



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2010*

NOVEMBER 2010

LEGISLATIVE AUDIT
DIVISION

10-27

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

DEE BROWN, VICE CHAIR
BETSY HANDS
SCOTT MENDENHALL
CAROLYN PEASE-LOPEZ
WAYNE STAHL
BILL WILSON

SENATORS

MITCH TROPILA, CHAIR
GREG BARKUS
JOHN BRENDEN
TAYLOR BROWN
MIKE COONEY
CLIFF LARSEN

AUDIT STAFF

FINANCIAL-COMPLIANCE

FRANK A. CORNWELL
JEANE
CARSTENSEN-GARRETT
JOHN FINE
ZAC YATES

**FRAUD HOTLINE
HELP ELIMINATE FRAUD,
WASTE, AND ABUSE IN
STATE GOVERNMENT.**

**CALL THE FRAUD
HOTLINE AT:**

(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Direct comments or inquiries to:

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705
(406) 444-3122

Reports can be found in electronic format at:

<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

November 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch for the two fiscal years ended June 30, 2010. Included in this report are three recommendations to the branch concerning internal controls and the recording of expenditures. The branch's written response to the audit recommendations is presented on page B-1 of the report.

We thank the Chief Justice and branch personnel for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Elected, Appointed and Administrative Officials.....	ii
Report Summary	S-1
CHAPTER I – INTRODUCTION	1
Introduction.....	1
Background.....	1
Prior Audit Recommendations.....	3
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	5
Internal Controls.....	5
Drug Courts	5
Revenue From Filing Fees	6
Paying Expenditures of Another Agency.....	7
INDEPENDENT AUDITOR’S REPORT AND BRANCH FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2010.....	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2009	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2010.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2009	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2010.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2009	A-8
Notes to the Financial Schedules	A-9
BRANCH RESPONSE	
Judicial Branch	B-1

ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Supreme Court	Mike McGrath	Chief Justice	2016
	Patricia Cotter	Justice	2016
	William Leaphart	Justice	2010
	Brian Morris	Justice	2012
	James C. Nelson	Justice	2012
	Jim Rice	Justice	2014
	Michael Wheat	Justice	2010
Clerk of Supreme Court	Ed Smith		2012
Appointed Officials	Lois Menzies, Court Administrator		
	Judith Meadows, State Law Librarian		

For additional information concerning the Judicial Branch,
contact:

Lois Menzies, Court Administrator
Montana Supreme Court
P.O. Box 203002
Helena, MT 59620-3002
(406) 841-2957
e-mail: lmenzies@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

For the Two Fiscal Years Ended June 30, 2010

NOVEMBER 2010

10-27

REPORT SUMMARY

Since the May 26, 1864, act that vested the judicial power of the state in the Supreme Court, District Courts, Probate Courts and Justice of Peace Courts, the Judicial Branch (branch) has aspired to provide accessible, timely, and independent justice, to instill public trust and confidence in Montana Courts.

Context

The Judicial power of the state is vested in the Supreme Court, the District Courts in 22 judicial districts, the Workers' Compensation Court, the Water Court, and the Courts of Limited Jurisdiction, which include Justice Courts, Municipal Courts, and City Courts.

The District Courts became part of state government when the 2001 legislature enacted legislation for what was commonly called "state assumption of district courts." Under this legislation, the state assumed the cost of all district court employees, with the exception of employees in the offices of Clerks of District Court. Approximately 350 formerly county employees became state Judicial Branch employees.

The branch is primarily funded through the General Fund, State Special Revenue Fund and Federal Special Revenue Fund. Of the Branch's 404.08 FTE, 304.08 are for District Courts.

Results

This report contains three recommendations where the branch could improve compliance with state law and ensure all activity is appropriately recorded on the accounting records. Two of the three recommendations are instances where we believe the branch should improve internal controls over drug court payments to clients and filing fee revenue. The third recommendation involves the Judicial Branch paying Department of Corrections' expenditures.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at <http://leg.mt.gov/audit>. Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Determine whether the branch had complied with selected state and federal laws and regulations.
2. Obtain an understanding of the branch's control system to the extent necessary to support our audit of the branch's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the branch.
3. Determine whether the branch's financial schedules for each of the two fiscal years ended June 30, 2010, fairly present the results of operations in accordance with state policy.
4. Determine the implementation status of audit recommendations made in the prior audit.

