law Examiners Board and stipulates, in part:

. . . any other fees which may be received pursuant to such rules as the supreme court may promulgate governing the practice of law shall be paid to the state treasurer and shall constitute

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a special fund in the state treasury. The moneys in such fund are appropriated annually to the supreme court for the payment of compensation and expenses of the members of the board of law examiners and for otherwise regulating the practice of law. The moneys in such fund shall never cancel. Payments therefrom shall be made by the state treasurer, upon warrants of the commissioner of finance issued upon vouchers signed by one of the justices of the supreme court.

However, the court does not use Minn. Stat. Section 481.01 as its basis for establishing the IOLTA program. Indeed, many of the program's administrative and fiscal policies are inconsistent with provisions specified by the statute. Receipts are not deposited in the state treasury; the statute does not allow the court to be credited with any related investment income; IOLTA expenditures do not finance the Board of Law Examiners or are not used for "otherwise regulating the practice of law"; and the program is administered by a new board, the LTAB. Beyond Minn. Stat. Section 481.01, we did not find any other statutory provisions which either directly or indirectly could be used to establish the IOLTA program.

The Supreme Court has relied on its "inherent authority" to establish the LTAB and IOLTA program through the court rulemaking process. The Preface to 1986 Minnesota Court Rules explains:

There has been a steady growth in judicial rulemaking during the last thirty years. The Minnesota supreme court has construed the state constitution to grant the courts inherent authority to make procedural rules. In re Disbarment of Greathouse, 189 Minn 51, 248 N.W. 735 (1933). However, beginning with the enabling legislation for the rules of civil procedure in 1947, the legislature has explicitly granted the supreme court rulemaking power in certain areas subject to modification or repeal by the legislature. The supreme court, in addition to adopting rules in traditional areas of court procedure and practice, has recently adopted rules of criminal procedure and evidence.

The preface continues later to cite the authority for the Board as the "inherent judicial authority to regulate the practice of law." We do not dispute the autonomy of the judicial branch, or its rulemaking authority governing certain procedural areas and the practice of law. However, we believe that the IOLTA program goes beyond traditional judicial rulemaking and extends into fiscal matters which are traditionally legislative concerns. We believe that the legislative process is needed for state programs that generate revenues and expend funds.

We believe that the court should seek legislation which establishes the LTAB and IOLTA program by state law. We believe that the program should become part of the state budgetary process. Presently, the program is excluded from the court's budgetary documents submitted to the Legislature. The Legislature needs to have complete information to aid in its budgetary deliberations.

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In addition, we believe that the court could benefit by running the program through the state treasury. The present practice requires additional administrative burdens, such as banking and investing, which could be avoided by utilizing the existing state systems. The statewide accounting system and state treasury are presently structured to accommodate the programs needs. The State Board of Investment could generate a respectable rate of investment earnings for the program, probably exceeding the present investment performance. Currently, the court must interact with state banks, to collect trust accounts' interest. Potentially, the court could receive added assurance of the completeness of bank remittances, by coordinating its efforts with those of the state Commerce Department's bank examiners. The program presently lacks complete written administrative policies and procedures. The need for written procedures would be diminished by adopting existing state procedures. The court is foregoing these potential benefits and efficiencies by maintaining the program outside the state treasury.

Finally, we are concerned that the risk of errors and irregularities is heightened by maintaining the funds outside the state treasury. The state's administrative structure offers certain controls which improve the accuracy and integrity of fiscal transactions. These controls must be established independently for funds outside the state treasury. The court has hired an independent CPA firm to provide audit services. That is a step in the right direction. However, the program remains vulnerable because of the small staff administering the program. Presently, duties are inadequately segregated so that one individual receives and disburses funds without a reconciliation by an independent individual. That control weakness should be resolved irrespective of where the funds are maintained.

RECOMMENDATIONS:

1. The Supreme Court should seek legislation to establish the Board and IOLTA program into state law. The program should, then be run through the state treasury and utilize existing state administrative systems.
2. The duties of receiving and disbursing funds should be performed by separate individuals, and a reconciliation should be performed periodically by someone independent of the receipts/disbursements process.

Minn. Stat. Section 484.54 is ambiguous on the extent of reimbursement available to Court of Appeals' judges.

Minn. Stat. Section 484.54, Subd. 1 provides that "judges shall be compensated for travel and subsistence expenses in the same manner and amount as provided in the plan adopted by the commissioner of employee relations." Subdivision 2 further provides that, "A judge shall be paid travel expenses for travel from the judge's place of residence to and from the judge's permanent chambers only for a period of two years after July 1, 1977 or the date the judge initially assumes office, whichever is later."

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Subdivision 2 allows judges to receive reimbursements not available to state employees under the Commissioner's Plan. Specifically, a mileage reimbursement is allowed for transportation between the judge's residence and his/her permanent chambers (work station). However, Subdivision 2 fails to specify subsistence as an additional reimbursable expense.

The intent of Minn. Stat Section 484.54, Subd. 2 is not clearly expressed and may allow for a difference in interpretation and a departure from current practice. We can construe that Subdivision 2, by omitting reference to subsistence expenses, draws a distinct difference between travel expenses and subsistence expenses. Subdivision 2 implies a mode of transportation to get from one point to another and return. Incidentals or subsistence expenses such as food or lodging are not necessary expenses incurred during the commute between home and the assigned work station (permanent chambers). Currently, the court reimburses judges for mileage and meals and lodging associated with commuting to and from their chambers for a two year period, commencing with the date they assume office. This practice may have envisioned a judge's subsequent relocation of his/her residence closer to their chambers.

