



FINANCIAL AUDIT DIVISION REPORT

Minnesota Judicial Branch

**First Judicial District
and Selected Operations of the
State Court Administrator's Office**

Internal Control and Compliance Audit

July 1, 2006, through February 28, 2009

October 23, 2009

Report 09-34

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 23, 2009

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Office of the State Court Administrator

Mr. Jerry Winter, Administrator
First Judicial District

This report presents the results of our internal control and compliance audit of the Minnesota Judicial Branch's First Judicial District and selected operations of its Office of the State Court Administrator for the period July 1, 2006, through February 28, 2009.

We discussed the results of the audit with court staff at an exit conference on October 12, 2009. This audit was conducted by Michael Hassing, CPA, CISA, (Audit Manager) and Joan Haskin, CPA, CISA, (Auditor-in-Charge), assisted by auditors Melanie Greufe, Adam Spooner, and Mai Na Yang.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Minnesota Judicial Council, the Office of the State Court Administrator, and the First Judicial District. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 23, 2009.

We received the full cooperation of court staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

The First Judicial District's internal controls were generally adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. However, the district had some control weaknesses and noncompliance related to its receipts process, payroll, administrative expenditures, and information systems. The State Court Administrator's Office also had some control weaknesses related to its security of its information systems.

For the items tested, the First Judicial District generally complied with finance-related legal requirements over its financial activities. However, the district had some instances of noncompliance related to receipts and administrative expenditures.

Key Findings

- Some First Judicial District county-level administrative offices did not document their review of high-risk receipt transactions and did not have documentation to support some adjustments to receivable amounts. ([Finding 1, page 7](#))
- Some First Judicial District county-level administrative offices did not promptly deposit some receipts. ([Finding 2, page 9](#))
- Some First Judicial District county-level administrative offices incorrectly coded some fines in the court information system and, consequently, misallocated some fines. ([Finding 4, page 10](#))
- The First Judicial District Administrator's Office did not document its review of key payroll reports. ([Finding 7, page 13](#))
- The First Judicial District Administrator's Office and the State Court Administrator's Office did not adequately restrict employees' access to its business and data systems. ([Finding 10, page 16](#))
- The State Court Administrator's Office had not fully developed and documented a continuity of operations plan. ([Finding 11, page 17](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Compliance

Period Audited

July 1, 2006, through February 28, 2009

Programs Audited

- Receipts
 - Payroll expenditures
 - Other administrative expenditures
 - General computer controls
-

Overview

Minnesota's Judicial Branch includes the Supreme Court, Court of Appeals, and District Court. All civil and criminal cases involving Minnesota law originate at the District Court, which consists of approximately 280 judges who preside over trials and hearings throughout the state. While the District Court is a state court, it generally operates from county courthouses and is organized by county boundaries into ten judicial districts.

The District Court uses the Minnesota court information system to record case management and related financial activity. One of the system's many components is for financial management. District Court employees enter all aspects of a case into the court information system, including the related fines and fees. Case information includes the details of the violation or court order, originating jurisdiction, and court dates. Financial data from the court information system interfaces with the state's accounting system.

First Judicial District. The First Judicial District includes Carver, Dakota, Goodhue, Le Sueur, McLeod, Scott, and Sibley counties. As of May 2009, the First Judicial District had 36 judges and approximately 250 staff that annually handled nearly 200,000 cases. Although organized on county boundaries and operating from county buildings, all judges and staff in judicial districts are state employees.

In addition to having a district-level administrator's office, the district has administrative offices in each county. The district administrator's office processes payroll and other administrative expenditures. Administrative offices at the county level collect and process court fees, fines, and surcharges.

**Figure 1
First Judicial District
Boundaries and Counties**



Source: Minnesota Judicial Branch, First Judicial District website (<http://www.mncourts.gov/district/1/>).

Table 1 summarizes the First Judicial District's receipts and expenditures for the period July 1, 2006, through February 28, 2009.

**Table 1
First Judicial District
Receipts and Expenditures
July 1, 2006, through February 28, 2009**

	<u>2007</u>	Fiscal Years ¹ <u>2008</u>	<u>2009²</u>
<u>Receipts:</u>			
Fees and Fines	\$30,417,565	\$30,842,596	\$19,367,602
<u>Expenditures:</u>			
Payroll	\$14,881,463	\$15,860,194	\$10,252,398
Professional/Technical Contracts	1,655,863	1,785,143	966,190
Purchased Services	1,216,029	1,052,762	486,884
Equipment	750,126	127,805	271,584
Supplies	397,489	326,215	222,333
Communications	244,569	249,147	152,735
Other Expenditures	<u>868,782</u>	<u>437,153</u>	<u>270,817</u>
Total Expenditures	<u>\$20,014,321</u>	<u>\$19,838,419</u>	<u>\$12,622,941</u>

¹ The state's fiscal year is July 1 through June 30.

² The fiscal year 2009 data only includes financial activity through February 28, 2009.

Source: Minnesota Accounting and Procurement System.

