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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

**Minnesota State Courts**  
**July 2001 through June 2004**



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## Financial Audit Division

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

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

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

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

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

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

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

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

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Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

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

We conducted an audit of selected areas of the Minnesota state courts for the three-year period July 1, 2001, through June 30, 2004. Our audit scope was limited to selected human resources, duties and payroll transactions processed through the state's personnel/payroll system. Our objectives focused on a review of the system's internal controls over these financial activities and its compliance with applicable legal provisions.

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

We thank the staff from the Minnesota state courts for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 25, 2005

Report Signed On: June 3, 2005

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### **Audit Participation**

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
John Hakes, CPA	Auditor
April Snyder	Auditor

### **Exit Conference**

We discussed the results of the audit with the following staff of the Minnesota state courts at an exit conference on May 23, 2005:

Jeff Shorba	Deputy State Court Administrator
Judy Rehak	Senior Legal Counsel
Lee Mehrkens	Finance Director
Diana Williams	Human Resource Director
Mike Byzewski	Internal Audit Manager
Roger Volk	Fiscal Services Supervisor
Nancy Dietl	Human Resources Program Manager

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## Report Summary

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### Conclusions:

The Minnesota State Courts developed and implemented a position transition plan for trial court employees moving to state funded positions. The courts consistently applied the plan to employees and accurately recorded positions in the state's personnel/payroll system. As explained in the findings below, the courts had internal control weaknesses in its payroll paid through the state's personnel/payroll system.

### Findings:

- The courts did not properly monitor payroll responsibilities in the state's new online time reporting process – "Self Service Time Entry." This process eliminates paper timesheets. Instead, employees report their time online and supervisors provide electronic approvals. For one pay period, 26 percent of the courts' employees using Self Service Time Entry were included on an exception report, identifying transactions that did not meet the Department of Finance's control expectations.
- The courts have not effectively used standard payroll audit reports to verify the accuracy of payroll transactions.
- The courts did not have a records retention schedule for its trial court payroll documents.

The report contained 3 findings relating to internal control and legal compliance.
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### Audit Scope:

#### Audit Period:

July 2001 – June 2004

#### Programs Audited:

Selected personnel/payroll processes of the Supreme Court, Court of Appeals, and trial courts:

- Payroll paid through the state's personnel/payroll system
- Trial court employees' transition to state funded positions

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### Agency Background:

Minnesota's state courts include the Supreme Court, the Court of Appeals, and the trial courts. Since fiscal year 2000, the courts have been shifting the cost of the trial courts from the counties to the state. This shift to state funding of trial courts has resulted in a significant increase in the court's payroll costs through fiscal year 2004, when payroll totaled nearly \$167 million.

In fiscal year 2004, the courts paid about 84 percent of its payroll through the state's personnel/payroll system. About half of that payroll was paid using the state's new Self Service Time Entry process.

## Minnesota State Courts

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# Minnesota State Courts

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## Chapter 1. Introduction

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The Office of the Legislative Auditor selected the Minnesota state courts for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, changes in organizational structure and key personnel, length of time since the last audit, and available audit resources. The courts are significantly changing their organizational structure due to the shift from county to state funding and oversight of trial courts' operations.

Minnesota's state courts include the Supreme Court, the Minnesota Court of Appeals, and the trial courts. In fiscal year 2004, payroll expenditures comprised 76 percent of the courts' total expenditures. Table 1-1 shows the courts' payroll expenditures for fiscal years 2002 through 2004.

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**Table 1-1**  
**Minnesota State Courts**  
**Payroll Expenditures**  
**Fiscal Years 2002 through 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Supreme Court	\$ 17,205,035	\$ 19,769,944	\$ 19,971,573
Court of Appeals	6,048,626	6,726,959	6,801,701
Trial Courts	<u>96,103,850</u>	<u>108,610,120</u>	<u>139,789,430</u>
Totals	<u>\$119,357,511</u>	<u>\$135,107,023</u>	<u>\$166,562,704</u>

Source: Minnesota Accounting and Procurement System.