Although the Commissioner of Employee Relations does not specifically define travel and/or subsistence expenses, subsistence expenses such as lodging and meals under the Commissioner's Plan are considered reimbursable only if the employee is in travel status. While travel status is also not specifically defined by the Commissioner of Employee Relations, the commissioner has set conditions under which reimbursement for meals and lodging are allowable. Travel status is more clearly defined in the Court's own Administrative Policy No. 4 (Travel and Reimbursement Policies) as "the situation which occurs when an employee is outside of the geographic boundaries of his/her assigned work area on a work assignment." Minn. Stat. Section 480A.05 provides that, "The judges of the court shall maintain their permanent chambers at St. Paul."

The expense reimbursement claims we reviewed showed that several judges of the Court of Appeals living outside the seven county metropolitan area were reimbursed for both mileage and meals and lodging expenses incurred between their home and their permanent chambers. While we do not question the reimbursement for mileage, the ambiguity within Minn. Stat. Section 484.54, Subd. 2 raises certain doubts about the reimbursement for meals and lodging incurred by the judges during their commute between their home and permanent chambers. We did not determine the total amount of reimbursement for subsistence to all judges. However, we did calculate the approximate subsistence paid to one judge of about \$7,678 for meals and lodging expense incurred while commuting from his home to his permanent chambers. It should be noted that after the two year period specified by Minn. Stat. Section 484.54, Subd. 2, such subsistence expenses were no longer claimed by the judge or paid by the court.

RECOMMENDATION:

3. The Court of Appeals should seek legislation which would clarify Minn. Stat. Section 484.54, Subd. 2.

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State and judicial branch policies regarding employee expense reimbursements are not being followed.

Judges are required to follow state guidelines for the reimbursement of travel and other expenses. The Supreme Court has incorporated the state guidelines into its Administrative Policy No. 4 to cover expense reimbursements for its staff as well. Expense claims of the Trial Court and Appeals Court judges indicated the following areas of noncompliance with current policy:

- reimbursement for postage and long distance telephone calls was not supported by applicable receipt documentation; and
- mileage reimbursement has been consistently reimbursed at the higher rate.

Reimbursement claims for postage expense and long distance telephone calls have not been supported by applicable receipt documentation. Administration Policy No. 4 requires that "An employee who claims reimbursement for expenses in travel shall file receipts with the expense accounts for railroad, airline or bus transportation, hotel and motel accommodations and other items of expense, excluding meals, taxi fares and baggage handling." Postage reimbursement is consistently requested by a few judges, and ranges between \$150 to \$300 per month per judge. According to Minn. Stat. Section 484.54, Subd. 1, postage is considered by the state to be a reimbursable expense only when the county does not reimburse the judge. Since some judges are reimbursed by the county and others are reimbursed by the state, proper supporting documentation should be required to avoid any duplicate reimbursements. Long distance telephone calls should be charged to a judge's chambers whenever a state WATS line cannot be used, according to Administrative Policy No. 4. As a result, supporting documentation would be available in all situations.

A number of judges are not following state guidelines concerning mileage reimbursement rates. State guidelines regarding private auto mileage reimbursement rates are set forth in the Central Motor Pool Rules and Regulations manual. These rules require employees who are based within the seven county metropolitan area, and anticipate travel on the average of more than 50 miles per day, to request a state car from Central Motor Pool. When state cars are not available, reimbursement control numbers are assigned, allowing employees to claim the higher reimbursement rate for the use of their private vehicle. Without a control number on the expense report, the lower reimbursement rate is to be paid. Employee mileage reimbursement claims indicated that judges and other Judicial Branch employees were being consistently reimbursed at the higher rate without documenting a Central Motor Pool control number. Administrative Policy No. 4 has incorporated the state guidelines regarding private auto mileage reimbursement, however the policy has not been enforced.

The State Court Administrator is currently responsible for auditing the expense forms submitted by the judges for reimbursement. While this is appropriate, we also noted that the Court Administrator is approving the

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claims for payment. The Court Administrator is not in the best position to authorize payment and to determine the validity of a judge's expenses being claimed for reimbursement. Approval of the claims should result from a supervisory review of the claim made by either the chief judge or his designee. Currently, this part of the reimbursement process is missing. A supervisory review provides control over intentional and unintentional errors.

RECOMMENDATIONS:

4. The judges should submit documentation to support their reimbursement claims for postage and long distance telephone calls.
5. The court should follow state policy regarding mileage reimbursement rates as incorporated into its Administrative Policy No. 4, or a waiver should be obtained from Central Motor Pool.
6. The court should establish an approval system whereby a chief judge or his/her designee would approve a claim for payment.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Internal controls over receipts collected at the Supreme Court should be strengthened.

The Supreme Court collects various types of receipts, such as civil surcharge fees, attorney registration fees, filing fees, fines, copying fees, gifts and donations. Although the court collects attorney registration fees, they are deposited to the accounts of the Continuing Legal Education Board, the Lawyers Professional Responsibility Board, and the Law Examiners Board in a manner established by the court. During fiscal year 1986, fee collections amounted to \$1,173,174 for civil surcharge, \$966,551 for attorney registrations, \$99,356 for filing fees, copying fees, and fines, and \$47,721 for gifts and donations.

The following control weaknesses exist:

- duties were not adequately separated; and
- reconciliations of the deposit slips to SWA receipt reports were not performed.

Adequate separation of duties between individuals provides a degree of assurance as to the accuracy and reliability of the accounting records. The same employee sends out the attorney registration statements, opens mail, receives payments, prepares deposits, and updates the attorney registration system. Also, the same employee sends out copying fee statements, receives payments, prepares deposits, and updates the accounts receivable records. These duties are not compatible and should be performed by separate individuals.