State Court Administrator's Office. All of the state's judicial districts receive services, support, and guidance from the State Court Administrator's Office, particularly in functions related to data systems and technology, finance, human resources, organizational development, legal counsel, and intergovernmental relations. The office's mission is to ensure the effective operation of the Minnesota Judicial Branch. It works under the direction of the state's Judicial Council, which is chaired by the Chief Justice of the Minnesota Supreme Court and composed of other state judges and court administrators.

Objectives, Scope, and Methodology

Our audit of the First Judicial District (district) included receipts, employee payroll, other administrative expenditures, and computer systems access for the period July 1, 2006, through February 28, 2009. We audited the receipt collection process at Dakota, Goodhue, and Scott counties; these counties collected nearly 80 percent of the district's revenue. The district had four receipt collection points in Dakota County: Hastings Civil Court, Hastings Criminal and Traffic Court, Apple Valley Service Center, and the West St. Paul Service Center. The district also had a collection point in Goodhue County and Scott County.

Our audit objective was to answer the following questions:

- Were the First Judicial District's internal controls adequate to ensure it safeguarded its receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, complied with legal requirements, and produced reliable financial data?
- Did the First Judicial District comply with finance-related legal requirements?
- Did the First Judicial District conduct its financial operations in a prudent manner?
- Did the First Judicial District and the State Court Administrator's Office have general controls over the court information system, including security access, back up and disaster recovery, physical security, change controls, and data integrity?

To answer these questions, we gained an understanding of the district's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the district's internal controls.¹ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the judicial branch as evaluation criteria over compliance.²

Conclusions

The First Judicial District's internal controls were generally adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. However, the district had some control weaknesses and noncompliance related to its receipts process, payroll, administrative expenditures, and information systems. The State Court Administrator's Office also had some control weaknesses related to the security of its information systems.

For the items tested, the First Judicial District generally complied with finance-related legal requirements over its financial activities. However, the district had some instances of noncompliance related to receipts and administrative expenditures.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

¹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

² The Judicial Council created bylaws and policies that cover all three levels of the judicial branch. The State Court Administrator's Office developed State Court Finance policies and procedures that provide more specific guidance on cash management, fixed asset management, procurement, contracts, and other financial management functions.

Findings and Recommendations

Some First Judicial District county-level administrative offices did not document their review of high-risk receipt transactions and did not have documentation to support some adjustments to receivable amounts.

Finding 1

To mitigate the risk created because some employees had incompatible duties (they could access cash, post receipts to an account, and adjust amounts due) the district's county administrative offices designed a transaction listing report that lists high risk receipt transactions posted to the court information system, such as fee dismissals or waivers, fine reductions, and error corrections. The offices established a review process to have staff monitor the transaction listing report. In addition, judicial branch policy requires staff to review and trace all manual receipts to postings in the court information system.³ Manual receipts are also high risk because of the delay between the receipt of funds and the posting to the court information system.

The First Judicial District's county-level administrative offices had the following issues related to the processing of receipt transactions:

- District offices in Goodhue and Scott counties did not document their review of the transaction listing report. This report lists transactions identified as high risk because they reduce revenue and receivables, such as court dismissals or waivers, fine reductions, and error corrections. Employees in the district's Goodhue County administrative office said they reviewed the transaction listing report daily, but did not have evidence of their review. Employees in the district's Scott County administrative office reviewed the transaction listing reports before February 2009 transactions but, as of May 2009, had not reviewed reports for subsequent months.
- Our testing of some high-risk receipt transactions identified that some court offices lacked sufficient supporting documentation to show that the transactions were valid and authorized. Maintaining documentation to support high-risk transactions is essential to show that they are accurate, valid, and authorized. An independent review of the transaction listing report should have detected these exceptions. The district's Dakota County Apple Valley Service Center did not have supporting documentation for 3 of 22 fine reductions we tested, totaling \$931. The district's Goodhue County administrative office did not have supporting

³ Minnesota Judicial Branch Policy 209(e)(12).

documentation for 1 of 15 fine reductions we tested, totaling \$240. The district's Criminal Division in Hastings did not have supporting documentation for 1 of 16 fine reductions we tested, totaling \$227. In addition, the district's Dakota County West St. Paul Service Center did not send a forfeiture notice to the surety to support a receipt adjustment.

- The district's administrative offices in Goodhue County and Scott County and its Dakota County Civil Division and West St. Paul Service Center did not document their review of manual receipts to ensure the cashiers correctly posted these collections into the court information system. Court clerks provided customers with hand-written, manual receipts for payments when the citation was not in the database or when the court had closed its tills at the end of the day for balancing. In these cases, clerks could not generate an electronic receipt through the system. The use of manual receipts increased the risk that the district did not properly record cash collections in the database or deposit all the cash collected. The Civil Division in Hastings and administrative office in Goodhue County stated that they traced manual receipts to the court information system but did not document this review. District administrative employees in Scott County and the West St. Paul Service Center said they reviewed the manual receipts to ensure clerks had recorded the case number and the database generated receipt number on the form, but they did not document this review and did not trace the manual receipts to the court information system.

