

**MINNESOTA SUPREME COURT
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1991**

DECEMBER 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-85

MINNESOTA SUPREME COURT
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1991

Public Release Date: December 18, 1992

No. 92-85

OBJECTIVES:

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

CONCLUSIONS:

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

- The court needs to monitor its payroll reimbursements to the counties.
- 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.
- The court needs to strengthen controls over meal expenditures of the Law Examiners Board.
- Duties of maintaining payroll for court of appeals, district trial court judges, retired judges, and district administrators need to be segregated.

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

- The Lawyers Professional Responsibility Board was not making timely deposits in accordance with Minn. Stat. Section 16A.275.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable A. M. Keith, 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 Lawyers Professional Responsibility Board, the Law Examiners Board, the Interest on Lawyers Trust Account Board, the Client Security Board, the Legal Certification Board, the Continuing Legal Education Board, and the State Law Library), the Court of Appeals, and the trial courts for the two years ended June 30, 1991. 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 February 1992.

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, 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:

- Revenues
 - Lawyers Professional Responsibility Board
 - Law Examiners Board
 - Interest on Lawyers Trust Account Board
- Expenditures
 - Supreme Court Operations
 - Family Farm Legal Assistance Program
 - State Law Library
 - Lawyers Professional Responsibility Board
 - Law Examiners Board
 - Interest on Lawyers Trust Account Board
- Payroll
 - Trial Court System
 - Court of Appeals
 - Supreme Court Operations
 - Lawyers Professional Responsibility Board
 - Law Examiners Board

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

Our study and evaluation disclosed the conditions discussed in findings 1 through 5 involving the internal control structure of the Minnesota Supreme Court. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

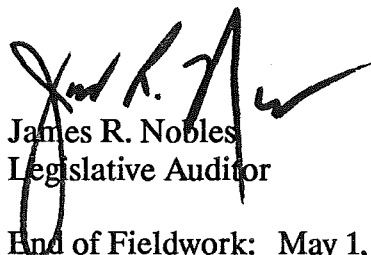
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of their assigned functions. We do not believe the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation were reported to the management of the Minnesota Supreme Court at the exit conference held on June 1, 1992.

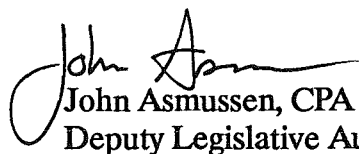
The results of our tests also indicate that, except for the issue discussed in finding 2, with respect to the items tested, the Minnesota Supreme Court, the Court of Appeals, and the trial courts complied, in all material respects, with the legal provisions referred to in the audit scope paragraphs. 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.

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 December 18, 1992.

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: May 1, 1992

Report Signed On: December 11, 1992

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
Pat Ryan	Audit Staff
Kari Irber, CPA	Audit Staff
Karen Klein	Audit Staff
Christina Weiss	Audit Staff

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Supreme Court on June 1, 1992:

Judith Rehak	Administrative Services Director
Peg Corneille	Executive Director, Board of Law Examiners
Joanne Daubenspeck	Office Administrator, Lawyers Professional Responsibility Board

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 governor’s appointment. A.M. Keith succeeded Peter S. Popovich in February 1991 as the Chief Justice of the Supreme Court.

The Minnesota Supreme Court, as the highest court in the state, is primarily engaged in judicial decisions. The court has jurisdiction over appeals from Workers’ Compensation Court of Appeals, the Tax Court, defendants convicted of first-degree murder, and discretionary review of decisions of the Court of Appeals. 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 system has 242 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 16 appellate court judges.

The Minnesota court system is in a period of transition. Many of the activities historically performed and funded by the municipal and county levels of government have been brought under the control of the state.

The General Fund appropriations made to the court system for fiscal years 1990 and 1991 were:

	1990	1991
Supreme Court	\$11,439,000	\$12,207,000
Court of Appeals	4,285,000	4,519,000
Trial Courts	25,362,000	27,410,000
Source: Minnesota Laws 1989, Chapter 335, Article 1, Sections 3, 4, and 5, respectively.		