After receipts have been deposited, deposit slips should be reconciled to the statewide accounting (SWA) reports. This reconciliation should be performed by an individual who does not have access to receipts or receipt

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records in order to verify that all monies received were deposited. The risk of undetected errors can be reduced by having an independent verification of receipts deposited. Currently, there is no individual performing these reconciliations.

RECOMMENDATIONS:

7. The duties of issuing statements, receiving payments, opening mail, preparing deposits, and posting receipts to attorney registration and copy fee records should be separated.

8. Deposit slips should be reconciled to SWA receipt reports.

Internal controls over purchases and disbursements need improvement.

The State Court Administrator's Office is responsible for processing purchases and disbursements for the Supreme Court, Court of Appeals, Trial Courts, Law Library and several boards. Currently, three accounting employees have complete responsibility for processing purchases and disbursements for specific divisions. Each of these employees have also been delegated the authority to authorize and approve:

- purchase orders;
- payments; and
- batch payment cover sheets.

A strong system of internal accounting control requires that no one person should be authorized to handle all aspects of a transaction from beginning to end. To the extent possible, initiation and approval of transactions and the related recordkeeping should be separated from one another. This separation would provide an automatic check on the accuracy of the work performed and decrease the chance of errors or irregularities going undetected.

In addition, receiving reports are not always prepared or used to document that goods have actually been received. Receiving reports serve two main functions. First, they document that the goods ordered were received; and second, they establish the date the division incurred a liability, or payable, for the goods. This date, referred to as the occurrence date, is entered onto the statewide accounting system when the invoice is paid, and is used by the Department of Finance to determine payables for the state's annual financial statements. Signatures and dates on packing slips, receiving reports, purchase orders, or sales slips would ensure that only invoices for which goods have been received are paid. It would also ensure that the proper occurrence date is used.

RECOMMENDATIONS:

9. The State Court Administrator should realign the duties of its accountants so that each does not perform all aspects of a purchase/disbursement transaction for a division.

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10. A receiving report should be prepared or a packing slip or vendor sales slip used to document that goods ordered were received. The receiving report should be signed and dated by the person receiving the goods.

Contract requirements with vendors of the Family Farm Legal Assistance Program are not being enforced.

Minn. Stat. Section 480.250 directs the Supreme Court to contract with one or more established nonprofit corporations to provide legal assistance to financially distressed state farmers. An appropriation of \$650,000 was made to the Supreme Court to fund the program through June 30, 1987. The court contracted with three nonprofit organizations for the period June 1, 1986 through June 30, 1987.

The contracts stipulated that invoices were to be submitted monthly to the court, itemizing the costs incurred for the services provided. However, only one vendor has submitted monthly itemized statements. The other two vendors request the same amount each month regardless of the services provided. The amount requested by these two vendors is equal to their contract amount divided by 12 monthly payments.

Without an itemized statement, reimbursement of allowable costs for direct services, subcontracts, and central staff costs cannot be monitored. As a result, reimbursement of ineligible costs and/or overpayments of pre-established maximum limits may occur.

RECOMMENDATION:

11. The Supreme Court should not reimburse the Family Farm Legal Assistance Program vendors until an itemized billing statement is received and reviewed for appropriate services rendered and costs incurred.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Controls over fixed assets are inadequate.

Controls in effect over fixed assets were reviewed at various judicial offices. Each office purchases, receives, and authorizes payment for their own equipment needs. The actual payment, however, is made centrally by an accounting unit staffed at the Supreme Court. Control problems over fixed asset inventory records exist because:

- a detailed listing of fixed assets showing additions, deletions, and asset locations has not been maintained; and
- a complete physical inventory of fixed assets has not been taken for a number of years.

The state has a Fixed Asset Record Management System (FARMS) in operation that the court and judicial offices could use. The larger judicial offices, including the court, currently do not maintain a detailed fixed

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asset system. Several of the smaller offices maintain manual records which are incomplete and cumbersome to update.

Overall accountability and control of fixed assets would be greatly improved if a detailed fixed asset record or system was used. Such a system would allow current addition, deletion, and transfer information to be generated and distributed to those responsible for effective physical control over the assets. It would also provide the basis for physical inventory spot-checks and could also be used for financial reporting purposes.

The FARM system has been established to provide state agencies with a detailed fixed asset system. The court and the judicial offices need to take a complete physical inventory of all of its assets and to record them on FARMS or a similar system. Once a physical inventory has been completed, periodic spot-checks can be performed to ensure that the assets, as described on the system, are properly accounted for.

RECOMMENDATIONS:

12. The Supreme Court and its judicial offices should take a complete physical inventory of all assets and record asset descriptions, state identification numbers, and locations of all assets onto the fixed asset record management (FARM) system or other similar system.
13. All fixed asset inventory locations should be spot-checked on a regular basis. Records of spot-checks should be maintained and used to update the inventory records and identify the need for a complete physical inventory.

Payroll duties are not properly segregated.

The accounting unit of the State Court Administrator's office processes payroll for the Supreme Court, Court of Appeals, Trial Courts, Law Library, and several related boards. Currently, payroll processing is performed by two accounting employees. Each employee is responsible for complete processing of specific departments/divisions. Both employees input payroll transactions, review and certify payroll certification reports, and pick up/distribute payroll checks. In addition, one individual is authorized to approve personnel forms.

A strong system of internal accounting control provides independent verification or authorization of accounting data. For example, any individual inputting payroll transactions onto the on-line system should not review and certify payroll certification reports or pick up/distribute payroll checks. In addition, employees who process payroll should not be authorized to approve personnel transactions. Without an independent review or proper separation of duties, intentional or nonintentional errors could remain undetected.

