

Judicial Branch  
BISMARCK, NORTH DAKOTA

# Audit Report

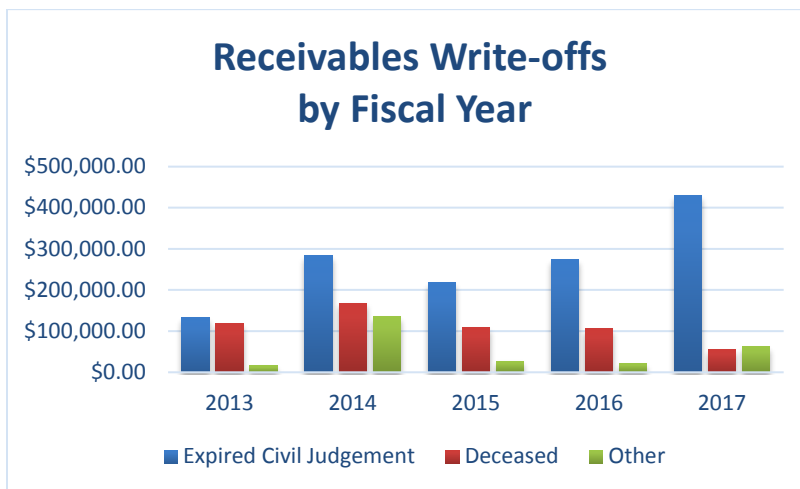
For the Biennium ended  
June 30, 2017

Office of the State Auditor  
Division of State Audit

# Report Highlights

**Odyssey Case Management System:** This system contains information for all criminal and civil cases filed throughout the state. County clerks of court enter all case dispositions and record any fines, fees, and/or restitution owed. Any payments received or necessary adjustments are processed by county clerks of court within the system.

- There were over 8,000 adjustments to accounts receivable totaling \$3.1 million during our audit period. Adjustments are typically for amended judgements, suspended and waived fees, and payments of restitution outside of the court. The Judicial Branch did not have sufficient controls in place to detect improper adjustments.



This chart was created using the Odyssey Case Management data. It represents the dollar value of write-offs annually. Any restitution assessed was excluded from these amounts as it is money owed to a 3<sup>rd</sup> party, not to the State of North Dakota.

**Internal Control:** We evaluated and tested high-risk areas including: revenue, expenditures (including correcting entries and purchase card transactions) and safeguarding assets.

- We identified an internal control weakness relating adjustments to accounts receivable in the Odyssey Case Management System as noted above.

**Legislative Intent:** We evaluated and identified high-risk legislation for testing. The legislation reviewed included the following: required transfers, proper use of restricted funds, proper use of outside bank accounts, payroll related laws, fixed asset related laws, and appropriation laws.

- We did not identify any instances of noncompliance in our testing.

## **LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman

### **Representatives**

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Mary Johnson  
Keith Kempenich  
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Marvin E. Nelson  
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Dwight Cook  
Judy Lee  
Richard Marcellais

## **AUDITOR AND AGENCY PERSONNEL**

### **State Auditor Personnel**

Paul Welk, Audit Manager  
Lindsey Ressler, In-Charge  
Dustin Walker, Staff Auditor  
Ian Ballantyne, Staff Auditor

### **Primary State Agency Contacts**

Don Wolf, Director of Finance  
Dion Ulrich, Director of Accounting

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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February 26, 2018

The Honorable Doug Burgum, 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, 2017. 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.

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,

/S/

Joshua C. Gallion  
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, Clerks of Court, 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 unmodified 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?*

Other than our finding addressing "Lack of Controls for Accounts Receivable Adjustments" (page 11), we determined internal control was adequate.

*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?*

The Judicial Branch 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 13 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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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, 2017, 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, 2017. We conducted our 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.

The Judicial Branch has operations in the following locations. Each location was included in the audit scope:

- 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, McKenzie, Barnes and Rolette.

## ***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.
- 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.
- Reviewed revenue collection procedures for fine and fee collections in the Odyssey Case Management System.
- Reviewed juror payments issued through the Jury Management System.

