

JUDICIAL BRANCH  
BISMARCK, NORTH DAKOTA  
**Audit Report**

For the Biennium Ended  
June 30, 2013

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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March 6, 2014

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
The Honorable Gerald W. VandeWalle, Chief Justice, Supreme Court

We are pleased to submit this audit of the Judicial Branch for the biennium ended June 30, 2013. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Andrea Wike. Krista Lambrecht was the staff auditor. Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Chief Justice VandeWalle and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

The North Dakota Judicial Branch represents one of the three branches of state government. The Judicial Branch contains the North Dakota Supreme Court, District Courts, Clerk of Courts, Judicial Conduct Commission, and several County Clerk of Court offices.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## *Responses to LAFRC Audit Questions*

*1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Judicial Branch in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

*2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

*3. Was internal control adequate and functioning effectively?*

Yes.

*4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

*5. Has action been taken on findings and recommendations included in prior audit reports?*

Yes, the agency has implemented the recommendation included in the prior audit report.

*6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 12 of this report, along with management's response.

## **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Judicial Branch's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), Odyssey Case Management System, and Jury Management System are high-risk information technology systems critical to the Judicial Branch.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the Judicial Branch for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Judicial Branch's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Judicial Branch and are they in compliance with these laws?
3. Are there areas of the Judicial Branch's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Judicial Branch is for the biennium ended June 30, 2013. We conducted this performance 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 believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Each of the following locations were including in the scope of the audit:

- The Judicial Branch's Central Office, Supreme Court, and Law Library.
- The Judicial Branch's state funded counties: Stutsman, Cass, Ramsey, Walsh, Stark, Ward, Burleigh, Morton, Grand Forks, Richland, Williams, and Rolette.
- The Judicial Branch's chamber judges in the following counties: Eddy, Dickey, Barnes, Bottineau, Pierce, and Pembina/Cavalier.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.

- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Judicial Branch's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.



## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present the Judicial Branch's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2013, operations of the Judicial Branch were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

### ***Financial Summary***

The Judicial Branch had a significant amount of cash held for others in the Clerk of Court Bond Fund in the amount of \$9,161,915. The amounts in this fund are received as bail, restitution, or pursuant to an order of the court and are used for the purposes of refunding bail, forwarding restitution amounts to entitled recipients, or making payments as directed by an order of the court. This fund is authorized by North Dakota Century Code section 27-05.2-04.

The Judicial Branch had receivables in the amount of \$5.5 million (\$15.2 million gross receivables with an allowance for doubtful accounts of \$9.7 million) for the year ended June 30, 2013. The receivables consist of amounts to be collected by the Clerk of Courts.

The Judicial Branch had approximately \$2 million in capital assets, net of accumulated depreciation, as of June 30, 2013. The capital assets consisted primarily of equipment and software.

Revenues consisted primarily of court imposed fees and fines and revenue from the Department of Human Services for the reimbursement of a portion of Title IV-D Child Support cases that are heard by the clerk of courts. Total revenues were \$1,841,751 for the year ended June 30, 2013 as compared to \$1,720,349 for the year ended June 30, 2012.

Total expenditures for the Judicial Branch were \$43,322,666 for the year ended June 30, 2013 as compared to \$40,732,497 for the prior year. The increase in Salaries and Benefits expenditures is primarily due to legislative increases. All other expenditures remained fairly constant.

# Financial Statements

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## Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b><u>Revenues and Other Sources:</u></b>		
Fees-Fines-Collections	\$ 865,144	\$ 678,546
Reimbursement from Other State Agencies	531,307	565,865
Reimbursement from Federal Government	162,220	246,348
Judicial Conduct Board	215,085	167,617
Miscellaneous General Revenue	67,994	61,974
<b>Total Revenues and Other Sources</b>	<b>\$ 1,841,750</b>	<b>\$ 1,720,350</b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 32,235,292	\$ 31,097,246
Fees and Services	4,762,299	4,317,714
IT Services	1,758,006	1,520,091
Supplies	1,522,543	976,423
Equipment	1,087,301	535,864
Travel	725,903	787,315
Grants, Benefits, and Claims	573,958	703,759
Professional Development	241,576	267,907
Postage	205,356	205,848
Printing	125,650	112,277
Rentals/Leases	84,781	208,053
<b>Total Expenditures and Other Uses</b>	<b>\$ 43,322,666</b>	<b>\$ 40,732,497</b>

## Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
<b>Supreme Court</b>	\$ 9,116,651		\$ 9,116,651	\$ 9,057,335	\$ 59,316
Salaries and Wages	2,315,118		2,315,118	2,091,985	223,133
Operating Expenses	25,000		25,000	9,607	15,393
Capital Assets	138,105		138,105	85,768	52,337
Judges Retirement					
<b>District Court</b>					
Salaries and Wages	54,216,144	\$ (120,000)	54,096,144	52,866,852	1,229,292
Operating Expenses	16,858,522	(445,000)	16,413,522	15,277,212	1,136,310
Capital Assets	676,480	325,000	1,001,480	958,359	43,121
DC – Judges Retirement	478,997		478,997	470,516	8,481
Mediation	869,664	240,000	1,109,664	1,079,255	30,409
UND-Central Legal Research	80,000		80,000	80,000	
<b>Judicial Conduct Board</b>					
Judicial Conduct Board	889,955		889,955	852,347	37,608
<b>Totals</b>	<u>\$ 85,664,636</u>	<u>\$ 0</u>	<u>\$ 85,664,636</u>	<u>\$ 82,829,236</u>	<u>\$ 2,835,400</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 83,482,362		\$ 83,482,362	\$ 81,011,926	\$ 2,470,436
Other Funds	2,182,274		2,182,274	1,817,310	364,964
<b>Totals</b>	<u>\$ 85,664,636</u>	<u>\$ 0</u>	<u>\$ 85,664,636</u>	<u>\$ 82,829,236</u>	<u>\$ 2,835,400</u>

### Appropriation Adjustments:

Per House Bill 1002, Sections 2 and 3 of the 2011 Session Laws, the Judicial Branch is appropriated any funds received by the supreme court, district courts, and judicial conduct commission and disciplinary board, not otherwise appropriated, pursuant to federal acts and private gifts, grants, and donations for the purpose as designated in the federal acts or private gifts, grants, and donations. Therefore, the Judicial Branch has authority to increase appropriation for these funds without the approval of the Emergency Commission.

### Expenditures Without Appropriations Of Specific Amounts:

Court Facilities Improvement Fund has a continuing appropriation authorized by NDCC section 27-05.2-08. (\$1,197,717 of expenditures for this biennium).

Restitution Collection Fund has a continuing appropriation authorized by NDCC section 12.1-32-08 (2) (\$24,088 of expenditures for this biennium).

Judges Retirement Fund is authorized by NDCC section 27-17-05 (\$4,122 of expenditures for this biennium).

## ***Internal Control***

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In our audit for the biennium ended June 30, 2013, we identified the following areas of the Judicial Branch's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of payroll.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Judicial Branch in a management letter dated March 6, 2014.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2013, we identified and tested Judicial Branch's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- The procedures established to provide funding for the provision of the clerk of district court services. Proper funding amounts provided to the clerk of district courts.
- Proper use of the following legally restricted funds:
  - Restitution Collection Assistance Fund
  - Court Facilities Improvement Fund
- Funds were properly authorized.
- Compliance with appropriations.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

## *Operations*

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This audit did not identify areas of Judicial Branch's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we did note a certain matter involving operations that we have reported to management of the Judicial Branch in a management letter dated March 6, 2014.

# ***Management Letter (Informal Recommendations)***

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March 6, 2014

The Honorable Gerald W. VandeWalle  
Chief Justice  
ND Supreme Court  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Chief Justice VandeWalle:

We have performed an audit of the Judicial Branch for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Judicial Branch's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

## **COMPLIANCE**

Informal Recommendation 13-1: We recommend the Judicial Branch improve procedures surrounding capital asset deletions by:

- Sending items of value to Surplus Property in a timely manner.
- Maintaining proper documentation for disposals.

## **OPERATIONAL IMPROVEMENTS**

Informal Recommendation 13-2: We recommend the Judicial Branch develop policies and procedures related to the cancelation of bond payments made by credit card.

Management of the Judicial Branch agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Andrea Wike".

Andrea Wike  
Auditor in-charge



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