To ensure that these controls operate effectively, staff performing these reviews should be independent of the receipt process and should initial and date the transaction listing report and the manual receipt book as evidence that they have conducted these important mitigating controls.

Recommendations

- *The First Judicial District's county-level administrative offices should document their review of the transactions listing report and manual receipts.*
 - *The First Judicial District's county-level administrative offices should retain supporting documentation for high-risk receipt transactions.*
-

Finding 2

Some First Judicial District county-level administrative offices did not promptly deposit some receipts.

District administrative offices in Dakota, Goodhue, and Scott counties did not deposit all receipts of \$250 or more daily. Employees told us that they held some receipts until they had received and entered the corresponding citation into the court information system. Staff told us that, in some cases, this delay was due to local law enforcement entities not promptly submitting citations to the administrative offices.

Table 2 shows the amount of undeposited receipts at each county administrative office that staff told us was related to cases not entered into the court information system.

Table 2
First Judicial District
Undeposited Receipts

<u>District Court Administrative Office</u>	<u>Date</u>	<u>Amount</u>
Dakota County – Apple Valley Service Center	June 24, 2009	\$2,210
Dakota County – West St. Paul Service Center	May 21, 2009	\$6,580
Dakota County – Hastings	May 7, 2009	\$6,826
Goodhue County	June 2, 2009	\$7,044
Scott County	May 27, 2009	\$1,755

Source: Auditors' cash counts at county court offices.

Judicial branch policy requires court employees to deposit receipts of \$250 or more daily.⁴ Not promptly depositing receipts increases the risk of loss or theft. The district could consider having employees post the receipts to a suspense account if the citation has not yet been entered in the court information system.

Recommendation

- *First Judicial District administrative offices should deposit receipts totaling \$250 or more on a daily basis, as required by judicial branch policy.*

⁴ Minnesota Judicial Branch Policy 207(a) Section V, part 5.1.1 (3).

Finding 3

The First Judicial District administrative office in Scott County had inadequate controls over voids and adjustments of receipt transactions.

The district's administrative employees in Scott County had the ability to void receipt transactions and enter corrections to the accounting system. In 4 of 19 days tested, we found five instances where the clerk who voided the transaction also posted the correcting entry. In three of these cases, the clerks performing the day-end balancing process voided transactions entered incorrectly by other clerks and then adjusted the transactions in the system. Judicial branch policy requires clerks to balance their own register at the end of the day.⁵ The other two instances occurred when the clerk voided and corrected a transaction during the day without obtaining supervisory review of the correction.

While the voids and corrections were documented and appeared reasonable, they are high-risk transactions, because they allow the cashier to reduce cash and adjust the corresponding recorded transaction. To provide an adequate separation of duties, voids should involve at least two people – one to approve the void and another to enter the correction.

Recommendation

- *The First Judicial District administrative office in Scott County should establish procedures to ensure adequate separation of duties over voids and corrections to previously recorded transactions.*

Finding 4

Some First Judicial District county-level administrative offices incorrectly coded some fines in the court information system and, consequently, misallocated some fines.

Some offices did not correctly record some fines in the court information system. The allocation of a fine depends upon the circumstances, including the initiating law enforcement agency, the location of the offense, and the prosecuting attorney. The court clerk selects a fee schedule based on the case type and criminal charge. The fee schedule contains one or more individual fee codes that corresponds to the distribution of the fine, as set in statute.

Administrative offices made the following errors in recording and allocating certain fines we tested:

- The district administrative office in Goodhue County used the incorrect code for 8 of 28 fines we tested. As a result, the office incorrectly

⁵ Minnesota Judicial Branch Policy 209(a) Section VII, part 7.3 (1).

allocated \$373 to the City of Red Wing because it paid the city two thirds of the fines instead of one third. According to *Minnesota Statutes*, the court should allocate one third of a fine to a city when the offense occurred in the city, the city attorney prosecutes the case, and the city did not employ the apprehending officer.⁶

- The district's Criminal Division administrative office in Hastings used the incorrect code for 1 of 15 fines we tested. As a result, the office incorrectly distributed \$160 to a township that it should have paid to the state.⁷
- The district's West St. Paul Service Center used the incorrect code for 1 of 14 fines we tested. As a result, the service center incorrectly allocated a \$500 fine equally between the city, the state's General Fund, and the state's Trunk Highway Fund instead of paying 3/8 to the state's General Fund and 5/8 to the state's Trunk Highway Fund.⁸
- The district's Apple Valley Service Center used the incorrect code for 1 of 14 fines we tested. The service center incorrectly recorded a \$300 fine for driving while intoxicated as a fine for driving an all terrain vehicle while intoxicated. As a result, the court allocated 1/3 of the fine to the City of Burnsville, half of the fine to the state's Department of Natural Resources, and the rest to the state's General Fund. The court should have allocated 3/8 of the fine to the state's General Fund and 5/8 to the state's Trunk Highway Fund, according to statute.⁹

It is the responsibility of the administrative offices and service centers to ensure the correct allocation of fines and penalties to the appropriate organizations and accounts, as specified in statute. These organizations depend on the revenue generated from these activities to provide services to the public. The detailed nature of the requirements increases the risks of errors and improprieties.