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As Table 1-1 shows, the courts' payroll costs have increased nearly 40 percent from fiscal year 2002 to 2004, with much of the increase attributable to the trial courts. Since fiscal year 2000, the legislature has been shifting the cost of the trial courts from the counties to the state.<sup>1</sup> The funding and administrative shift to the state is intended to provide a more consistent, equitable level of judicial services throughout the state in a more cost-efficient manner. The courts project that the transition of remaining districts during fiscal years 2005 and 2006 will increase trial court payroll costs by 18 percent in fiscal year 2005 and 12 percent in fiscal year 2006, when trial court payroll costs will level off at around \$185 million.

Figure 1-1 shows the location of the districts and lists the date of each district's transition to state funding.

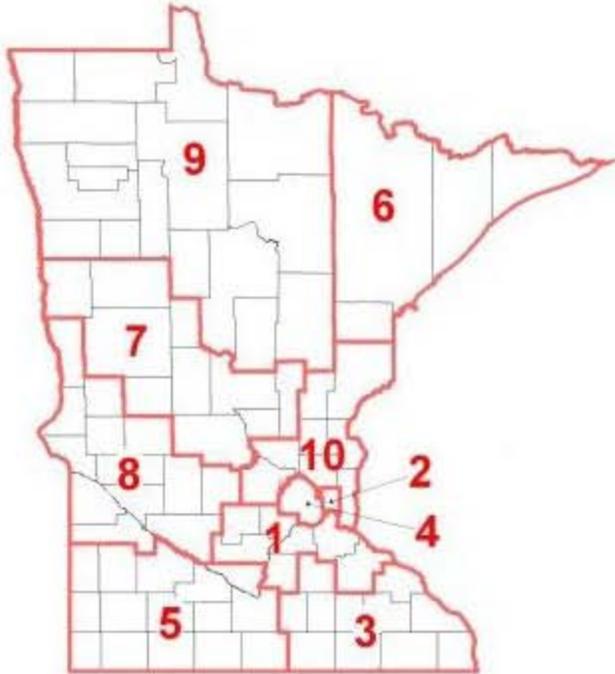
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<sup>1</sup> The state has paid for some trial court payroll costs (including judges and district court administration personnel) since 1990. The more recent transition of costs to state funding is for county level court administrative personnel.

# Minnesota State Courts

**Figure 1-1  
Minnesota Judicial Districts  
And Transition Dates to State Funding**

**Minnesota's Ten Judicial Districts**



District	Transition Fiscal Year <sup>(1)</sup>	Employees Transitioning
1	2005	161
2	2004	163
3	2005	144
4	2004	361
5	2001	116
6	2006	92
7	2001	154
8	1990/2000 <sup>2</sup>	85
9	2001	116
10	2006	233

Note 1: Transitions occur at the beginning of the fiscal year, except for the transition of the 8<sup>th</sup> District, which occurred at January 1, 2000.

Note 2: Starting in fiscal year 1990, the 8<sup>th</sup> District became fully state funded as a pilot project. In fiscal year 2000, the state funding of the 8<sup>th</sup> District became permanent.

Source: Minnesota Statutes 480.181.

Table 1-2 shows the trial court's payroll expenditures by district, for fiscal years 2002 through 2004. The costs that included full state funding of trial court payroll are in italics.