This report contains three recommendations to the branch. In accordance with §5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the branch are not specifically included in the report, but discussion with management has occurred.

Background

The Constitution of the state of Montana vests the judicial power of the state in a Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court appoints the Law Librarian. The librarian develops and maintains the law library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedures, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of procedure are subject to disapproval by the legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the

procedure for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes judicial districts and provides for the number of judges in each district. Currently, there are 43 district court judges in 22 judicial districts.

The Clerk of Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with §3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all paper and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into six programs with a total authorized full-time equivalent (FTE) staff level of 404.08 for fiscal year 2010. A description of each program follows:

Supreme Court Operations program accounts for the costs of operation of the Supreme Court and Office of Court Administrator (office). The office provides services to the Judicial Branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the Youth Courts, judicial education, and children's services provided through the federal Court Assessment Program (66.75 FTE).

Boards and Commissions program accounts for expenditures related to activities of boards and commissions established either by the Constitution, statute, or the Supreme Court. These boards and commissions oversee judicial discipline, rules, admission to the bar, and other functions to improve and monitor the administration of justice (3 FTE).

Law Library program accounts for the operation of the State Law Library. The branch maintains the library for the use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public (6.75 FTE).

District Court Operations program accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes certain adult criminal, child abuse, and child neglect case expenses (304.08 FTE).

Water Courts Supervision program accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state (18 FTE).

Clerk of Court program accounts for the costs of operation of the Clerk of Supreme Court (5.5 FTE).

Attached Agencies The Montana Medical Legal Panel and the Montana Chiropractic Legal Panel are attached to the Supreme Court for administrative purposes only and are audited separately. The panels review malpractice claims made against medical or chiropractic physicians and health care providers.

Prior Audit Recommendations

The previous audit report for the branch, covering two fiscal years ended June 30, 2008, contained three recommendations. The branch concurred with all three recommendations. Of these, the branch implemented two of the recommendations and partially implemented one of the recommendations. The recommendation not fully implemented is discussed below.

The prior audit report recommended the branch design internal controls to estimate the reasonableness of marriage dissolution receipts on a timely basis. This issue is further discussed beginning on page 6.

Chapter II – Findings and Recommendations

Internal Controls

Internal controls over financial reporting are a process initiated by management to provide reasonable assurance of the reliability of financial reporting. Management bears the responsibility for any deficiencies that result from ineffective design or implementation of controls. Under the provisions of state policy, management is responsible for establishing and maintaining agency internal controls. We noted the following situations in which controls are not adequate.

Drug Courts

The branch does not have adequate controls in place to safeguard drug court incentives and loan activity.

Family Drug Courts authorize payments, on behalf of clients, for items such as car repairs, rent and gas. In addition, the drug courts give gift cards to clients. The drug court coordinator is responsible for the purchase and disbursement of the payments and gift cards. The coordinator sends the invoices to the Financial Services Division to process the payments.

As gift cards are purchased a block number is assigned for tracking and accountability purposes. However, no reconciliation or verification is performed to ensure all purchased gift cards are assigned a block number. As a result, the branch does not know whether all gift cards were distributed as intended. The branch recorded \$9,197 in gift card purchases during our audit period.

At the Yellowstone Family Drug Court, payments can either be loans or gifts and a coordinator is responsible for the receipt and deposit of reimbursements from clients for payments considered loans. We noted the following control deficiencies in this process:

- ♦ Adequate documentation does not exist to track who is approved for a payment or to determine if approved payments are considered gifts or loans. As a result, unauthorized payments could occur and no tracking of loan balances is possible.
- ♦ When clients make payments on their loans they submit cash, checks, or money orders directly to the coordinator. The coordinator then prepares the deposits and sends support to the Financial Services Division. Because the coordinator is receiving funds, preparing deposits, and submitting information to be recorded on the accounting records, inadequate

segregation of duties exists. Separating the collections, recordkeeping, and deposit functions is necessary to ensure loan payments remitted by clients are completely deposited and properly recorded.