Recommendations

- *The First Judicial District county administrative offices and service centers should ensure they use accurate codes for fines so that the court information system accurately allocates the fines in accordance with statutory requirements.*
- *The First Judicial District county administrative offices and service centers should conduct a review of fine allocations and determine the adjustments needed to correct its allocation errors.*

⁶ *Minnesota Statutes* 2009, 484.90, subd. 6.

⁷ *Minnesota Statutes* 2009, 484.90, subd. 6.

⁸ *Minnesota Statutes* 2009, 299D.03, subd.5(a).

⁹ *Minnesota Statutes* 2009, 299D.03, subd. 5(a).

Finding 5

The First Judicial District administrative office in Scott County did not record in the court information system some money it held in trust.

The office did not record money related to condemnation proceedings in the court information system. The office held the funds for individuals or companies based on court orders and deposited the money in interest-bearing accounts, as required by statute.¹⁰ As of April 30, 2009, the office had not recorded nine condemnation accounts with a total balance of \$444,818 in the court information system.

The judicial branch has a policy that addresses banking practices for cash trust funds.¹¹ While the policy does not specifically require the judicial branch to record this activity in its court information system, it does identify which system accounts to use for these types of transactions. To ensure consistency among the courts and to ensure that the proper tax information and interest is provided to the ultimate recipients of the funds, the court information system should be a complete record of all financial activity related to adjudicated cases.

Recommendation

- *The First Judicial District administrative office in Scott County should record all accounts in the court information system.*

Finding 6

The First Judicial District administrative office in Scott County retained sensitive credit card information in its financial records.

The office inappropriately retained sensitive credit card information in its financial records. The office's paper documentation to support some over-the-counter revenue collections contained full credit card numbers. Although the office stored these records in secured locations, retaining that information created an unnecessary risk. Payment card industry standards require merchants to destroy documents with credit card numbers when the merchant no longer needs the information for business or legal reasons, which is generally a few months after the transaction.¹² If a fraud or identity theft occurred using data the office should have destroyed, the cost to the office, both in terms of money and reputation, could be substantial.

¹⁰ *Minnesota Statutes* 2009, 117.042.

¹¹ Minnesota Judicial Branch Policy 207a, Section V, part 5.1.8.

¹² Payment Card Industry Data Security Standard, Version 1.1, issued in September 2006 by the PCI Security Standards Council.

Recommendations

- *The First Judicial District administrative office in Scott County should promptly destroy credit card information it no longer needs for business or legal purposes.*
- *The State Court Administrator's Office should develop a policy and process for protecting and then destroying credit card information.*

Finding 7

The First Judicial District Administrator's Office did not document its review of key payroll reports.

Payroll staff in the First Judicial District Administrator's Office did not document its review of key payroll reports to ensure the accuracy of wages to verify that staff posted payroll expenditures to correct accounts on the state's accounting system. The self service time entry audit report identifies payroll transactions that did not follow the expected timesheet completion and review process. It lists instances when an employee did not complete their own timesheet and when someone other than the employee's supervisor authorized the timesheet for payment. The payroll register report shows the current pay period's earnings codes, hours, pay rates, adjustments, lump-sum payments, and expense reimbursements. Although the First Judicial District's payroll staff printed and filed the reports, none of the ten pay periods we tested had evidence of review, such as comments, edits, dates, or signatures. The Minnesota judicial branch's payroll policies and procedures require authorized agency payroll or accounting staff to review the payroll register report and the self service time entry audit report.¹³

In addition, the district had no documentation to show that employees subsequently validated timesheets supervisors completed on their behalf. None of the seven supervisors who consistently made changes or modifications to employee timesheets had documentation to support their communications with employees about those changes.

Recommendation

- *The First Judicial District Administrator's Office should document their review of the key payroll reports to verify the accuracy of payroll transactions and show the resolution of exceptions noted.*

¹³ Minnesota Judicial Branch Policy 206(a) III.F.

Finding 8

The First Judicial District administrative office in Dakota County did not have adequate documentation to support some payroll transactions.

The office had the following issues related to processing employee timesheets:

- For all ten pay periods we tested, one employee marked her own timesheet as approved and entered her own hours into the payroll system. No one else reviewed the hours entered into the payroll system. A supervisory approval of hours worked and an independent review of hours entered into the system are fundamental controls to ensure that the courts accurately paid employees for hours worked.
- One employee had not signed his timesheet since March 2008. Because the employee did not work near his supervisor, the employee electronically sent his unsigned timesheets to his supervisor for approval. However, the office did not have documentation, such as an electronic signature, email, or subsequent signed paper timesheet, to show that the employee acknowledged the timesheet's accuracy. A signature attests to the validity of the hours worked and any claimed vacation or sick hours used.
- Four employee timesheets contained incorrect dates. Four timesheets supporting hours paid in pay periods we tested stated other pay period dates. For example, one timesheet supporting hours for the week ended February 20, 2009, stated that it was for the week ended August 29, 2008. The employees' supervisors reviewed and approved the timesheets. Payroll transactions need to be supported by accurate documentation to ensure the validity of the payments.