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RECOMMENDATION:

14. The duties of reviewing and certifying payroll certification reports should be performed by an individual independent of inputting payroll transactions.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Positive time reporting requirements are not properly enforced.

A positive time reporting system requires employees to submit both time sheets and leave slips. Leave slips are to be submitted for annual and sick leave, and for compensatory time earned or taken. Both time sheets and leave slips are to be reviewed and signed by the employee's supervisor as well as by the employee. Without these controls, a "negative time reporting" or honor system exists which is an inadequate way to prevent or detect intentional or unintentional errors in time and leave reporting.

Positive time reporting is used by the judicial branch. However, several weaknesses were noted in the documentation of leave slips. First, leave slips were not found on file for a sample of employees tested at CLE, Court of Appeals, and the Law Library. Also, leave slips are destroyed by the supervisor of one unit in the State Court Administrator's office as soon as the time sheets are submitted. In addition, supervisory signatures are not obtained for judges' secretaries (Supreme Court), law clerks, and directors of the various boards. Leave slips are one method to document an employee's request in advance if required, and to provide an independent check against the time sheets. Additionally, adequate internal controls require the use of written leave slips or other alternative forms which have been approved by the appropriate supervisor to provide greater assurance that leave has been recorded properly.

Currently, time sheets are required of all employees except for judges and law clerks. Judges are paid a monthly salary regardless of the number of cases they are assigned each month. The actual hours worked by a judge may fluctuate a great deal, and therefore, are not monitored with time sheets but rather with assignment schedules. Law clerks, however, are required to work a minimum of 80 hours each pay period. This requirement is stated in the Judicial Branch Personnel Plan, Section 12.1 as follows:

During each pay period, consisting of fourteen calendar days, full time employees shall work a minimum of 80 hours, inclusive of holidays and approved leave.

Time sheets are being submitted for law clerks at the Court of Appeals, but not for law clerks at the Supreme Court. Supreme Court law clerks are paid for 80 hours unless the payroll input person is informed otherwise. This "negative time reporting" system has resulted in the need to retroactively adjust leave accrual records due to delinquent reporting. Positive time reporting should be used to ensure strong controls and adequate documentation for payroll expenditures.

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RECOMMENDATIONS:

15. All employees should prepare and submit to their supervisor for approval, written leave requests for annual and sick leave used and compensatory time earned and taken.
16. The Supreme Court should establish a positive time and leave reporting system for its law clerks.

STATE LAW LIBRARY

Friends of the Minnesota State Law Library, a nonprofit corporation is under the inappropriate directorship of the State Law Librarian.

Friends of the Minnesota State Law Library is a nonprofit corporation established for the following purposes as stated in its articles of incorporation dated April 16, 1981:

. . . to advance the research opportunities of the legal and nonlegal community, to improve and develop the legal resources of the Minnesota State Law Library and all other affiliated libraries, and to stimulate and expand the legal, intellectual and cultural knowledge of members by the exploration and discussion of law-oriented books, film, art, poetry and other sources of law-related inquiry.

The incorporator of Friends of the Minnesota State Law Library was and still is an employee of the State Law Library. The first Board of Directors consisted of three members, one of which was and still is the State Law Librarian. Currently, the Law Librarian is the only board officer. The Law Librarian has held the position of President and chief executive officer of the corporation since its inception. He also holds the position of treasurer and as such, keeps all the corporate financial records and maintains the corporate check book.

Although the corporations bylaws call for an annual meeting in June to elect board officers, no annual meeting has been held since 1984. The Law Librarian told us that the corporations major source of revenue was generated by admission receipts to an annual film series presentation and that no revenue has been generated by the corporation since October of 1985.

We believe the Law Librarian should at most act only in an advisory capacity or as a liaison between the State Law Library and the Friends of the Minnesota State Law Library. He should not be involved in the corporation's day to day activities or exercise any management control over or oversee any corporate functions.

Under the circumstances, we question the legitimacy of the corporate structure of Friends and consider the Law Librarian in a conflict of interest position. Consideration should also be given to the dissolution

MINNESOTA SUPREME COURT

of the Friends of the Minnesota State Law Library. Article III of the Articles of Incorporation provides:

. . . in the event of dissolution of the corporation . . . the dissolution shall be conducted under court supervision if . . . deemed desirable by the corporation in such manner as in the judgment of the court will accomplish the general purposes for which the dissolved corporation was organized.

RECOMMENDATION:

17. The Law Librarian should resign as president and chief executive officer of the Board of Directors of the Friends of the Minnesota State Law Library. The Law Librarian should also petition the court to supervise the dissolution of the corporation.

Internal controls over receipts collected at the Law Library should be strengthened.

The Law Library collected receipts which totaled \$54,650 for fiscal year 1986. Receipts were collected for photocopying, government document sales, legal research, microfilming, cataloging, book sales, and miscellaneous fines. Receipts are received either through the mail or at the reference desk. The following receipt control weaknesses exist at the Law Library:

- receipts collected at the reference desk are not restrictively endorsed;
- prenumbered billing statements are not properly controlled; and
- independent reconciliations of deposit slips and SWA receipt reports are not made.

Mail is received and opened by one individual at the library. Checks received are restrictively endorsed and photocopied, and then given to persons responsible for each particular receipt type. However, checks received at the reference desk are not endorsed promptly.

The Law Library uses prenumbered invoices, but does not control access to those invoices. As a result, several gaps exist and many invoices are unaccounted for. Access could be controlled by recording the range of numbers assigned periodically to each individual responsible for billing vendors. Then, invoices could be accounted for in numerical sequence to determine if all invoices billed and collected were deposited.