# Minnesota State Courts

**Table 1-2**  
**Minnesota State Courts**  
**Trial Court Payroll Expenditures**  
**Fiscal Years 2002 to 2004**

<b>District</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
1	\$ 4,237,236	\$ 4,981,850	\$ 4,447,964
2	4,535,687	5,021,010	<b>14,737,526</b>
3	3,306,755	3,714,951	3,248,006
4	9,206,719	10,355,211	<b>31,570,902</b>
5	<b>6,823,916</b>	<b>7,885,609</b>	<b>7,908,006</b>
6	1,884,451	2,472,620	2,183,889
7	<b>8,952,736</b>	<b>10,253,304</b>	<b>10,577,451</b>
8	<b>4,671,983</b>	<b>5,236,629</b>	<b>5,222,901</b>
9	<b>7,839,348</b>	<b>8,966,822</b>	<b>8,732,701</b>
10	4,534,295	5,709,021	5,999,458
District Administrators	<b>1,216,852</b>	<b>1,337,710</b>	<b>1,363,753</b>
Judges	<b>38,726,855</b>	<b>42,421,742</b>	<b>43,485,215</b>
Miscellaneous	167,017	253,641	311,658
	<u>\$96,103,850</u>	<u>\$108,610,120</u>	<u>\$139,789,430</u>

Note: Amounts in *italics* indicate full state funding of payroll expenditures.

Source: Minnesota Accounting and Procurement System.

The court has various ways that it compensates its employees:

- Some employees transitioning into state funding choose to retain county benefits, as allowed by statutory provisions.<sup>2</sup> Employees who choose to be “county benefited” stay on the counties’ payroll systems and the state reimburses the counties for their payroll costs. In fiscal year 2004, about 16 percent, or \$26 million, of the courts’ payroll expenditures, was paid to the counties as reimbursement for its county benefited employees. In a 2004 report, we examined controls over the payroll process for county benefited employees in the 4<sup>th</sup> and 7<sup>th</sup> districts.<sup>3</sup> The report included some recommendations to improve the court’s county reimbursement process.
- The court compensates all other employees through the state’s personnel/payroll system.<sup>4</sup> By using this system the courts can take advantage of controls and processes that are designed to ensure that payroll is accurately processed and recorded in the state’s general ledger, and that the integrity of payroll and personnel data is protected. We examine the state’s personnel/payroll system’s processing of payroll transactions as part of our annual audit of the state’s financial statements and federal program compliance.

Until 2004, paying employees through the state’s personnel/payroll system involved having employees prepare paper timesheets that supervisors reviewed and signed as authorization for payment. State Court Administrator’s staff input hours from the timesheets into the payroll

<sup>2</sup> Minnesota Statutes 480.181.

<sup>3</sup> Report 04-35, Minnesota Court System; available at <http://www.auditor.leg.state.mn.us/fad/pdf/fad0435.pdf>.

<sup>4</sup> The state’s personnel and payroll system is the State Employee Management System (SEMA4).

## Minnesota State Courts

system.<sup>5</sup> Beginning in March 2004, some court personnel began using a new feature of the state's payroll/personnel system – Self Service Time Entry. The courts were among the first entities to implement the Self Service Time Entry system. Self Service Time Entry allows employees to enter their hours online and have those recorded hours forward to their supervisor for review and authorization. The electronically recorded hours then flow into the payroll system and are the basis for the employees' compensation.

As further explained in Chapter 2, we focused this audit on the courts' transactions processed through the state's personnel/payroll system. We chose to focus on payroll because of its materiality to the courts' operations and because of the significant changes occurring in the court system due to the shift from county to state funding of trial courts, and the courts' use of the state's new Self Service Time Entry process<sup>6</sup>. Our audit of payroll included the Supreme Court, the Court of Appeals, and the trial courts.

As further explained in Chapter 3, we also looked at the process the courts used to transition county court positions into the Judicial Personnel Plan.

### Audit Approach

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

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

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<sup>5</sup> Some districts had payroll units that input hours into the state's personnel/payroll system.

<sup>6</sup> Any implementation of a new process increases the risk that internal controls may not be sufficient to ensure that transactions are properly authorized and to prevent or detect errors and irregularities.

