



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Judicial Branch

Audit Report for the Biennium Ended June 30, 2019

Client Code 180





WHAT WE LOOKED AT

Our team audited the Judicial Branch which included reviewing financial transactions, expenditures and blanket bond coverage.

WHAT WE FOUND

This audit did not identify any areas of concern.

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HAVE QUESTIONS? ASK US.

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Introduction

Judicial Branch

February 25, 2020

We are pleased to submit this audit of the Judicial Branch for the biennium ended June 30, 2019. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader 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 Jensen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conflict of Interest: Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Administrative Code (N.D.A.C.): Codification of all rules of state administrative agencies.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

Statutory Audit Requirements

OBJECTIVE:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post-audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented.

We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities and the implementation of the same.

Based upon the audit work performed, auditors are required to report deficiencies in internal control that are significant

within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

SCOPE

This audit of the Judicial Branch is for the biennium ended June 30, 2019.

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.

METHODOLOGY

To meet this objective, we:

- Inquired with appropriate agency personnel.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- 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 compliance with appropriation laws and regulations including emergency commission action.
- Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively, including testing ConnectND budget limits, segregated and appropriate payment approvals and controls surrounding receivable adjustments.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Used random non-statistical sampling, which allowed results to be projected to populations to select a sample of payment and purchase card transactions for further testing of compliance with state laws.

STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (2017 North Dakota Session Laws Chapter 27 (S.B. 2002), 2017 North Dakota Session Laws Chapter 23 (H.B. 1024), 2019 North Dakota Session Laws Chapter 2 (H.B. 1002), N.D.C.C. 54-16-03)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)

- Proper use of funds (State Constitution article 10 section 12, N.D.C.C. 44-08-05.1, N.D.C.C. 54-44.1-10)

AUTHORITY AND STANDARDS

This biennial performance audit of the Judicial Branch has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are 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).



LAFRC Audit Report 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. The Judicial Branch was in compliance with significant statutes, laws, rules and regulations under which it was created and is functioning.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Yes. We determined internal control was adequate and we did not identify any other deficiencies in internal control that were significant within the context of our audit objectives.

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 Judicial Branch has implemented all recommendations 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.

No, a management letter was not issued.



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) and Odyssey Case Management System are high-risk information technology systems critical to the Judicial Branch.

Financial Statements

Statement of Revenues and Expenditures

Revenues and Other Sources	June 30, 2019	June 30, 2018
Collection of Court Fees	\$ 704,399	\$ 533,539
Intergovernmental Revenue	695,771	527,601
Disciplinary Fees	203,685	261,051
Miscellaneous Revenue	141,094	40,745
Court Filing Fees	44,867	42,285
Sale of Capital Assets	35,100	-
Conference Registration Fees	2,475	3,725
Interest Income	765	729
Total Revenue and Other Sources	\$ 1,828,156	\$ 1,409,675

Source: ConnectND Financials

Financial Statements

Statement of Revenues and Expenditures

Expenditures and Other Uses:		June 30, 2019	June 30, 2018
Salaries and Benefits		\$ 39,102,573	\$ 38,749,000
Operating Fees and Services		5,240,216	5,125,137
Equipment		2,085,081	157,743
IT Software		1,919,122	362,570
IT Services		1,675,022	1,340,843
Grants		922,021	527,407
Professional Fees and Services		790,813	610,103
Professional Materials		729,858	494,410
Travel		657,918	534,514
Supplies		281,647	135,083
Professional Development		268,788	224,860
Rentals/Leases of Buildings/Equipment		110,358	220,958
Repairs		91,427	89,390
Total Expenditures and Other Uses		\$ 53,874,844	\$ 48,572,018

Source: ConnectND Financials

Financial Statements

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Supreme Court			
Salaries and Wages	\$ 10,909,112	\$ 10,434,920	\$ 474,192
Operating Expenses	2,706,582	2,090,630	615,952
Capital Assets	25,000	9,161	15,839
SC – Judges Retirement	80,764	17,693	63,071
Guardianship Program	316,204	249,397	66,807

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
District Court			
Salaries and Wages	67,602,628	66,034,860	1,567,768
Operating Expenses	20,831,207	19,378,736	1,452,471
Capital Assets	1,550,000	1,381,950	168,050
DC – Judges Retirement	343,290	271,329	71,961
UND – Central Legal Research	40,000	40,000	-

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Judicial Conduct Board			
Judicial Conduct Board	1,174,822	1,086,192	88,630
Total	\$ 105,579,609	\$ 100,994,868	\$ 4,584,741

Source: ConnectND Financials

Financial Statements

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY SOURCE		FINAL APPROPRIATION	EXPENDITURES	TOTAL
General		\$ 102,257,770	\$ 99,325,969	\$ 2,931,801
Other		3,321,839	1,668,899	1,652,940
Total		\$ 105,579,609	\$ 100,994,868	\$ 4,584,741

Source: ConnectND Financials



Status of Prior Recommendations

Inadequate Procedures Surrounding Revenue Collections (Finding 17-1)

Implemented

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

Status: Implemented. North Dakota District Courts are divided into 4 separate units. The Judicial Branch has completed internal reviews on adjustments to accounts in the Odyssey Case Management System for all 4 units in the state.



Office of the
State Auditor


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