After receipts have been deposited, a reconciliation should be performed by an individual independent of the entire process. The photocopied checks should be reconciled to the deposit slips to ensure that checks received are properly deposited. Deposit slips should be reconciled to the statewide accounting (SWA) reports to ensure that deposits made are credited to the proper account. This reconciliation should be performed

MINNESOTA SUPREME COURT

by an individual who does not have responsibility for processing receipts or maintaining receipt records.

RECOMMENDATIONS:

18. Checks received at the reference desk should be restrictively endorsed.
19. All prenumbered invoices should be used in sequential order and accounted for. Access to prenumbered invoices should be limited to one individual. The invoices should be reconciled in numerical sequence to deposit records.
20. Receipts evidenced by photocopies of checks or a listing of receipts, should be reconciled to deposit slips. Deposit slips should be reconciled to SWA reports.

LAWYERS PROFESSIONAL RESPONSIBILITY BOARD

Internal control over receipts collected at the Lawyers Professional Responsibility Board should be strengthened.

The Lawyers Professional Responsibility Board (LPRB) collects professional corporation fees, lawyer fines, postage reimbursements, and honorariums. The Board's receptionist currently opens the mail and gives it to a secretary who makes photocopies of the checks received. Although the Board collects honorariums and lawyer fines, these receipts are delivered to the Supreme Court for deposit. The LPRB deposits professional corporation fees with the State Treasurer's office. During fiscal year 1986, \$22,893 in professional corporation fees, \$16,951 in fines, \$1,788 in postage reimbursements, and \$195 in honorariums were collected.

The LPRB also investigates complaints against lawyers and recommends disciplinary action where appropriate to the Supreme Court. The court's Rules of Lawyers Professional Responsibility state that the prevailing party in any disciplinary proceeding shall recover costs in the amount of \$500, as well as other costs incurred after filing a petition for disciplinary action. Fines and assessments not collected from 1986 and prior years amounted to \$35,415. Lawyers who are suspended or disbarred must pay any outstanding fines before being reinstated and issued a license. Since the Board views outstanding fines more as a reinstatement fee than a punishment, the Board does not actively collect these fines.

In addition, a subsequent collection of a fine does not necessarily mean reinstatement. Such a collection could be subsequently converted or cashed and not be recorded. The amounts which were collected were paid voluntarily by the lawyers. Minn. Stat. Chapter 270A provides for the use of revenue recapture for the collection of debts owed to state government or to certain local government units by applying any of the debtor's tax refunds to the amount of the debt.

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RECOMMENDATION:

21. The Board should develop procedures to ensure that all fines and assessments against lawyers are collected on a timely basis.

BOARDS OF LAW EXAMINERS AND CONTINUING LEGAL EDUCATION

Internal control over receipts collected at the State Board of Law Examiners and the State Board of Continuing Legal Education should be strengthened.

The State Board of Law Examiners and the State Board of Continuing Legal Education share the same office and their operations are under the control of the same director. However, the receipt process for each board is performed separately.

During fiscal year 1986, the State Board of Law Examiners (BLE) collected \$183,628 in fees from individuals taking the bar examination. The bar examination fee is currently \$200 per application. There is also a \$500 fee for attorneys from out of state applying for admission to practice law in Minnesota. The Board of Continuing Legal Education (CLE) collected \$22,125 in fiscal year 1986 from reinstatement fees (\$100) and late affidavit filing fees (\$25).

Currently, the receptionists of each board open the mail and forward it along with any checks to another person for further processing. Neither board restrictively endorse its checks received in the mail. The Board of Law Examiners receipts are locked up each night, while the Board of Continuing Legal Education keeps its receipts in an unlocked desk drawer. The boards are also not performing a reconciliation of deposits to the SWA receipt reports.

The BLE and CLE are making deposits on an average of twice a week and once a month, respectively. Minn. Stat. Section 16A.275 requires receipts to be deposited daily or when they aggregate to \$250. The BLE application processors are completing the receipt books which contains 25 receipts, before turning them over depositing. BLE staff indicated that deposits are more frequent during peak periods of receipts. A limited review of CLE deposits indicated collection of receipts exceeding \$250 before being deposited. Deposit delays weaken internal controls since the opportunity for loss or theft exists while the receipts are undeposited. Delays also result in a loss of investment income to the state.

After receipts have been deposited, a reconciliation should be performed by an individual independent of the receipt process. The deposit slips should be reconciled to the statewide accounting (SWA) reports to verify posting to the proper account. The risks of undetected errors can be reduced by having an independent verification of receipts deposited.

To the extent possible, the boards should consider combining their respective receipt functions. For example, all mail received for the

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boards could be opened by one person and restrictively endorsed at that point. Deposits could be made of all receipts on a more timely basis.

RECOMMENDATIONS:

22. All checks should be restrictively endorsed immediately upon receipt.
23. BLE and CLE should deposit all receipts on a daily basis or when they aggregate \$250 or more.
24. BLE and CLE should reconcile its deposit slips to monthly SWA receipt reports.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

SUPREME COURT (Report issued 8-29-84)

Administrative control procedures over payroll need to be strengthened.

1. To strengthen internal control, the duties associated with the personnel and payroll functions should be separated between the personnel and accounting divisions, respectively.

RECOMMENDATION IMPLEMENTED. The Administrative Director approves all personnel transactions.

2. Written leave request slips should be used and properly approved for all annual and sick leave used as well as overtime worked.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #15.

3. The court's personnel plan should be consistently applied to all court employees or rewritten to specifically address the law clerk positions.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. The personnel plan was revised for fiscal years 1985 through 1986.

4. The Supreme Court should establish a positive time and leave reporting system for its law clerk positions.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #16.

Payments to retired district judges for work performed have not been properly certified or approved.