Recommendation

- *The First Judicial District administrative office in Dakota County should ensure and retain documentation to support that its employees completed their timesheets, supervisors authorized the timesheets for payment, and someone independent of the payroll process reviewed data entry of employee hours worked.*
-

Finding 9

The First Judicial District Administrator's Office did not comply with purchasing and contract policies.

The office did not always comply with judicial branch policies for obtaining bids, establishing contracts, and ensuring contracts for goods and services. The district had the following exceptions:

- For two of five purchases we tested that required bids, the office could not provide evidence that it solicited bids from vendors. For purchases of items not under state contract, judicial branch policy requires the office to solicit and document a minimum of two price quotes for purchases between \$2,500 and \$10,000, and at least three written solicitations for purchases greater than \$10,000.¹⁴ Obtaining bids ensures the office receives a competitive price for goods and services and provides vendors equal access to state purchases.
- For two of six transactions we tested, the office had not executed contracts for professional and technical services, as required by judicial branch policy.¹⁵ The contract process ensures that agreements made with vendors contain provisions that protect the best interests of the office and provides recourse if the terms and conditions are not followed.
- In August 2008, the office entered into a contract for facility rental and catering services for a district conference to be held in April 2009. The office had not submitted the contract for review and approval of the Legal Counsel Division, as required by judicial branch policy.¹⁶ In December 2008, because of concerns about the state's budget deficit, the office cancelled the conference and paid the required cancellation fee of \$9,052; the cancellation clause required the office to pay 80 percent of "anticipated revenue" if the office cancelled the event.¹⁷ A review of the contract by the office's Legal Counsel Division may have protected the office from this expense by detecting that the cancellation fee was not in the best interest of the administrator's office.

¹⁴ Minnesota Judicial Branch Policy 202(a) Procurement Procedures, Attachment 4.

¹⁵ Minnesota Judicial Branch Policy 203(a) Contract Procedures, page 9.

¹⁶ Minnesota Judicial Branch Policy 203(a), Contract Procedures, page 5.

¹⁷ The conference center calculated anticipated revenue at \$11,315, as stated in the contract.

Recommendations

- *The First Judicial District Administrator's Office should obtain and document vendor bids for purchases that are not under existing state contracts, in compliance with judicial policy.*
- *The First Judicial District Administrator's Office should enter into contracts for all professional and technical services, in compliance with judicial branch policy.*
- *The First Judicial District Administrator's Office should ensure the office's Legal Counsel Division reviews and approves all vendor contracts.*

Finding 10

The First Judicial District Administrator's Office and the State Court Administrator's Office did not adequately restrict employees' access to its business and data systems.

The offices did not sufficiently restrict the number of employees with excessive access to the state's accounting system and the court information system. In addition, employees were granted system access that allowed them to perform incompatible duties. The following deficiencies existed in employees' access to the state's accounting system:

- Two of six First Judicial District Administrator's Office employees we tested had unnecessary access to the state's accounting system. These employees did not require access to the state's accounting system to perform their job duties. The office should limit employees' access to the system to only those that need it to perform their assigned responsibilities.
 - Six of seven State Court Administrator's Office employees we tested had incompatible access to the state's accounting system. These employees could encumber funds, enter purchase orders, receive goods, and make payments. Generally, the functions of purchasing, receiving, and payment processing should be segregated to provide an appropriate level of control over expenditures. The office indicated they have some monitoring processes in place for incompatible access to the state's accounting system but did not retain documentation of these reviews.
 - The State Court Administrator's Office had not established clear mitigating controls or a documented policy for reviewing office employees with incompatible access to the court information system. The office acknowledged the need for four of five employees we tested to have incompatible access to perform their job duties. They did not, however,
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have a fully implemented process to monitor the system activity of these employees.

- One State Court Administrator's Office employee and two First Judicial District Administrator's Office employees had access to the court information system for several months after they were no longer employed by the judicial branch.
- The State Court Administrator's Office did not periodically review its employees' access to the court information system, as required by judicial branch policy.¹⁸

The offices significantly increased the risks of potential errors and fraud by allowing employees excessive or incompatible access to its accounting systems and not having effective controls in place to detect inappropriate or unauthorized transactions.

Recommendations

- *The First Judicial District Administrator's Office should limit employee access to the state's accounting system and the court information system to the minimal level necessary to complete job responsibilities.*
- *The State Court Administrator's Office should develop and document effective detective controls for those employees it has determined need incompatible access to its systems. Those controls could include periodic and independent reviews of the employees' work to mitigate the risks.*
- *The State Court Administrator's Office should periodically review employees' access to the court information system and the state's accounting system to ensure the access is required to perform assigned job responsibilities and to ensure only current employees have access to the system.*

The State Court Administrator's Office had not fully developed and documented a continuity of operations plan.

