

**MINNESOTA SUPREME COURT
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989**

JULY 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

90-43

MINNESOTA SUPREME COURT
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: July 25, 1990

No. 90-43

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Receipts, including attorney registration and filing fees, contracts, payroll, and administrative disbursements.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

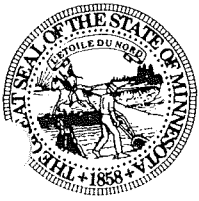
We found four areas where the internal control structure needed improvement:

- Duties of maintaining the attorney registration system need to be segregated.
- Stability payments on lump sum salary increases are not adequately reviewed to ensure against unauthorized or erroneous payments.
- Vacation balances have exceeded the limits specified within the court's personnel plan.
- Controls over the processing of filing fee receipts need to be improved.

We reported on one area where the court had not complied with finance-related legal provisions:

- Contract requirements with a vendor of the Family Farm Legal Assistance Program were not being met.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Peter S. Popovich, Chief Justice
Supreme Court

Audit Scope

We have conducted a financial related audit of the Minnesota Supreme Court, (including the Office of the State Court Administrator, the Continuing Legal Education Board, the Lawyers Professional Responsibility Board, the Law Examiners Board, and the State Law Library), the Court of Appeals, and the trial courts for the three years ended June 30, 1989. Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Supreme Court, the Court of Appeals, and the trial courts, as discussed in the Introduction. Our audit included a study and evaluation of the internal control structure of the Minnesota Supreme Court, the Court of Appeals, and the trial courts in effect in March 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Supreme Court, the Court of Appeals, and the trial courts are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of compliance with certain provisions of laws, regulations and contracts, including Minnesota Statutes, Chapter 480, 480A, 481, 484, 485, and the Court Rules. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Supreme Court is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with applicable Department of Finance policies and procedures.

Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- receipts,
- disbursements, and
- payroll.

For each of these internal control structure categories, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

In our opinion, the internal control structure of the Minnesota Supreme Court, the Court of Appeals, and the trial courts in effect in March 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to the transactions of the Minnesota judicial agencies.

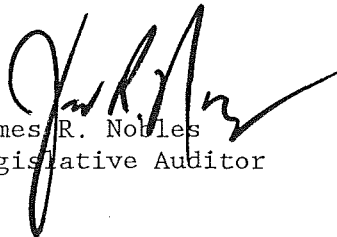
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Minnesota Supreme Court in findings 1 to 4 and at the exit conference held on May 1, 1990.

The results of our tests also indicate that, except for the issues discussed in findings 4 and 5, with respect to the items tested, the Minnesota Supreme Court, the Court of Appeals, and the trial courts complied, in all material respects, with the legal provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Supreme Court, the Court of Appeals, and the trial courts had not complied, in all material respects, with those legal provisions.

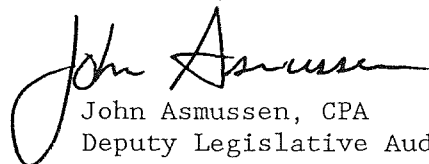
Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Peter S. Popovich, Chief Justice
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This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Supreme Court, the Court of Appeals, and the trial courts. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 25, 1990.

We thank the Minnesota Supreme Court and its staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 25, 1990

REPORT SIGNED ON: July 19, 1990

MINNESOTA SUPREME COURT

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Cecile Ferkul, CPA	Audit Supervisor
Sonya Hill	Audit Staff
Mary Annala	Audit Staff
John Wicklund, CPA	Audit Staff
Karen Klein	Audit Staff

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Judicial Branch on May 1, 1990:

Judith Rehak	Administrative Services Director
Janet Warwick	Administrative Assistant
Virginia Hames	Accounting Staff
Eleanor Quandt	Accounting Staff
Pam Wicker	Accounting Staff
Sue Ahlgren	Accounting Staff
Joan Marchio	Accounting Staff
Diane Sobinski	Accounting Staff

MINNESOTA SUPREME COURT

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 nonpartisan ballot. Vacancies during a term on the court are filled by a governor's appointment. Peter S. Popovich succeeded Douglas K. Amdahl as the Chief Justice in January 1989.

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 majority of cases in the state are originally heard at the trial court level. The state's trial court system is organized into ten judicial districts. Each judicial district has different divisions to serve the public's needs. The trial court has 241 district court judges.