5. Payments to retired district judges should be properly certified in accordance with Minn. Stat. Section 484.62.

RECOMMENDATION IMPLEMENTED. The payments to retired judges are now certified by the chief judge or district court administrator.

Administrative controls over receipts need to be strengthened.

6. The duties of receiving payments, opening the mail, preparing deposits, and posting receipts to registration records should be separated.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #7.

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7. The civil surcharge worksheet should be reconciled monthly to the deposit slips and SWA reports.

RECOMMENDATION IMPLEMENTED. Reconciliation procedures were implemented during fiscal year 1986.

Control over fixed assets needs to be improved.

8. The Supreme Court should update the SPI listing for all additions, deletions, and location changes in a timely manner.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #12.

9. Procedures should be developed for a periodic physical inventory of all fixed assets.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #12.

10. State Employee Personal Property forms should be used as required by the SPI users manual.

RECOMMENDATION WITHDRAWN. This recommendation made verbally to the Supreme Court.

COURT OF APPEALS (Report issued 7-22-85)

Internal controls over the personnel/payroll area need to be strengthened.

1. The payroll certification report should be reviewed and certified by an individual independent of inputting payroll transactions.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #14.

2. Written leave slips should be used and properly approved for all vacation and sick leave taken to ensure that all leave taken has been appropriately recorded.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendations #15.

3. The judges time and leave record should be completed each pay period to show leave balances available.

RECOMMENDATION IMPLEMENTED. A system to record leave balances was used during fiscal year 1986.

Controls over fixed assets needs to be improved.

4. A complete physical inventory should be taken to identify the assets on hand and the asset number which was assigned to each asset. Once completed the fixed assets should be recorded on the SPI system.

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RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #12.

5. A periodic physical inventory should be made to verify the accuracy of the SPI listing and to identify any assets which may have been lost or stolen.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #13.

6. Invoices should be reviewed carefully so that all expenditures are recorded properly. Corrections should be made in SWA to properly record the dictaphone equipment and the cassette tapes.

RECOMMENDATION IMPLEMENTED. Invoices have been properly recorded.

LAW LIBRARY (Report issued 9-4-84)

Internal controls over payroll need strengthening.

1. To strengthen internal control, the duties associated with the personnel and payroll functions should be separated. Payroll warrants should be picked up and distributed by an independent person not involve in the payroll function.

RECOMMENDATION NOT IMPLEMENTED. See current recommendations #14.

2. Written leave request slips should be used and properly approved for all annual and sick leave used.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendations #15.

LAWYERS PROFESSIONAL RESPONSIBILITY BOARD (Report issued 8-28-84)

Controls over receipts need to be strengthened.

1. The duties of receiving payments, preparing deposits, posting receipts to registration records, and reconciling receipts to SWA should be separated.

RECOMMENDATION IMPLEMENTED. The duties of receiving payments, preparing deposits, and posting receipts to registration records have been separated.

2. The board should deposit its receipts daily or when they aggregate to \$250, in accordance with Minn. Stat. Section 16A.275.

RECOMMENDATION IMPLEMENTED. No exceptions observed.

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3. The professional corporation registration receipts should be reconciled to the number of registered corporations on a periodic basis.

RECOMMENDATION IMPLEMENTED. Reconciliations were performed as required during fiscal year 1986.

4. Procedures should be developed to ensure that all fines and assessments against lawyers are collected on a timely basis. The board should also work with the Supreme Court to incorporate penalties for nonpayment of fines and assessments into the court's Rules of Lawyers Professional Responsibility.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #21.

Controls over fixed assets need to be improved.

5. The board should properly identify its fixed assets as state property, assign and affix asset numbers to each asset, and include cost and acquisition date on their records.

RECOMMENDATION IMPLEMENTED. A fixed asset system identifying state assets with asset numbers is currently in use.

LAW EXAMINERS BOARD (Report issued 8-28-84)

Controls over receipts need to be strengthened.

1. The board should reconcile their "journal report" to SWA receipt reports.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #24.

2. The board should deposit its receipts daily or when they aggregate to \$250 or more in accordance with Minn. Stat. Section 16A.275.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendation #23.

Controls over fixed assets need improvement.

3. The board should properly identify its fixed assets as state property and assign asset numbers to each asset.

RECOMMENDATION NOT IMPLEMENTED. See restatement of this recommendation in current recommendations #12.



THE SUPREME COURT OF MINNESOTA
230 STATE CAPITOL
SAINT PAUL, MINNESOTA 55155

CHAMBERS OF
DOUGLAS K. AMDAHL
CHIEF JUSTICE

(612) 296-5037

October 6, 1987

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

The following responses are submitted to the issues raised in the audit of the financial records of the Minnesota Court of Appeals.

RECOMMENDATION 1. The Supreme Court should seek legislation to establish the Board and IOLTA program into state law. The program should then be run through the state treasury and utilize existing state administrative systems.

RESPONSE TO RECOMMENDATION 1.

After notice and a public hearing, the Supreme Court established the Interest on Lawyer Trust Account (IOLTA) program to capture the interest which accrued to a lawyer's trust account, which would otherwise be unrealized. Attorneys routinely receive funds in trust for future transactions. If the funds are large in amount or expected to be held for a long time, the attorney customarily deposits the funds in an interest-bearing account for the benefit of the client. The IOLTA program does not change this practice.

Lawyers often hold clients' money in amounts which are small or expected to be held for short periods of time, making it impracticable and uneconomical because of costs to invest the money for the client. As a result no interest is earned on these accounts. Under IOLTA all the inherently unproductive client deposits are pooled in an interest-bearing NOW account. The clients lose nothing. The interest earned only because of IOLTA is used to support law-related public services consistent with applicable Internal Revenue Code Regulations including Section 501(c)(3).