The branch previously acknowledged that risks were high related to the Drug Court disbursements and believed appropriate procedures were in place to address those risks, but did not verify the procedures were actually in place and operating. The branch should implement adequate controls to prevent, or detect and correct, unauthorized payments; track loan balances; and provide for adequate segregation of duties related to cash receipts at drug courts.

RECOMMENDATION #1

We recommend the Judicial Branch implement controls at the Family Drug Courts related to authorization of gifts and loans and cash handling.

Revenue From Filing Fees

The branch's internal controls over filing fee revenues are not adequate.

According to state law, the branch is to receive portions of various filing fees collected by clerks of district courts and remitted to the Department of Revenue. The Department of Revenue records the receipts on the branch's accounting records. Under the provision of §3-2-714(2), MCA, the supreme court administrator is to establish procedures for the distribution and accountability of money in its civil legal assistance account. Currently, branch personnel do not have procedures to determine if the amounts recorded on branch accounting records are complete.

Branch personnel stated that since they do not have control over what is collected by Department of Revenue, they do not need to have controls to ensure amounts collected are complete. The branch received filing fee revenue of \$144,483 in fiscal year 2009 and \$157,750 in fiscal year 2010. Because the branch does not know how much money it should have received, it cannot fully comply with the accountability required by state law for the filing fee revenue recorded on its financial records.

RECOMMENDATION #2

We recommend the branch implement control procedures to ensure filing fee revenue is complete.

Paying Expenditures of Another Agency

The Judicial Branch pays expenditures from a State Special Revenue Fund that should be General Fund expenditures of the Department of Corrections.

The Department of Corrections (DOC) allocates part of its General Fund appropriation to a cost containment pool for juvenile placements. In accordance with §41-5-132(5), MCA, any amount remaining in the cost containment pool at the end of the fiscal year is transferred to the office of court administrator to the youth court intervention and prevention account. This account is part of the branch's State Special Revenue Fund. Per §41-5-2012(2), MCA, upon approval of the youth court judge, the judicial districts submit plans to the office of court administrator for approval to expend the amounts from the State Special Revenue Fund account. It is not uncommon for DOC to receive invoices for the prior year that were not accrued; DOC sends these invoices to the branch for payment. The branch contacts the affected judicial district for confirmation that the invoices are for valid expenditures, although the amounts are not included in the approved plans. The branch then pays the prior year DOC invoices from its State Special Revenue Fund account and records the payments as current year expenditures.

The branch paid invoices totaling \$18,785 and \$11,905, in fiscal year 2010 and 2009, respectively, that were attributable to DOC for fiscal years 2009 and 2008, respectively. Section 17-1-102(4), MCA, requires each state agency to input all necessary transactions to the accounting system in order to present the receipt, use, and disposition of all money and property for which the agency is accountable. The obligations were incurred by DOC and should not be recorded as branch State Special Revenue Fund expenditures.

RECOMMENDATION #3

We recommend the Judicial Branch not record Department of Corrections obligations as branch expenditures.

Independent Auditor's Report and Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the branch's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the branch's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Judicial Branch for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 3, 2010