Cases can be appealed from the trial court level to the Court of Appeals. The Court of Appeals was created in 1983 and determines whether the trial courts committed errors in their handling of cases. There are 14 appellate court judges.

The Minnesota court system is currently in a period of transition. Many of the activities historically performed and funded by the municipal and county levels of government are being brought under the control of the state. Currently under a pilot project in the 8th Judicial District the entire court system, consisting of 13 counties, became part of state government.

The following schedule summarizes the court system's cash basis receipts and cash basis disbursements for each of the three years ending June 30, 1989:

<u>Receipts</u>	<u>FY 89</u>	<u>FY 88</u>	<u>FY 87</u>
Supreme Court	\$6,916,535	\$7,385,464	\$4,814,203
Court of Appeals	\$6,509	\$3,420	\$646
Trial Courts	\$883	\$438	\$375
 <u>Expenditures</u>	 <u>FY 89</u>	 <u>FY 88</u>	 <u>FY 87</u>
Supreme Court	\$13,427,859	\$12,724,604	\$10,742,793
Court of Appeals	\$3,876,039	\$3,687,946	\$3,165,255
Trial Courts	\$19,198,597	\$18,420,008	\$16,911,532

Source: SWA Department Receipt Summary at June 30, and SWA
Department Disbursement Summary at June 30.

MINNESOTA SUPREME COURT

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR AUDIT FINDING NOT RESOLVED: Incompatible duties are not adequately segregated in the processing of attorney registration receipts.

One Supreme Court employee currently maintains the attorney registration system, collects and deposits attorney registration receipts and reconciles the registration system to the deposits made. These duties are not compatible and should be performed by separate individuals. Adequate separation of duties between individuals provides a degree of assurance as to the proper safeguarding of assets and the reliability of the accounting records. Concentration of these duties with one employee subjects these receipts to an increased risk of errors or irregularities occurring without timely detection. Attorney registration receipts totaled approximately \$1.4 million in fiscal year 1989. The Supreme Court has sufficient existing staff to adequately segregate these duties.

RECOMMENDATION

- The duties of maintaining the attorney registration system, collecting and depositing receipts and reconciling the registration system to the deposits should be segregated.

2. The posting of stability payments is not adequately monitored.

Supreme Court staff do not verify that stability payments made to employees are properly entered on the payroll system. Stability payments are payments made to Supreme Court, Court of Appeals, and trial court employees who have reached the top of their pay ranges. Rather than a percentage increase these employees are eligible for lump sum payments of up to \$1,000, based on their salaries and years of state service. The majority of these payments are made in January, but may occur sporadically throughout the year. The approved lump sum payments are given to the payroll clerk for input into the payroll system. The approved amounts are not, however, given to the person authorized to review and approve the payroll certification report, which is the final approval of the payroll transactions. Unless the person reviewing the certification report knows what payments are authorized, she is not able to identify unauthorized or erroneous payments.

RECOMMENDATION

- The person reviewing and signing the payroll certification report should know of authorized stability payments so that these transactions can be specifically verified as part of the certification process.

MINNESOTA SUPREME COURT

3. Vacation balance limits are not monitored and are exceeded by some employees.

Seven of ten District Court Administrators exceeded the 275 hour vacation balance limit set by the Judicial Branch Personnel Plan. The plan states that "Vacation leave may be accumulated to any amount provided that once each year, on the date ending a pay period specified by the appointing authority, each director's accumulation must be reduced to 275 hours or less. If the appointing authority has not specified a date, it shall be the last day of the first pay period in January."

As of the pay period ended January 30, 1990, District Court Administrators' balances exceeding the 275 hour limit ranged from 276 hours to 358 hours, with the average being 327 hours. The court has never reduced the hours to 275, instead allowing employees to officially or unofficially carry over the balances to future periods. This practice may allow employees to accrue hours to take extended actions, which would cause staffing problems.

RECOMMENDATION

- Employees' vacation balances should be monitored and annually reduced to the limit specified in the Judicial Branch Personnel Plan.

4. Internal controls over the processing of filing fee receipts collected at the Supreme Court should be improved.

Filing fees collected by the Supreme Court are not restrictively endorsed upon receipt, adequately safeguarded until deposit, deposited on a timely basis, nor reconciled to a mail list or other receipt record. Filing fees are fees paid when a petitioner files a case with the court. During fiscal year 1989 approximately \$116,000 was collected.