Forty-five states and the District of Columbia have adopted IOLTA programs. In forty of those states, the programs have been established by the state supreme court. No court in an adversary setting has ever rejected an IOLTA program. The Eleventh Circuit Court of Appeals has upheld the constitutionality of the IOLTA program in Florida.

The Court established this program under its inherent authority to regulate the practice of law, a principle clearly articulated in a long line of cases at the state and federal levels. It is also a clearly established principle in Minnesota that the Legislature does not have the authority to regulate attorneys in the practice of law. Therefore the Legislature would not be able to specify how attorneys should maintain their trust accounts to take advantage of an IOLTA program.

Although the Court has chosen to deposit other funds it receives into the state treasury, it is not obligated to do so. Minn. Stat. Section 16.A.18 provides: "The judicial and legislative branches are not required to use the state accounting system or a computerized payroll system." Minn. Stat. Section 16.A.14, Subd. 2a, provides: "The allotment and encumbrance system does not apply to (1) appropriations for the courts or the legislature;"

The Court believes it has acted within the scope of its authority, has established adequate fiscal safeguards and declines to accept this recommendation.

RECOMMENDATION 2. The duties of receiving and disbursing funds should be performed by separate individuals, and a reconciliation should be performed periodically by someone independent of the receipts/disbursements process.

RESPONSE TO RECOMMENDATION 2.

The Lawyer Trust Account Board has hired an independent firm of Certified Public Accountants to audit the accounts of the IOLTA program and has requested an internal control report. A copy of that report is available.

The Lawyer Trust Account Board is actively exploring a lockbox procedure to address the concerns about the receipting function. The staff responsibilities have been realigned in accord with the recommendations of the Arthur Andersen & Co. audit report. Other recommendations have been implemented or are in the process of being implemented.

RECOMMENDATION 3. The Court of Appeals should seek legislation which would clarify Minn. Stat. Section 484.54, Subd. 2.

RESPONSE TO RECOMMENDATION 3.

Although the Court believes it acted within the scope of its authority and within the spirit of the law, it will seek legislation clarifying entitlement for Court of Appeals judges to subsistence expenses during the first two years in office.

RECOMMENDATION 4. The judges should submit documentation to support their reimbursement claims for postage and long distance telephone calls.

RESPONSE TO RECOMMENDATION 4.

The Court will request documentation from judges to support their reimbursement claims for postage and long distance telephone calls.

RECOMMENDATION 5. The court should follow state policy regarding mileage reimbursement rates as incorporated into its Administrative Policy No. 4, or a waiver should be obtained from Central Motor Pool.

RESPONSE TO RECOMMENDATION 5.

Chapter 16.B of Minnesota Statutes deals with the responsibilities of the Commissioner of Administration. Minn. Stat. 16.B.01 defines agency as follows: "'Agency' means any state officer, employee, board, commission, authority, department, or other agency of the executive branch of state government." Minn. Stat. 16.B.54 governs Central Motor Pool and subd. 1, provides that: "The Commissioner shall manage a central motor pool of passenger motor vehicles and trucks used by state agencies with principal offices in the City of St. Paul...."

The Court concludes that while the Commissioner of Administration or her designee has the authority to promulgate rules and regulations for the executive branch, she does not have authority by statute or otherwise, to bind the judiciary.

However, because of M.S. 484.54, Subd. 1, and M.S. 480A.02, Subd. 7, the Court will apply for annual control numbers for judges in the seven-county metropolitan area outside of St. Paul and Minneapolis and require control numbers for judges and employees within the confines of Hennepin and Ramsey counties where mileage exceeds the average of 50 miles per day.

RECOMMENDATION 6. The Court should establish an approval system whereby a chief judge or his/her designee would approve a claim for payment.

RESPONSE TO RECOMMENDATION 6.

The trial court system is composed of judges and court administrators situated generally at widely geographically diverse locations. The assignment system by which judges are scheduled to travel is developed jointly by the judges and the court administrator. An individual judge is assigned to handle the case calendars in a particular geographic region. Within that assignment the judge has sole discretion to schedule his time and travel. Emergencies often occur which require the presence of a judge. Those emergencies and effective case scheduling often require extensive travel, some of which is unanticipated. No local authority is in a better position than the Supreme Court to review judges' expense claims.

From 1980 to the present the Supreme Court has worked with the Conference of Chief Judges in administering the trial court budget. Throughout that period, trial judges have consistently challenged the restrictiveness of state reimbursement guidelines as inappropriate to elected officials and not compatible with the nature of judicial positions. The legislative appropriation is made to the Supreme Court. In order to achieve uniformity of enforcement, exercise its legal responsibilities for an appropriation made to it, and have the budget flexibility needed to respond to the needs of all districts and unanticipated emergencies, the Supreme Court will retain approval authority. The exercise of that authority will not be significantly enhanced nor will economies be achieved by establishing a local approval system which merely duplicates the state system.

RECOMMENDATION 7. The duties of issuing statements, receiving payments, opening mail, preparing deposits, and posting receipts to attorney registration and copy fee records should be separated.

RESPONSE TO RECOMMENDATION 7.

The Court will segregate the accounting responsibilities for receiving and recording the receipt of funds by November 1, 1987.

RECOMMENDATION 8. Deposit slips should be reconciled to SWA receipt reports.

RESPONSE TO RECOMMENDATION 8.

The Accounting Staff have been instructed to reconcile deposit slips to SWA receipt reports.

RECOMMENDATION 9. The State Court Administration should realign the duties of its accountants so that each does not perform all aspects of a purchase/disbursement transaction for a division.

RESPONSE TO RECOMMENDATION 9.