Finding 11

The State Court Administrator's Office asserted that they had the necessary infrastructure in place at an alternate data center; however, they did not have a documented continuity of operations plan. A continuity of operations plan documents how the court plans to respond, recover, resume, and restore operation

¹⁸ Minnesota Judicial Branch Policy 209(d).

of its court information system if there is a business interruption. Business interruptions can result from many events, including natural disasters, computer failures, and loss of key personnel.

Organizations without a sufficiently documented plan for disruptions may find themselves unable to conduct business for undesirable and prolonged timeframes. A significant disruption could prevent the courts from entering case information or collecting and recording fines in a timely manner.

Recommendation

- *The State Court Administrator's Office should finalize and document a continuity of operations plan for its court information system.*
-

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October 20, 2009

Mr. James R. Nobles
Minnesota Legislative Auditor
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Dear Auditor Nobles:

I am pleased to provide this response to the internal control and compliance audit of the First Judicial District and selected programs of the State Court Administrator's Office for the period July 1, 2006, through February 29, 2009. Judicial Branch financial transactions are included in the state's Comprehensive Annual Financial Report on which you issued an unqualified opinion for the year which ended June 30, 2008.

We are gratified that your report concludes, "*The First Judicial District's internal controls were generally adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements.*" Your report further concludes that "*For the items tested, the First Judicial District generally complied with finance-related legal requirements over its financial activities.*"

All of the recommendations have been given careful attention and appropriate action has either been implemented or is underway.

Sincerely yours,



Sue K. Dosal
State Court Administrator

cc: Chief Justice Eric J. Magnuson, Chair
Minnesota Judicial Council

Finding 1: Some First Judicial District county-level administrative offices did not document their review of high-risk receipt transactions and did not have documentation to support some adjustments to receivable amounts.

Response:

The First Judicial District agrees that the Goodhue and Scott County locations did not document their review of the transaction listing report. Please note that the Goodhue County location generally verifies 100% of the adjustments contained on the transaction listing report which is well beyond the 10% threshold required by district administration. Documentation of these reviews was inadvertently deleted during the audited period. Please note that the Scott County location experienced a staffing shortage during the audited period and was temporarily unable to review its transaction listing reports after February 2009. The Goodhue and Scott County locations have already implemented the recommendation to verify, check off, date, and initial the transaction listing report.

The First Judicial District agrees that the Apple Valley, Goodhue County, and Hastings locations did not maintain documentation that supported certain administratively dismissed offenses when the applicable compliance document was submitted. Please note that comments in the automated case management system (MNCIS) indicated that conditions had been met or proof of insurance provided. The Apple Valley, Goodhue County, and Hastings locations have already implemented the recommendation to maintain support documentation such as proof of sale, a copy of the valid insurance card, or a copy of the Department of Vehicle Services record when administratively dismissing an offense. Certain locations now retain support documentation both manually and in their imaging pilots.

The First Judicial District agrees that the West St. Paul location in one instance did not support an adjustment when it inadvertently neglected to remit forfeiture notice to a surety bond company. The notice would have required remittance within a certain time period or a petition for reinstatement. The net effect was null because all outstanding bonds were discharged at the defendant's sentencing. The bonding company has no obligation to the state treasury. The West St. Paul location has already reminded staff to follow the surety bond forfeiture procedures outlined in the Minnesota General Rules of Practice.

The First Judicial District agrees that the indicated locations could not demonstrate review of manual documents to ensure receipts were system processed and subsequently deposited. However, as your report noted, certain locations were verifying system entry but were not fully documenting their review. Between September 17, 2008, and February 11, 2009, the district administration office conducted its own financial reviews. The Judicial Branch manual receipting procedures were distributed to each location and random spot checks conducted for compliance. Only a limited number of omissions were noted. The indicated locations have already implemented the recommendation to thoroughly document their review of manual documents by having an independent person

initial, date, and cross-reference the system receipt number and, where necessary, the applicable case number on the face of the manual document.

Persons responsible for resolving: Carol Renn, Greg Ess, and Yvonne Black.

Implementation date: Already implemented. Finding is resolved.

Finding 2: Some First Judicial District county-level administrative offices did not promptly deposit some receipts.

Response:

The First Judicial District agrees that the indicated locations did not promptly deposit some receipts of \$250 or more. Please note that a majority of idle receipts in each location's criminal divisions were the result of unidentified payments received in the mail that did not include a copy of the applicable citation. Many times, the party information, statute number, community of offense, and degree cannot be determined with sufficient certainty until the original citation arrives from law enforcement. Although the receipts were not immediately deposited, they were adequately safeguarded at each location. In addition, idle receipts were diligently monitored for delivery of original citations so that matching and processing could occur at the earliest opportunity.

Future expansion of telephone and web payment options and system enhancements to allow e-citation, electronic ticket writing, and imaging will minimize or eliminate the necessity to retain idle receipts. At the enterprise level, the Judicial Council recently approved a statewide business plan to implement a Court Payment Center that centralizes the processing of payable citations and payment entries.