Minnesota Supreme Court

The following schedule summarizes the court system's budgetary basis receipts and disbursements for the two years ending June 30, 1991:

	<u>FY 1990</u>	<u>FY 1991</u>
<u>Revenues</u>		
Lawyers Professional Responsibility Board	\$1,090,857	\$1,144,794
Law Examiners Board	570,155	765,787
Interest on Lawyers Trust Account Board	2,361,833	2,440,739
Other Revenues	<u>1,169,751</u>	<u>5,538,696</u>
Total Revenues	<u>\$5,192,596</u>	<u>\$9,890,016</u>
<u>Expenditures</u>		
Supreme Court Operations	\$ 3,881,227	\$ 5,810,932
Family Farm Legal Assistance Program	748,500	858,369
State Law Library	441,635	718,929
Lawyers Professional Responsibility Board	223,194	226,479
Law Examiners Board	280,162	284,607
Interest on Lawyers Trust Account Board	1,952,293	2,240,547
Other Expenditures	<u>2,556,897</u>	<u>7,672,345</u>
Total Expenditures	<u>\$10,083,908</u>	<u>\$17,812,208</u>
<u>Payroll</u>		
Trial Court System	\$20,196,260	\$26,641,176
Court of Appeals	3,388,728	3,878,229
Supreme Court Operations	5,673,188	6,582,996
Lawyers Professional Responsibility Board	882,794	949,331
Law Examiners Board	245,234	286,155
Other Payroll	<u>1,159,384</u>	<u>2,304,883</u>
Total Payroll	<u>\$31,545,588</u>	<u>\$40,642,770</u>

Sources: Statewide Accounting System Budgetary Basis Revenue and Expenditure reports. Interest on Lawyers Trust Account Audited Financial Statements.

Current Findings and Recommendations

1. The Supreme Court does not monitor its payroll reimbursements to the counties.

The Supreme Court does not monitor payroll reimbursements made to counties for trial court employees. The court is currently relying on each of the judicial districts to monitor county reimbursement requests for accuracy and appropriateness. However, some districts are not reviewing the reimbursement requests before submitting them on to the court for payment.

During the audit period, administrative employees, as well as law clerks, court reporters and referees at the district court offices became state employees. Minn. Stat. Section 480.181, subdivision 2, gave employees the option of maintaining county benefits or accruing state benefits. Employees electing county benefits are paid both salary and benefits through the county payroll systems. Employees electing to receive state benefits and all new employees are paid through the state's payroll system. The Supreme Court reimbursed the counties approximately \$2 million for salary and benefits paid to state employees electing county benefits for fiscal year 1991.

The Supreme Court does not verify the reimbursement requests to supporting documentation or review the requests for reasonableness. Biweekly timesheets submitted to the court and the judicial district offices are not compared to the monthly or quarterly reimbursement request. Unless the Supreme Court or the judicial district offices consistently review the supporting documentation available, the court could be paying for unallowable expenses.

To prevent nonjudicial salary and benefits from being paid, the Supreme Court needs to become more involved in reviewing the reimbursement requests or delegating that responsibility to the judicial district office. Either the court or the district offices should verify the accuracy of the counties reimbursement request.

Recommendation

- *The Supreme Court or the judicial district offices should review and verify county reimbursement requests to supporting documentation for accuracy. The Supreme Court should also review the reimbursement requests for reasonableness.*

Minnesota Supreme Court

2. Controls over various receipts are not adequate.

In our review of various receipt areas, we found that controls over receipt processing and handling need improvement. Some receipts are inadequately safeguarded or not deposited promptly. Other receipts are subjected to undue risk because employee duties are not segregated. We noted weaknesses in two programs:

- The Supreme Court has not adequately segregated incompatible duties in the processing of attorney registration receipts. This was a prior audit finding and continues to be a control weakness. One Supreme Court employee currently maintains the attorney registration system, collects and deposits attorney registration receipts, and reconciles the registration system to the deposits. Attorney registration receipts totaled approximately \$3 million for fiscal years 1990 and 1991.
- The Lawyers Professional Responsibility Board is not making timely deposits when receipts exceed \$250, as required by Minn. Stat. Section 16A.275. We noted delays in deposits of up to 17 days. The board collected approximately \$106,000 for professional corporation fees, fines, and restitution from disciplined lawyers for fiscal years 1990 and 1991.