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2009	\$ (2,898,713)	\$ 5,089,199	\$ 0	\$ 1,295,757	\$ 3,460	\$ 0
PROPERTY HELD IN TRUST: July 1, 2009						\$ 13,358
ADDITIONS						
Budgeted Revenues & Transfers-In	161,643	3,260,349	1,132,257		191,942	
Nonbudgeted Revenues & Transfers-In	29,484	11,658				
Prior Year Revenues & Transfers-In Adjustments	(120)	9,416	589		640	
Direct Entries to Fund Balance	36,154,144	1,576,305	0	746,974		
Additions to Property Held in Trust						415,770
Total Additions	<u>36,345,151</u>	<u>4,857,728</u>	<u>1,132,846</u>	<u>746,974</u>	<u>192,582</u>	<u>415,770</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	34,658,569	4,068,489	1,132,846	119,662	189,722	
Nonbudgeted Expenditures & Transfers-Out	15,109	6,200				
Prior Year Expenditures & Transfers-Out Adjustments	334,441	(10,322)		(278,555)		
Reductions in Property Held in Trust						416,895
Total Reductions	<u>35,008,119</u>	<u>4,064,367</u>	<u>1,132,846</u>	<u>(158,893)</u>	<u>189,722</u>	<u>416,895</u>
FUND BALANCE: June 30, 2010	\$ (1,561,681)	\$ 5,882,560	\$ 0	\$ 2,201,624	\$ 6,320	\$ 0
PROPERTY HELD IN TRUST: June 30, 2010						\$ 12,233

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2008	\$ (2,867,879)	\$ 4,655,676	\$ 0	\$ 1,574,312	\$ 5,124	\$ 0
PROPERTY HELD IN TRUST: July 1, 2008						\$ 21,802
ADDITIONS						
Budgeted Revenues & Transfers-In	176,748	3,953,670	530,523		150,713	
Nonbudgeted Revenues & Transfers-In	5,202	45,168	38,000			
Prior Year Revenues & Transfers-In Adjustments	1,625	33,405	196		120	
Direct Entries to Fund Balance	34,619,570	1,500,432				
Additions to Property Held in Trust						538,081
Total Additions	<u>34,803,145</u>	<u>5,532,675</u>	<u>568,719</u>	<u>0</u>	<u>150,833</u>	<u>538,081</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	34,813,741	5,095,368	568,719	278,555	152,497	
Nonbudgeted Expenditures & Transfers-Out		5,840				
Prior Year Expenditures & Transfers-Out Adjustments	20,238	(2,056)				
Reductions in Property Held in Trust						546,525
Total Reductions	<u>34,833,979</u>	<u>5,099,152</u>	<u>568,719</u>	<u>278,555</u>	<u>152,497</u>	<u>546,525</u>
FUND BALANCE: June 30, 2009	\$ (2,898,713)	\$ 5,089,199	\$ 0	\$ 1,295,757	\$ 3,460	\$ 0
PROPERTY HELD IN TRUST: June 30, 2009						\$ 13,358

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 109,425				\$ 109,425
Taxes	2,932	\$ 273	\$ 589		3,794
Charges for Services	46,231	359,466			405,697
Investment Earnings	6,382	860			7,242
Monetary Settlements	5,011				5,011
Grants, Contracts, and Donations		52,978	61,561		114,539
Transfers-in		2,861,300	586,509		3,447,809
Inception of Lease/Installment Contract	18,870				18,870
Miscellaneous	2,156	6,546		\$ 192,582	201,284
Federal			484,187		484,187
Total Revenues & Transfers-In	191,007	3,281,423	1,132,846	192,582	4,797,858
Less: Nonbudgeted Revenues & Transfers-In	29,484	11,658			41,142
Prior Year Revenues & Transfers-In Adjustments	(120)	9,416	589	640	10,525
Actual Budgeted Revenues & Transfers-In	161,643	3,260,349	1,132,257	191,942	4,746,191
Estimated Revenues & Transfers-In	181,725	3,287,858	1,130,757	151,200	4,751,540
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>(20,082)</u>	\$ <u>(27,509)</u>	\$ <u>1,500</u>	\$ <u>40,742</u>	\$ <u>(5,349)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 106,425				\$ 106,425
Charges for Services	(116,425)	(22,790)			(139,215)
Investment Earnings		(4,719)			(4,719)
Monetary Settlements	(9,989)				(9,989)
Miscellaneous	(93)			\$ 40,742	40,649
Federal			\$ 1,500		1,500
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>(20,082)</u>	\$ <u>(27,509)</u>	\$ <u>1,500</u>	\$ <u>40,742</u>	\$ <u>(5,349)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 107,725				\$ 107,725
Taxes	3,710	\$ 300	\$ 197		4,207
Charges for Services	55,705	416,186			471,891
Investment Earnings	66	5,221			5,287
Monetary Settlements	14,887				14,887
Grants, Contracts, and Donations		125,796	38,000		163,796
Transfers-in		3,478,779	50,426		3,529,205
Miscellaneous	1,482	5,961		\$ 150,833	158,276
Federal			480,096		480,096
Total Revenues & Transfers-In	183,575	4,032,243	568,719	150,833	4,935,370
Less: Nonbudgeted Revenues & Transfers-In	5,202	45,168	38,000		88,370
Prior Year Revenues & Transfers-In Adjustments	1,625	33,405	196	120	35,346
Actual Budgeted Revenues & Transfers-In	176,748	3,953,670	530,523	150,713	4,811,654
Estimated Revenues & Transfers-In	162,100	1,431,981	530,523	105,000	2,229,604
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 14,648	\$ 2,521,689	\$ 0	\$ 45,713	\$ 2,582,050
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 4,725				\$ 4,725
Charges for Services	10,182	\$ (45,915)			(35,733)
Investment Earnings		(26,187)			(26,187)
Monetary Settlements	(216)				(216)
Transfers-in		2,605,791			2,605,791
Miscellaneous	(43)	(12,000)		\$ 45,713	33,670
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 14,648	\$ 2,521,689	\$ 0	\$ 45,713	\$ 2,582,050