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## Chapter 2. Payroll Paid through the State's Personnel/Payroll System

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### *Chapter Conclusions*

*The Minnesota state courts had internal control weaknesses in its payroll paid through the state's personnel/payroll system:*

- *It did not properly monitor Self Service Time Entry payroll responsibilities.*
- *It had not effectively used standard payroll reports.*
- *It did not have a records retention schedule for its trial court payroll documents.*

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By using the state's personnel/payroll system, the courts have incorporated many controls that help to ensure accurate payroll processing. For example, the system ensures that employees are paid at their authorized rates and that appropriate deductions for taxes, retirement, and benefits are made. Also, the direct deposit of employees' pay into their bank accounts reduces the risk of loss, theft, or misappropriation.

Because the state's personnel/payroll system provides strong controls over pay rates, deductions, and distribution, the main vulnerability in the payroll process is the integrity of the hours worked and the type of compensation for hours not worked, such as vacation or sick leave. Controls over these areas rest mainly with the employees and their direct supervisors.

The best control over the integrity of employees' hours is achieved when employees prepare their own timesheets and supervisors with direct knowledge of employees' work review and approve the timesheets. Employees are most aware whether they worked their full schedule or if they used sick or vacation leave. Supervisors are most aware of an employee's presence or absence from work. By authorizing an employee's timesheet for payment, the supervisor validates that the employee has provided services and is entitled to payment. Often, once the timesheet is prepared by the employee and authorized by the supervisor, no one else with any direct knowledge of the employee's work is involved in the payroll process.

### **Audit Objectives and Methodology**

We focused on the following questions in our review of court payroll transactions processed through the state's personnel/payroll system:

- Did the courts require that employees complete their own timesheets and that supervisors review and authorize those timesheets for payment?

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- Did the courts adequately review payroll transactions to assure that its payroll expenditures were accurate and appropriate?

To answer these questions, we interviewed State Court Administrator staff to gain an understanding of the payroll process. We reviewed payroll transactions to determine if they were processed in compliance with applicable legal provisions, and if the courts properly recorded the transactions. We tested paper timesheets and Self Service Time Entry transactions.

### Paper Timesheets

At the end of January 2005, approximately half of all court employees paid through the state's personnel/payroll system used paper timesheets. Our testing of paper timesheets was limited to whether a timesheet existed, whether it was signed by an employee and someone else as the employee's supervisor, and whether it had been input accurately into the state's payroll system. As explained in Finding 3, some paper timesheets for trial court employees were not available for review.

### Self Service Time Entry

Self Service Time Entry automated the employee's timesheet and allowed for electronic supervisory approvals. When implementing any new process, there is greater risk that the design of internal controls may not be sufficient to accomplish desired objectives or that employees may not execute the controls as intended. The Minnesota Department of Finance designed the process to promote good internal controls by expecting employees to prepare their own timesheets and the employee's direct supervisor to authorize it. However, the process provides flexibility to accommodate situations that may delay timely payroll processing. For example, if an employee is not at work at the end of the pay period, perhaps due to illness, and has not completed a timesheet, the supervisor can complete the timesheet for the employee. Also, if a supervisor is unavailable to provide for timely authorization of an employee's completed timesheet, a backup supervisor can provide the needed authorization. The Minnesota Department of Finance created the *Self Service Time Entry Audit Report* for entities to monitor the Self Service Time Entry transactions which did not meet the Department of Finance's payroll control expectations – when an employee did not enter their own time and/or the primary manager did not authorize that time for payment.

To prepare for their use of the Self Service Time Entry Court process, court administrators and employees received training from the Minnesota Department of Finance in how to set up authorizations and establish payroll responsibilities. Following Finance direction, the courts grouped employees into payroll departments, which were small enough to allow for a sufficient level of timesheet review by the manager at the end of the pay period. On average, the courts' departments consisted of four employees, but some had as few as one employee and others as many as 19. For each department the courts designated a primary manager and two backup managers. In addition, the courts designated the payroll administrator and an assistant as backup managers for all departments. In some cases, the courts also designated a district level payroll administrator as a backup manager. The Minnesota Department of Finance designed the Self Service Time Entry process to expect that the primary manager would have direct supervisory

## Minnesota State Courts

responsibility for the employees in the department, and would therefore be the person who usually reviewed and approved the employee's time.