Although the receipts are referenced with a case number when received and recorded on the Trial Court Information System (TCIS), no reconciliation to this system is performed to ensure that all receipts are properly deposited. The clerk processing the receipts stores the checks in an envelope on the top of her desk. The clerk does not endorse the checks until the deposit is prepared and does not make deposits more often than weekly, regardless of the volume of receipts. The average deposit amount was \$5,270 in fiscal year 1989. Minn. Stat. Section 16A.275 requires that receipts totaling or exceeding \$250 are to be deposited on a daily basis.

RECOMMENDATION

- The Supreme Court should require that filing fee receipts be restrictively endorsed upon receipt, adequately safeguarded until deposit, deposited in a timely manner, and reconciled to the TCIS system to ensure that all receipts are properly and promptly deposited in SWA.

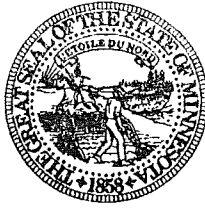
MINNESOTA SUPREME COURT

5. PRIOR AUDIT FINDING NOT RESOLVED: Contract requirements with a vendor of the Family Farm Legal Assistance Program are not being met.

The Supreme Court is paying a vendor for services provided through the Family Farm Legal Assistance Program even though the vendor is not providing itemized statements of expenses as required by the contract. The Family Farm Legal Assistance Program was created to provide legal assistance to financially distressed farmers. The Supreme Court has contracted with various vendors to provide these legal services. According to contract terms, invoices are to be submitted monthly to the Supreme Court, itemizing the costs incurred in providing these services. One of the vendors submits invoices requesting one twelfth of the annual contract amount, which for fiscal year 1988 was \$104,000. Without an itemized statement, the propriety of costs cannot be monitored which could result in reimbursement of ineligible costs and/or overpayments of contract maximums.

RECOMMENDATION

- The Supreme Court should not reimburse Family Farm Legal Assistance vendors unless payment is based on an itemized bill for services rendered and actual costs incurred.



THE SUPREME COURT OF MINNESOTA

230 State Capitol
Saint Paul, Minnesota 55155

JUDITH L. REHAK
Administrative Services Director

July 19, 1990

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Mr. James Nobles
Legislative Auditor
100 Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

I have reviewed the report of the legislative audit staff and enclose the response of the Supreme Court for inclusion with the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Judith L. Rehak".

Judith L. Rehak
Administrative Services Director

Encl.

JLR:dg



THE SUPREME COURT OF MINNESOTA
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SAINT PAUL, MINNESOTA 55155

CHAMBERS OF
PETER S. POPOVICH
CHIEF JUSTICE

(612) 297-1012

Responses to Legislative Audit Recommendations

No. 1: The Supreme Court has attempted in each of the last two biennia to increase greater cross checking in the receipt, deposit and reconciliation of attorney registration dedicated receipts. The Supreme Court will attempt to comply with more complete segregation of duties upon consolidation of its staff in the new Judicial Center.

No. 2: The Supreme Court has revised its payroll procedure to provide the person certifying the payroll with a copy of the letter notifying the employee of the stability payment.

No. 3: The Judicial Branch Personnel Plan also provides that the Personnel Director may extend the time to use accrued vacation. Extensions of time to reduce accrued leave balances have been granted especially where limited staffing makes it crucial for employees to schedule leave when work demands permit the employee's absence. While extended leaves may cause staffing problems, inadequate staff resources create the inability to use accrued leave and hence the need to extend the leave balances to allow the employee the opportunity to reduce leave balances.

The Director, has however, instructed all personnel to request extension of time to use accrued balances in writing so that an audit trail is maintained.

No. 4: The personnel of the office of Appellate Clerk have been directed to endorse restrictively all filing fee checks immediately upon receipt. The clerk responsible for deposits has been directed to make deposits in compliance with M.S. 16A.275.

No. 5: The Supreme Court has notified the contractor of the need to submit itemized monthly billings and has requested a specific accounting of FY90 funds. The legal services program contracts with attorneys at a reduced fee to provide legal services to indigent farmers. The majority of the program expenses are legal fees which are set aside at case initiation for payment upon delivery of the legal service.