Staff responsibilities will be realigned to separate purchase/disbursement transactions for each division by November 15, 1987.

RECOMMENDATION 10. A receiving report should be prepared or a packing slip or vendor sales slip used to document that goods ordered were received. The receiving report should be signed and dated by the person receiving the goods.

RESPONSE TO RECOMMENDATION 10.

The Court will require a packing slip or a receiving report signed and dated by the person receiving the goods.

RECOMMENDATION 11. The Supreme Court should not reimburse the Family Farm Legal Assistance Program vendors until an itemized billing statement is received and reviewed for appropriate services rendered and costs incurred.

RESPONSE TO RECOMMENDATION 11.

After the audit the Court requested and is currently receiving itemized billings from the Family Farm Legal Assistance Program. It is not the intent of the Court to monitor line items restrictively to the detriment of the program. In the case of Legal Assistance of Northwest Minnesota, a 1/12 share is requested as a set-aside for judicare payments. This method for requesting funds is appropriate to the program and will be approved.

RECOMMENDATION 12. The Supreme Court and its judicial offices should take a complete physical inventory of all assets and record asset descriptions, state identification numbers, and locations of all assets onto the fixed asset record management (FARM) system or other similar system.

RECOMMENDATION 13. All fixed asset inventory locations should be spot-checked on a regular basis. Records of spot-checks should be maintained and used to update the inventory records and identify the need for a complete physical inventory.

RESPONSES TO RECOMMENDATIONS 12 AND 13.

These recommendations will be implemented by the Director of Administrative Services by June 30, 1988.

RECOMMENDATION 14. The duties of reviewing and certifying payroll certification reports should be performed by an individual independent of inputting payroll transactions.

RESPONSE TO RECOMMENDATION 14.

By December 1, 1987, staff responsibilities will be realigned so that the duties of reviewing and certifying payroll certification reports and inputting payroll transactions are separated.

RECOMMENDATION 15. All employees should prepare and submit to their supervisor for approval, written leave requests for annual and sick leave used and compensatory time earned and taken.

RESPONSE TO RECOMMENDATION 15.

Working units at the Court are small and verbal requests for leave have been adequate notice. Supervisors and employees are required to certify that leave has been accounted for accurately.

RECOMMENDATION 16. The Supreme Court should establish a positive time and leave reporting system for its law clerks.

RESPONSE TO RECOMMENDATION 16.

By October 15, 1987, the Supreme Court will have implemented a positive time and leave reporting system for its law clerks.

RECOMMENDATION 17. The Law Librarian should resign as president and chief executive officer of the Board of Directors of the Friends of the Minnesota State Law Library. The Law Librarian should also petition the court to supervise the dissolution of the corporation.

RESPONSE TO RECOMMENDATION 17.

At present the Friends of the Minnesota State Law Library is a defunct organization. It sponsors no programs, has no permanent officers and no plans to undertake future projects. The organization has no funds; the checking account has been closed. The State Law Librarian served temporarily until permanent officers could be elected. No one has responded to an attempt to revive the organization. In light of its defacto termination, the expense of a court supervised dissolution seems superfluous. The Court has directed the State Law Librarian and his staff to refrain from holding office or sitting on the Board of Directors in the event of a reconstitution of the organization.

RECOMMENDATION 18. Checks received at the reference desk should be restrictively endorsed.

RESPONSE TO RECOMMENDATION 18.

Endorsement stamps have been purchased for both the Supreme Court library and the reception desk at 117 University. All checks are endorsed by staff as they are received.

RECOMMENDATION 19. All prenumbered invoices should be used in sequential order and accounted for. Access to prenumbered invoices should be limited to one individual. The invoices should be reconciled in numerical sequence to deposit records.

RESPONSE TO RECOMMENDATION 19.

All invoices are handled by one employee who assigns a range of numbers to individuals responsible for billing charges.

RECOMMENDATION 20. Receipts evidenced by photocopies of checks or a listing of receipts, should be reconciled to deposit slips. Deposit slips should be reconciled to SWA reports.

RESPONSE TO RECOMMENDATION 20.

We believe accounting staff have been reconciling SWA deposits to deposit slips. The need for a reconciliation has been reiterated.

RECOMMENDATION 21. The [Lawyers Professional Responsibility] Board should develop procedures to ensure that all fines and assessments against lawyers are collected on a timely basis.

RESPONSE TO RECOMMENDATION 21.

The Board attempts to collect all fines and assessments against lawyers where it has reason to believe there are assets. Experience has shown that generally where a lawyer is disbarred or suspended the collection costs exceed the revenue gained. The Director's office has explored the possibility of using Minn. Stat. 270A for collection with the Department of Revenue in the past and has been told that the collection mechanism is not available where the agency is not supported by tax revenue. The Director will again discuss the issue with the Department of Revenue.

RECOMMENDATION 22. All checks should be restrictively endorsed immediately upon receipt.

RESPONSE TO RECOMMENDATION 22.

By December 1, 1987, the staff will restrictively endorse all checks upon receipt.

Mr. James R. Nobles

-10-

October 6, 1987

RECOMMENDATION 23. BLE and CLE should deposit all receipts on a daily basis or when they aggregate \$250 or more.

RESPONSE TO RECOMMENDATION 23.

By December 1, 1987, the staff will deposit all receipts on a daily basis or when they aggregate \$250 or more.

RECOMMENDATION 24. BLE and CLE should reconcile its deposit slips to monthly SWA receipt reports.

RESPONSE TO RECOMMENDATION 24.

Accounting staff have already begun reconciling deposit slips to monthly SWA receipt reports.

Sincerely yours,



Douglas K. Amdahl
Chief Justice

DKA/JLR:jiw