Table 2-1 shows the responsibilities expected by the Minnesota Department of Finance for an agency using Self Service Time Entry.

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**Table 2-1**  
**Summary of Self Service Time Entry Tasks**  
**Responsibilities by Position**

**Employees**

- Enter time online. Mark time entry as "Complete."

**Managers or Supervisors**

- Review and authorize employees' time records.
- Mark departments "Ready to Load" to the state's payroll system.

**Payroll Staff**

- Monitor the progress in completing Self Service Time Entry.
- Review time entry and validate for up load into the state's payroll system.
- Review the *Self Service Time Entry Audit Report*.
- Run other automated reports as needed.

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Source: Minnesota Department of Finance Self Service Time Entry instructions, edited by the OLA.

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As explained in Findings 1 and 2, our review identified several ways the courts could improve its payroll process.

## Findings and Recommendations

### **1. The Minnesota state courts did not properly monitor Self Service Time Entry payroll responsibilities.**

The courts have not properly used the *Self Service Time Entry Audit Report* to follow up on exceptions to the Minnesota Department of Finance's expected use of the Self Service Time Entry process. The courts' payroll staff have been printing and filing the reports, but not routinely analyzing, following up, or documenting the resolution of exceptions noted. This analysis and follow up was not done because the large volume of exceptions and the poor direction by the Minnesota Department of Finance about the use of the report and the type of follow up expected. The volume of exceptions may indicate that employees and managers are not performing expected duties or that Self Service Time Entry responsibilities were not established with the proper personnel.

The *Self Service Time Entry Audit Report* for the pay period ending January 25, 2005, was 111 pages long and identified as exceptions to the Minnesota Department of Finance's expected use of the Self Service Time Entry process, 26 percent of the courts' 1,075 employees using Self Service Time Entry.

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Table 2-2 summarizes the exceptions noted on the *Self Service Time Entry Audit Report* for the pay period ending January 25, 2005.

**Table 2-2**  
**Minnesota State Courts**  
**Summary of Self Service Time Entry Audit Report**  
**Count and Classification of Time Entry and Authorization for Employees**  
**Pay Period Ended January 25, 2005**

Time Authorized by → Time Entered by ↓	Primary Manager	Backup Manager	Payroll Unit	Employee	Totals
Employee	Expected Control	103	35	17	155
Primary Manager	100	0	0	0	100
Backup Manager	4	14	0	0	18
Payroll Unit	0	0	4	0	4
Totals	104	117	39	17	277

Legend: Weak Control No Control

Source: Department of Finance *Self Service Time Entry Audit Report*.

The most critical exception identified on the report was that, in this pay period, 17 employees had authorized their own timesheets for payment. This gave the employees the opportunity to misreport their hours without risk of detection. These employees had authorized their own timesheets in other pay periods as well. Using their current rate of pay, these employees have been paid nearly \$300,000 for pay periods between July 2004 and January 2005 for which they had authorized their own time. Analysis of other pay periods identified 22 other employees who had authorized their own time. When setting up or changing the authorization responsibilities for a department, the courts should ensure that no employee can authorize their own time.

Another significant type of exception occurred when a primary or backup manager entered or adjusted time for an employee. Unless employees carefully review their pay stubs, they would not know that a manager had changed their time records. Rather than making the change, primary managers should inform the employee of the errors and have the employee make the adjustment.

The next most recurring exception is when the backup manager authorizes the payroll. Sometimes this occurs because the primary manager is not available, as a way to prevent delays in the payroll process. The department needs to have a backup designated to ensure that the payroll gets processed without unnecessary delay. However, since the backup manager may not have direct knowledge of the employee's schedule to reasonably assess whether the employee has accurately recorded their time, the use of a backup manager as the authorizer should be limited. Some primary managers rarely review or approve the timesheets for employees assigned to them. They routinely rely on a backup manager to perform these duties. The courts need to establish primary manager responsibilities with the personnel they believe should actually be performing the timesheet review and authorization.