In order for receipts to be adequately safeguarded, proper segregation of duties and prompt depositing is necessary. Segregation of incompatible functions, such as the receipt handling function from the record keeping function, helps to ensure that all receipts are deposited and properly posted to the accounting records. Prompt depositing reduces the possibility of loss or theft of the receipts.

Recommendations

- *The duties of maintaining the attorney registration system, collecting and depositing receipts, and reconciling the registration system to the deposits should be segregated.*
- *Receipts should be deposited daily or when they exceed \$250, as required by Minn. Stat. Section 16A.275.*

3. The Law Examiners Board has incurred some questionable expenditures.

The Supreme Court does not have adequate controls over meal expenditures of the board. For several meal purchases, the board did not submit adequate documentation indicating the purpose of the event or the names of those in attendance. In addition, the cost of some meal reimbursements, including those for a retirement dinner honoring a retiring board member, seemed excessive and unreasonable.

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The board and its committees spent \$7,369 for conference, meeting and catering activities while conducting 78 meetings during the two year audit period. We reviewed 32 expenditures covering approximately \$4,100 of these expenditures. Our testing showed that:

- The board did not adequately document the purpose of events nor the individuals attending most events. Of the 32 expenditures tested, 22 did not indicate the purpose of the event and 28 did not indicate the individuals attending.
- The board paid \$586 for a retirement dinner party for a retiring board member. There were 14 individuals attending at an average cost of \$41.86 per person. This event appears to be more social in nature than business.
- The costs of meals at different meetings appear to be excessive. We found that several board meetings were held at restaurants in which the board members and the board's executive director received dinners ranging from \$28 to \$47 per person. While board members are eligible for reimbursement of reasonable expenses, the cost of these meals are not reasonable.

Minn. Stat. Section 481.01 provides in part that "The members of the board shall have such compensation and such allowances for expenses as may, from time to time, be fixed by the Supreme Court." However, the court has not established any policies which allow expenses for the board members. Currently, the board's members serve without compensation or per diem. In the above instances the Supreme Court's administrative services director has approved these reimbursement requests.

The court needs to develop a policy requiring prior review and approval of proposed events. It should limit eligibility to events that serve a public purpose and maintain reasonable costs. The court should require documentation which shows the purpose, participants, and actual expenditures.

Recommendation

- *The Supreme Court should establish a policy to control expense allowances for members of the Law Examiners Board.*

4. The controls over stability pay and merit increases are not adequate.

The Supreme Court, Court of Appeals, and the trial courts need to improve controls over stability pay and merit increases. Supreme Court staff do not verify that stability payments to employees are properly entered onto the payroll system. Also, performance evaluations are not used on a consistent basis for determining merit increases.

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Supreme Court staff do not verify that stability payments are properly entered on the payroll system. Stability payments are made to Supreme Court, Court of Appeals and trial court employees who have reached the top of their pay ranges. They receive a lump sum increase up to \$1,000, based on their salaries and years of service. An independent person determines the lump sum amounts and then one of two payroll clerks inputs the amounts into the payroll system. However, no one verifies the payroll certification report, which is the final approval of payroll transactions, to ensure that the correct amounts have been input into the system. We cited this as a problem in our prior audit of the courts.

Finally, the Supreme Court does not always require supervisors to file performance evaluations and job descriptions. Four out of nine employees tested did not have a current performance evaluation on file. In addition, two out of those nine did not have a job description on file. Judicial Policy states that a written performance evaluation shall be made prior to completion of 1) six months of service, 2) twelve months of service, and 3) annually thereafter on the employee's anniversary date. The employees must be given the opportunity to sign the document. Performance evaluations are the basis for annual salary increases, other than stability payments. Job evaluations also provide valuable feedback to both the employee and employer, regarding job satisfaction and opportunities for improvement or training. Position descriptions should also be updated on a regular basis to provide guidance to employees on job duties.