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

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b><u>Revenues:</u></b>		
Intergovernmental Revenue	\$ 769,835	\$ 848,110
Collection of Court Fees	644,875	588,503
Disciplinary Fees	231,406	247,630
Charges for Services	35,416	38,507
Conference Registration Fees	2,025	3,974
Interest Income	748	823
Sale of Capital Assets		27,000
Miscellaneous Revenue	44,940	41,265
<b>Total Revenues</b>	<b>\$ 1,729,245</b>	<b>\$ 1,795,812</b>
<b><u>Expenditures:</u></b>		
Salaries and Benefits	\$ 39,658,644	\$ 39,908,063
Operating Fees and Services	5,293,346	5,477,657
IT Software	1,531,757	1,186,318
IT Services	1,386,818	1,606,251
Equipment	935,443	1,529,793
Grants	848,349	800,949
Professional Materials	825,237	726,128
Professional Services	697,091	782,088
Travel	546,566	813,392
Repairs	287,498	811,020
Supplies	268,292	244,414
Professional Development	257,196	291,313
Rentals/Leases	131,899	228,259
<b>Total Expenditures</b>	<b>\$ 52,668,136</b>	<b>\$ 54,405,645</b>

## Statement of Appropriations

For the Biennium Ended June 30, 2017

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
<b>Supreme Court</b>					
Salaries and Wages	\$ 11,409,109	\$ (350,000)	\$ 11,059,109	\$ 10,734,905	\$ 324,204
Operating Expenses	3,144,999	(623,019)	2,521,980	2,271,522	250,458
Capital Assets	1,078,070		1,078,070	1,002,445	75,625
SC-Judges Retirement	79,588		79,588	79,583	5
Guardianship Program	303,789	(75,000)	228,789	175,336	53,453
<b>District Court</b>					
Salaries and Wages	71,769,330	(3,450,000)	68,319,330	67,529,616	789,714
Operating Expenses	23,628,319	(2,593,586)	21,034,733	20,563,084	471,649
Capital Assets	1,968,460	(171,000)	1,797,460	1,728,320	69,140
DC - Judges Retirement	408,649	(65,000)	343,649	337,219	6,430
UND Central Legal Research	80,000		80,000	80,000	0
<b>Judicial Conduct Board</b>					
Judicial Conduct Board	1,127,487	(44,725)	1,082,762	970,578	112,184
<b>Totals</b>	<u>\$ 114,997,800</u>	<u>\$(7,372,330)</u>	<u>\$ 107,625,470</u>	<u>\$105,472,608</u>	<u>\$ 2,152,862</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 112,630,994	\$(7,377,330)	\$ 105,253,664	\$103,452,935	\$ 1,800,729
Other Funds	2,366,806	5,000	2,371,806	2,019,673	352,133
<b>Totals</b>	<u>\$ 114,997,800</u>	<u>\$(7,372,330)</u>	<u>\$ 107,625,470</u>	<u>\$105,472,608</u>	<u>\$ 2,152,862</u>

### Expenditures without Appropriations of Specific Amounts:

Restitution Collection Fund has a continuing appropriation authorized by NDCC section 12.1-32-08 (\$28,735 of expenditures for this biennium).

Court Facilities Improvement Fund has a continuing appropriation authorized by NDCC section 29-26-22 (\$1,569,298 of expenditures for this biennium).

Judges Retirement Fund has a continuing appropriation authorized by NDCC section 27-17-05 (\$3,140 of expenditures for this biennium).

## *Internal Control*

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In our audit for the biennium ended June 30, 2017, 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 revenues.
- Controls surrounding the processing of expenditures.
- 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 *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

We gained an understanding of internal controls 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: misstatements in financial or performance information, violations of laws and regulations, or 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.

## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2017, we identified and tested Judicial Branch compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (House Bill 1002 of the 2015 Session Laws).
- Proper authorization of expenditures without appropriations of specific amounts:
  - Restitution Collection Fund (NDCC 12.1-32-08).
  - Court Facilities Improvement Fund (NDCC 27-05.2-08 and NDCC 29-26-22).
  - Judges Retirement Fund (NDCC 27-17-05).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Travel-related expenditures are made in accordance with state statute.
- Proper use of outside bank accounts.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and annual inventory.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Compliance with legislative restrictions for expenditures of the Court Facilities Improvement Fund (NDCC section 27-05.2-08)

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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Our audit of the Judicial Branch included a review of operations surrounding revenue collections in the Odyssey system and juror payments through the Jury Management System.

### **Odyssey System Revenue Collections**

#### **Background**

The Judicial Branch receives payment for fines and fees incurred in civil and criminal court cases. Each case is manually or electronically uploaded into the Odyssey Case Management system. Payments can be submitted online or directly to the county clerk of court offices. All payments received in the clerk of court offices are manually entered into the system. Any adjustments made to accounts originate and are entered by the county clerk of courts. Adjustments are typically for amended judgements, suspended and waived fees, and payments of restitution outside of the court. All write-offs on accounts are requested by the clerk. The approval and entry are completed at the central office.