## Minnesota State Courts

Another area of concern is that the payroll unit entered and/or authorized time records for 39 employees. In other pay periods, the payroll unit had authorized timesheets for as many as 54 employees. For several departments, the payroll unit authorized the payroll for nearly all the pay periods since it started using Self Service Time Entry; primary or backup managers within those departments rarely reviewed or authorized their employees' timesheets. Given the statewide dispersion of court staff, the payroll unit located in the Judicial Center in St. Paul has virtually no ability to assess the accuracy, or even the reasonableness, of an employee's time reporting. While it is logistically necessary to allow the payroll unit to enter employee time and authorize the payment (otherwise the employee would not be paid), it should be done only under unusual, extenuating circumstances, which should be documented and reviewed by their supervisor.

### *Recommendations*

- *The courts should review the Self Service Time Entry Audit Report and document the resolution of exceptions noted.*
- *The court should prohibit any employee from authorizing their own timesheet.*
- *The courts should require that employees complete their own timesheets, except for unexpected situations beyond the employees' control.*
- *The courts need to revise their primary and backup manager structure in a way that properly designates the responsibility for employee timesheet review and authorization.*
- *The courts should monitor the payroll administrator's authorization of employees' timesheets.*

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### 2. The Minnesota state courts have not effectively used standard payroll audit reports.

The courts have not effectively used the *Payroll Register* and the *Payroll Posting Audit Trail* to verify that the payroll was processed accurately.<sup>7</sup> The courts' payroll unit believed that its review of transactions while entering data was sufficient to detect any errors or inappropriate transactions. However, had it reviewed the *Payroll Posting Audit Trail* for July 16, 2002, it may have detected that an employee's \$2,771 retroactive adjustment from a prior position in another agency had posted to the courts' accounts in error.<sup>8</sup>

Minnesota Department of Finance procedures require that the payroll unit review the *Payroll Register* each pay period to verify that current and prior pay period adjustments, salary increase adjustments, special payments, earnings codes, hours, pay rates, salary amounts, and amounts of any lump-sum payments are correct. In addition, procedures require that the payroll unit review the *Payroll Posting Audit Trail* to verify that employees have been charged to the correct funding source. The payroll unit can perform this verification on a sample basis.

#### *Recommendations*

- *The courts should document its review of the Payroll Register after each pay period to ensure the accurate entry of adjustments, salary increase adjustments, special payments, earnings codes, hours, pay rates, salary amounts, and lump-sum payments. This can be done on a sample or detail basis.*
- *The courts should document its review of the Payroll Posting Audit Trail after each pay period to ensure that payroll is charged to the appropriate funding sources. This can be done on a sample or detail basis.*

### 3. The Minnesota state courts did not have a records retention schedule for its trial court payroll documents.

Some of the timesheets we selected for testing of payroll transactions were no longer available because the trial courts had discarded them. Trial courts determined records retention periods individually, perhaps based on the requirement in place when the courts were part of the county court system. Two of the districts did not have timesheets available because they discarded them after 18 or 24 months. Not being able to examine source documents limits the courts' ability to support the legitimacy of the transaction.

#### *Recommendation*

- *Minnesota state courts should develop a records retention schedule for trial court payroll documents.*

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<sup>7</sup> Although many districts perform some review of payroll reports, the courts have not established policies or procedures to ensure that these reviews are done consistently.

<sup>8</sup> The courts recovered the funds from the other agency in March 2005.

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### Chapter 3. Transition of County Court Staff to State Positions

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#### *Chapter Conclusions*

*The courts developed and implemented a position transition plan, which it consistently applied to employees and accurately recorded in the state's personnel/payroll system.*

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#### **Audit Objectives**

Our audit focused on the placement of trial court employees into state positions and pay grids. The primary objective of our audit was to answer the following questions:

- Did the state courts design and follow a structured plan to ensure court personnel were placed in appropriate position classifications and compensation grids?
- Did the State Court Administrator's Office accurately enter employees' positions and compensation in the state's personnel/payroll system in accordance with the transition plan?