In the interim, the Finance Division and the First Judicial District will explore the use of a system holding account where unidentified receipts of \$250 or more can be processed and deposited immediately and then linked to the applicable case after additional information is received. Due to the complexity and interdependencies of court receipting processes, initial piloting is necessary to determine whether the use of a holding account is a viable solution. The Scott County location is the proposed pilot since they will be transferring payable citation processing to the Court Payment Center near the end of the current fiscal year. A holding account is a necessary component of the implementation of the centralized processing model. During the pilot, key performance indicators, deviations, gaps, and additional risks will be analyzed and evaluated over a reasonable period of time and strategy continually adjusted as necessary before branch wide implementation is considered.

Persons responsible for resolving: Carol Renn, Greg Ess, Yvonne Black, Dawn Torgerson, and Seema Siddiqui.

Implementation date: July 1, 2010, for completion of the pilot. Other court locations will be introduced to the holding account as they transfer processing of payable citations to the Court Payment Center.

Finding 3: The First Judicial District administrative office in Scott County had inadequate controls over voids and adjustments of receipt transactions.

Response:

The First Judicial District agrees that the Scott County location did not properly segregate duties over void transactions. Please note that the Scott County location believed it had adequately segregated duties when it limited voiding rights to selected financial staff who did not receipt. The exceptions noted involved voids that were the result of incorrect amount and tender type. Two staff members were always involved in each void but in four of the five exceptions, cashier staff inadvertently allowed the financial staff to close and balance their cash drawer at the end of the day.

In the future, two staff members will continue to be involved in each void. However, the financial clerk will void the incorrect transaction and the originating cashier clerk will enter the corrected transaction. In addition, cashier clerks will be reminded to close and balance their own cash drawers at the end of the day.

Persons responsible for resolving finding: Greg Ess.

Implementation date: Already implemented. Finding is resolved.

Finding 4: Some First Judicial District county-level administrative offices incorrectly coded some fines in the court information system and, consequently, misallocated some fines.

Response:

The First Judicial District agrees that the Goodhue County location inadvertently allocated certain payments to the municipality when it should have been allocated to the state general fund. The Goodhue County location has already reminded staff to carefully evaluate the criteria surrounding each offense when choosing the appropriate fee codes. The inadvertent overpayment will be corrected by offsetting future municipality allocations and redirecting to the state general fund. Please note that the Scott County and Dakota County locations have already implemented auto assessment with roll out to the remaining locations to follow. Auto assessment provides the ability to automatically calculate the applicable fine and fee splits based on the criteria stated in statute. The objective is to minimize clerical error and manual entry. Overall accuracy will be increased because the system will automatically present the correct fee schedule. Auto assessment will help ensure that all collected revenue is disbursed correctly to the state and local entities.

At the enterprise level, the State Court Administrator's Office recently completed an initiative to reduce the complexity of revenue collection processes by seeking clarification from the Minnesota Legislature on items such as whether to apply certain surcharges and law library fees to one case or per offense, elimination of the 20% state share requirement, elimination of court costs, and elimination of one fine split between

the state and the municipality. This clarification should assist in reducing or eliminating future clerical errors.

Persons responsible for resolving finding: Carol Renn and Yvonne Black.

Implementation date: Correcting offsets by the Goodhue County location to the state general fund will be completed by November 1, 2009. Auto assessment implementation in the Goodhue, Dakota, and Scott County locations will be implemented by March 31, 2010.

Finding 5: The First Judicial District administrative office in Scott County did not record in the court information system some money it held in trust.

Response:

The First Judicial District agrees that the Scott County location had chosen not to enter financial transactions relating to externally invested condemnation proceeds by creating a registry account in the court information system. Please note that the Scott County location was not out of compliance with the Judicial Branch policy on banking practices. Appropriate notations were made to the case register of actions and applicable Internal Revenue Service Form 1099 information communicated annually to the Finance Division.

The Scott County location is responsible for investing condemnation proceeds until final distribution is ordered by the court. Condemnation proceeds are invested outside of the state treasury as directed by judicial rules and court order. The Scott County location currently uses a manual process to track and monitor the financial activity of the external investments. In the future, the Scott County location will be included in a pilot where condemnation proceeds will be invested within the state treasury at Minnesota Management and Budget. At that time, tracking of financial activity will take place within the court information system and the manual tracking process will be abandoned.

Persons responsible for resolving finding: Greg Ess.

Implementation date: November 1, 2009.

Finding 6: The First Judicial District administrative office in Scott County retained sensitive credit card information in its financial records.

Response:

The First Judicial District agrees that the Scott County location had one terminal that did not truncate credit card information. Please note that the majority of credit card payments at the Scott County location occurred over the internet. These payments have always truncated sensitive credit card information. Only the counter telephone terminal was not properly programmed to truncate credit card information. This oversight was inadvertent. The Scott County location has already corrected the programming issue so that all sensitive credit card information is truncated. To further restrict access to

sensitive information, credit card receipts will continue to be stored in a secure location but will be shredded after six months.

Persons responsible for resolving finding: Greg Ess.

Implementation date: Already implemented. Finding is resolved.