At the end of the month, a report is printed from the Odyssey system for all revenue collections by fee code. Each county remits a check to the State Treasurer's Office (STO) for deposit at the Bank of North Dakota. STO is responsible for distributing the revenue to correct recipients based on fees received.

Our audit of the Judicial Branch's revenue collections in the Odyssey system was designed and conducted to meet the following objectives:

- Are fines and fees collected based on the case disposition?
- Are monthly disbursements reconciled to Peoplesoft deposits?
- Is the priority for applying payments appropriately established in the Odyssey system?
- Are all accounts receivable adjustments and write-offs properly supported?

We did identify a significant issue in operations. The Judicial Branch's procedures did not ensure adjustments to accounts within the Odyssey Case Management System were properly supported and accurate. This is documented in Finding 17-1 on the following page. In addition, we noted inconsequential instances involving operations that we have reported to management of the Judicial Branch in a management letter dated February 26, 2018. Other than the instances identified, all objectives related to the Odyssey System Revenue Collections were met.

## **Lack of Controls for Accounts Receivable Adjustments (Finding 17-1)**

### **Condition:**

The Judicial Branch is not properly reviewing adjustments made to outstanding fines and fees assessed during civil and criminal court cases. The Department's policy requires annual audits of county cases that have adjustments recorded. However, of the 4 units of the state, one unit was unable to locate any documentation showing that audits were completed during our audit period. In addition, review of the units that had documentation identified the following: inconsistencies in documentation of follow-up or necessary expansion of samples when errors were identified and cases with missing adjustment support. There were over 8,000 accounts receivable adjustments totaling \$3.1 million during our audit period.

### **Criteria:**

Judicial Branch policy "Waivers, Suspensions, Outside Receipts, & Voids" states that at least once a year each Unit Administrator or Assistant Court Administrator is to review a random sample of each county's case files.

According to the "Standards for Internal Control in the Federal Government," a detective control should discover when an entity is not addressing a risk before the entity's operation has concluded and corrects the actions so that the entity addresses the risk.

### **Cause:**

The Judicial Branch did not maintain necessary support for Unit Administrator Audits completed. In addition, the documentation of completed audits is not sufficient.

### **Effect or Potential Effect:**

There is potential for improper adjustments to be recorded and go undetected.

### **Operational Improvement:**

We recommend the Judicial Branch implement procedures to detect improper adjustments to accounts in the Odyssey Case Management System.

### **Judicial Branch Response:**

*We are in agreement with the recommendation. Due to budget reductions, the person responsible for conducting the annual unit audit and the person responsible for reviewing the audits were both terminated. In addition, employees within this unit were busy addressing the immediate needs of coordinating Dakota Access Pipeline (DAPL) cases at this time. During this transition period, the audits were either overlooked or misplaced. The audits will be completed going forward. Additional direction will be provided to the auditors to include supporting documentation as detailed in the recommendation.*

## Juror Payments

### Background

The Judicial Branch issues payments to jurors that serve on juries throughout the state of North Dakota. Individuals are reimbursed for mileage to and from the courthouse as well as a daily stipend. Mileage and stipend rates are established in North Dakota Century Code 27-09.1-24.

Our audit of the Judicial Branch's juror payments from the Jury Management System was conducted to meet the following objective:

- Are all juror payments made in accordance with statutory requirements?

We did not identify any significant issues in operations. However, we noted an inconsequential instance involving operations that we have reported to management of the Judicial Branch in the management letter dated February 26, 2018.



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

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February 26, 2018

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, 2017, 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.

## **Odyssey System**

Informal Recommendation 17-1: We recommend the Judicial Branch develop procedures to ensure all overrides of legislatively mandated fees are reviewed for accuracy.

Informal Recommendation 17-2: We recommend the Judicial Branch develop policies that identify when outstanding accounts for deceased individuals should be forwarded to the Attorney General's office for collection.

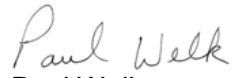
## **Juror Payments**

Informal Recommendation 17-3: We recommend the Judicial Branch develop procedures to ensure payments issued to jurors do not exceed limitations set in the North Dakota Century Code.

Management of the Judicial Branch agreed with these recommendations.

I encourage you to call me 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 "Paul Welk".

Paul Welk  
Audit Manager

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Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241