Recommendations

- *An independent person should verify the payroll certification report to ensure that the authorized stability payments were input correctly.*
- *The Supreme Court should perform annual evaluations as described in the Judicial Plan rule 6d. Also, employees should have current up to date job descriptions on file.*

5. The separation of duties over payroll for the Court of Appeals, trial court judges, retired judges, and district administrators is not adequate.

The internal controls over the payroll function for the Court of Appeals, the district trial court judges, retired judges and district administrators need to be improved. One accounting officer has control over most of the payroll process. The accountant prepares the personnel input forms (EAFs), inputs the hours from the timesheets into the payroll system, certifies that the payroll was input correctly, and distributes the payroll checks. In addition, the accountant has the authority to authorize the personnel input forms, and on occasion does this. However, the administrative services director normally signs the EAFs.

With the present procedures, errors or irregularities could remain undetected. To strengthen controls, the authority for the accounting officer to authorize the EAFs should

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be removed and another person should be involved in reviewing and certifying the payroll input to detect any errors. Also, the accounting officer processing the payroll should not have access to the paychecks generated.

Recommendations

- *The accounting clerk who processes payroll transactions should not have authorization authority for personnel transactions.*
- *Another person should be involved in reviewing and certifying the payroll input and in distributing the payroll checks.*

December 11, 1992

MEMORANDUM

TO: Legislative Auditor

FROM: Judith L. Rehak, Administrative
Services Division *Judith L. Rehak*

SUBJECT: Responses to Audit Recommendations

1. The Supreme Court or the judicial district offices should review and verify county reimbursement requests to supporting documentation for accuracy. The Supreme Court should also review the reimbursement requests for reasonableness.

In response to the legislative audit recommendation, the attached memo of May 27, 1992 was sent to judicial district administrators to fix the responsibility for reviewing the payroll documents and the claims for reimbursements. The district offices have been requested to provide additional documentation to support future reimbursement claims.

2. The duties of maintaining the attorney registration system, collecting and depositing receipts, and reconciling the registration system to the deposits should be segregated. The Court will separate the depositing and reconciliation function from the registration function.

3. Receipts should be deposited daily or when they exceed \$250, as required by Minn. Stat. Section 16A.275.

Offices have been reminded that deposits should be made in accord with the statute. At the recommendation of the legislative audit staff, deposits are being sent directly from the Board offices to the Treasurer's office to expedite deposits.

4. The Supreme Court should establish a policy to control expense allowances for members of the Law Examiners Board.

Documentation about attendance at and the purpose of the

78 meetings held during the audit period has been made available to the auditor upon receipt of this report. The Supreme Court, in response to this recommendation, has amended administrative policy No. 10 dealing with special expenses to parallel the executive branch policy and to clarify that refreshments may be provided at Board meetings. The Court will develop a specific policy on board reimbursement of all judicial boards, commissions, and task forces by February 1993.

5. An independent person should verify the payroll certification report to ensure that the authorized stability payments were input correctly.

The procedure has been changed so that an independent person compares the stability payment amount with the payroll certification report.

6. The Supreme Court should perform annual evaluations as described in the Judicial Plan Rule 6d. Also, employees should have current up-to-date job descriptions on file.

The need for performance evaluations is communicated to court managers regularly. The Director of Administrative Services has been directed to obtain from court managers updated position descriptions for all court employees and to report to the court any delinquencies in this regard.

7. The accounting clerk who processes payroll transactions should not have authorization authority for personnel transactions.

Staff assignments were changed in accordance with audit recommendations. No one processing payroll transactions has authority to authorize personnel transactions.

8. Another person should be involved in reviewing and certifying the payroll input and in distributing the payroll checks.

Staff assignments were changed in accordance with legislative audit recommendations. Currently two payroll clerks receive timesheets or leave records, prepare the payroll worksheets, and input the information into the payroll system. Neither of these persons has the authority to authorize personnel transactions. The accounting officer certifies the payroll. In the absence of the accounting officer, the administrative services director has that responsibility. The payroll clerks verify the paychecks generated by the system and distribute the checks.