Finding 7: The First Judicial District Administrator's Office did not document its review of key payroll reports.

Response:

The First Judicial District agrees that review of key payroll reports had not been documented. Employees have always been instructed to complete their own timesheets and supervisors have always been expected to approve. On occasion, employees and/or supervisors are not available for completion and/or approval. Due to travel requirements within the district or when an employee is suddenly unavailable, a deviation from the approved process is documented and followed up with written approval from the employee and/or supervisor. Employees have already been reminded to complete their own time sheet whenever possible and that defaulting to supervisor approval should only occur in rare instances. After the reports are reviewed, staff will properly document their review.

Persons responsible for resolving finding: Jeri Boetcher.

Implementation date: Already implemented. Finding is resolved.

Finding 8: The First Judicial District administrative office in Dakota County did not have adequate documentation to support some payroll transactions.

Response:

The First Judicial District agrees with the payroll issues found at the Dakota County location and has already implemented the applicable corrections to procedures. Employees and supervisors have been reminded to ensure the timesheet header contains the correct pay-period dates.

Persons responsible for resolving finding: Carol Renn.

Implementation date: Already implemented. Finding is resolved.

Finding 9: The First Judicial District Administrator's Office did not comply with purchasing and contract policies.

Response:

The First Judicial District agrees that for the exceptions noted, a copy of each received bid could not be found in the procurement files. In addition, the First Judicial District agrees that for the exception noted, a properly executed contract could not be found. The

First Judicial District agrees that for the exception noted, review and approval of the contract terms by legal counsel was not documented. The First Judicial District has already reminded managers to retain a copy of each bid in the procurement file and to ensure legal counsel review of vendor prepared contracts is properly documented.

Persons responsible for resolving finding: Rhonda Williams.

Implementation date: already implemented. Finding is resolved.

Finding 10: The First Judicial District Administrator's Office and the State Court Administrator's Office did not adequately restrict employees' access to its business and data systems.

The First Judicial District agrees that two employees had unnecessary access to the state's accounting system. The district determined that access was no longer needed based on the employee's duties and has already removed the access. The unnecessary access would ultimately have been noticed and corrected when the Finance Division of the State Court Administrator's Office remitted its annual security report to the district for review.

The Finance Division of the State Court Administrator's Office agrees that six division employees were allowed incompatible access to the state's accounting system. However, this incompatible access is only reflected in the security tables of the state's accounting system for intermittent back-up purposes only. Physical duties are segregated into purchasing and accounts payable functions. When an employee is absent, certain employees who perform the purchasing function may need to temporarily perform the accounts payable function. This separation is documented in the division's roles and responsibilities matrix.

As a mitigating control, the monthly budget report package generated by the financial analyst is scrutinized by the division director. This package includes a summary of budget versus actual expenditures and a detailed listing of all items charged to the expense budget by object code and vendor name. The Finance Division has already begun documenting its review of the monthly reporting package.

The State Court Administrator's Finance and Information Technology Divisions agree that four employees have incompatible access to the court information system. Because these employees work across all districts and assist local offices in correcting the most complex case processing and financial transactions, broad access is necessary. A partial mitigating control is in place in that any financial transactions entered will appear on the local till balance and transaction listing reports and would be subject to scrutiny. The Financial Management Workgroup is in the process of proposing a policy where all districts will be required to verify the high risk adjustment transactions contained on their transaction listing reports.

The State Court Administrator's Finance and Information Technology Divisions and the First Judicial District agree that three dormant accounts had not been disabled after the employees left judicial branch service. The applicable supervisors inadvertently failed to submit the required exit forms to the Information Technology Division. In the future, the Information Technology Division will work with the Human Resource division to create a proactive approach where periodic comparisons will be made between the state's payroll system and the court information system.

The State Court Administrator's Finance and Information Technology Divisions agree that it does not routinely review employee access to the court information system in similar manner to the review process used at the district locations. Please note that a majority of employees in the State Court Administrator's Office who have access to the court information system are assigned to roles that are limited to view access only. In the future, each division director will document review of the security access of employees in their division.

Persons responsible for resolving finding: Tom Drogseth, Dawn Torgerson, and Seema Siddiqui.

Implementation date: January 31, 2010.

Finding 11: The State Court Administrator's Office had not fully developed and documented a continuity of operations plan.

The Information Technology Division agrees a continuity of operations plan had not been fully documented. During and subsequent to the audit, the Information Technology Division has always had a continuity of operations plan in place but has been updating it to reflect new technology. The State Court Administrator's Office has the necessary infrastructure at the disaster/recovery site in place including: sufficient air conditioning and power, a disk array, and database and web servers. The Information Technology Division has tested restoration of the MNCIS database; has procured and tested a tool to keep web servers in sync and up-to-date, and has documented the process; and has plans for further testing in the weeks ahead. Sufficient service could be provided in accordance with the established recovery timelines upon the declaration of a disaster. Formal documentation of the continuity of operations plan will be completed by January 31, 2010.

Persons responsible for resolving finding: Tom Drogseth

Implementation date: January 31, 2010.