#### **Background**

Before the transition of county court staff to state funding, each county independently determined its staffing levels, and the classification and compensation of positions. As county courts transitioned to state funding, however, the state courts needed to fairly allocate its resources among the various trial courts, and create comparable positions and equitable funding for those positions. The courts contracted with the National Center for State Courts to review job descriptions, conduct onsite audits and interviews, and analyze 2300 positions. The National Center for State Courts then identified 125 job classifications and used various criteria to rank the jobs. They grouped the classifications into 18 pay bands and built the position and pay structure. Court employees were placed into this pay structure; an employee could appeal their placement. As trial court employees transitioned into state funding, they were also placed in the classification and compensation plan.

There are no findings related to the courts' development of the transition plan or its implementation.

## Minnesota State Courts

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### Status of Prior Audit Issues As of February 25, 2005

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#### Prior Financial Audits and Program Evaluations

**August 26, 2004, Legislative Audit Report 04-35** examined selected receipt activity and county benefited employee payroll expenditures in Districts 4 and 7. The report contained nine findings and recommendations related to areas such as accounts receivable, statutory collateral requirements, prompt depositing of receipts, and access to private employee data on the county payroll system. We did not follow up on the status of these recommendations since they were not within the scope of our current audit.

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

**March 1, 2002, Legislative Audit Report 02-12** focused on selected Supreme Court activities for the period July 1, 1997, through June 30, 2001. The audit scope included attorney registration fees, payroll, grants, rent, purchased services, supplies, equipment, travel, and other operating costs. The report contained three findings. We did not review the status of these findings since our current audit scope only included selected trial court financial activities.

## Minnesota State Courts

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

**SUE K. DOSAL**  
STATE COURT ADMINISTRATOR

(651) 296-2474  
FAX (651) 215-6004  
E-MAIL: SUE.DOSAL@COURTS.STATE.MN.US

June 1, 2005

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

Dear Mr. Nobles:

This letter conveys our response to the 2005 audit report of the Judicial Branch regarding use of the state payroll system and electronic timesheets.

We appreciate the opportunity to respond to the findings and recommendations. We found the information in your report and in the exit conference to be very informative and helpful in our transition to a fully state-funded Judicial Branch. Your findings will also provide guidance as we continue our phased implementation of the new electronic timesheet reporting system.

Prior to commenting on specific findings in your report, we'd like to offer a few thoughts that provide important background information and the general context of our current situation.

***Transition of trial courts from county to state funding.*** As noted in the audit report, the Judicial Branch is in the midst of an enormous transformation as we near completion of the transition to state funding of all trial court operations. This will prepare the courts for a new era of governance and operation – one that is better aligned with the realities that courts will face in the 21<sup>st</sup> Century. This challenge began with the conversion of the Eighth Judicial District to state funding as a pilot program in 1990, and continues through July 1, 2005, when our last two districts – the Sixth and Tenth Judicial Districts – will become fully state funded.

This process has been rewarding as well as challenging. The sheer number of employees brought into the system has been a substantial undertaking. As a unified system, we are changing how we organize, manage, and govern ourselves. Through it all, the courts have been dedicated to achieving all implementation steps necessary to make this transition a success.

**Challenges associated with the new, on-line timesheet system.** At the same time as significant organizational changes are underway, the courts also were selected to be among the first entities to implement the state's new on-line payroll process – the Self Service Time Entry System. We are proud to serve as a pilot program in this endeavor, just beginning in March 2004. Our efforts have been directed at fully implementing this dynamic new payroll system within a large, decentralized organization. However, this is an evolving process that has not yet been completed and will require additional time and effort, as we roll-out the new system to additional work groups within the court organization.

The introduction of any new and complex electronic system brings challenges. Your audit report identified some weaknesses in how we've integrated the new system into our payroll process. As indicated below in our response to each finding, we are committed to addressing the issues identified in order to properly implement the new system. We will begin immediate discussions with district administrators, district payroll staff, court administrators, and judges to establish a more uniform approach.

***First audit of the new Self Service Time Entry System and first response.*** The Judicial Branch is the first organization within state government to be audited on the use of the new Self Service Time Entry System. We anticipate that your findings and our proposed management solutions will serve as a guide to other organizations that follow. We will also monitor the findings and recommendations contained in future audit reports of other state entities to study how other organizations might develop better solutions to similar challenges.

The following pages set forth your audit findings and our plan to resolve the issues identified.

Again, thank you for the opportunity to provide our response.

Sincerely yours,

*/s/ Sue K. Dosal*

Sue K. Dosal  
State Court Administrator

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

**Finding 1: The Minnesota state courts did not properly monitor Self Service Time Entry payroll responsibilities.**

*Response:*

*We agree with the finding. State Court finance and district finance staff will use the Self Service Time Entry Audit Report and new reports that may become available to more effectively monitor this process. State Court finance will consistently review the Self Service Time Entry Audit Report and document resolution of exceptions noted. At the trial court level, each district's payroll coordinator will now be responsible for reviewing their district's Self Service Time Entry Audit Report and documenting resolution of exceptions noted.*

*Primary and backup manager structures will be closely reviewed to ensure proper designations are established. On some occasions, a supervisor may complete the timesheet of an employee who is absent. The payroll administrator will only authorize timesheets as a last resort and document exceptions accordingly in those cases.*

*Persons responsible for resolving finding: The SCAO Finance Director and District Administrators.*

*Issue will be resolved by: New timesheet processing instructions will be prepared and communicated to staff by August 31, 2005. The SCAO Finance Director will suggest necessary modifications to the Self Service Time Entry Audit Report and new reports that should be prepared by the Minnesota Department of Finance by August 31, 2005. At the same time, the SCAO Finance Director will encourage the Department of Finance to adopt a more formal state policy on the use of electronic timesheets. State Court finance and payroll policies will be reviewed and considered for revision by December 31, 2005. SCAO internal auditor will review progress on these initiatives by December 31, 2005.*

**Finding 2: The Minnesota state courts have not effectively used standard payroll audit reports.**

*Response:*

*We agree with the finding. State Court finance staff will consistently review standard payroll reports and document resolution of exceptions. At the trial court level, each district's payroll coordinator will now be responsible for reviewing their district's payroll reports and documenting resolution of exceptions.*

*For those districts using paper timesheets, State Court finance staff will review the Payroll Register and the Payroll Posting Audit Trail on a sampled basis. All reviews will be documented and exceptions resolved.*

*Persons responsible for resolving finding: The SCAO Finance Director and District Administrators.*

*Issue will be resolved by: New timesheet processing instructions will be prepared and communicated to staff by August 31, 2005. State Court finance and payroll policies will be reviewed and considered for revision by December 31, 2005. The SCAO internal auditor will review progress on these initiatives by December 31, 2005.*

**Finding 3: The Minnesota state courts do not have a records retention schedule for its trial court payroll documents.**

*Response:*

*We agree with the finding. The current State Court finance payroll policy does not provide a records retention schedule for timesheet documents. Also, the current records retention schedule at the trial court level does not address payroll documents.*

*Persons responsible for resolving finding: The SCAO Finance Director and Court Services Director.*

*Issue will be resolved by: The State Court finance payroll policy will be revised to include a records retention schedule for payroll documents by December 31, 2005, and these changes will be communicated to staff immediately thereafter. The court services division has already begun a review of broader court-wise record retention policies and will look for opportunities to revise current policies and develop new record retention schedules. The SCAO internal auditor will review progress on these initiatives by December 31, 2005.*