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 130,104	\$ 299,844	\$ 15,500,670	\$ 295,452	\$ 3,633,253	\$ 992,802	\$ 20,852,125
Hourly Wages			1,358				1,358
Employee Benefits	44,079	96,317	5,740,662	102,300	1,252,475	327,486	7,563,319
Total	<u>174,183</u>	<u>396,161</u>	<u>21,242,690</u>	<u>397,752</u>	<u>4,885,728</u>	<u>1,320,288</u>	<u>28,416,802</u>
Operating Expenses							
Other Services	41,591	10,215	1,941,318	272,057	2,061,294	12,077	4,338,552
Supplies & Materials	6,006	17,885	379,984	263,319	1,093,402	35,501	1,796,097
Communications	6,017	11,704	254,073	7,329	954,912	36,700	1,270,735
Travel	125,864	5,589	387,938	3,241	96,072	8,458	627,162
Rent	6,775	7,703	63,526	3,483	606,735	101,065	789,287
Repair & Maintenance		45	44,181	1,856	571,641	3,324	621,047
Other Expenses	1,839	1,145	39,424	7,771	16,216	25,481	91,876
Total	<u>188,092</u>	<u>54,286</u>	<u>3,110,444</u>	<u>559,056</u>	<u>5,400,272</u>	<u>222,606</u>	<u>9,534,756</u>
Equipment & Intangible Assets							
Equipment			25,399	108,480	68,124	8,287	210,290
Capital leases - equipment				18,870			18,870
Total			<u>25,399</u>	<u>127,350</u>	<u>68,124</u>	<u>8,287</u>	<u>229,160</u>
Benefits & Claims							
To Individuals			2,048,441				2,048,441
Total			<u>2,048,441</u>				<u>2,048,441</u>
Transfers-out							
Fund transfers					(4,651)		(4,651)
Total					<u>(4,651)</u>		<u>(4,651)</u>
Debt Service							
Capital Leases			3,750	7,903			11,653
Total			<u>3,750</u>	<u>7,903</u>			<u>11,653</u>
Total Expenditures & Transfers-Out	\$ <u>362,275</u>	\$ <u>450,447</u>	\$ <u>26,430,724</u>	\$ <u>1,092,061</u>	\$ <u>10,349,473</u>	\$ <u>1,551,181</u>	\$ <u>40,236,161</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 282,176	\$ 450,447	\$ 23,821,097	\$ 906,009	\$ 9,548,390		\$ 35,008,119
State Special Revenue Fund	80,099		2,268,956	(3,670)	167,801	1,551,181	4,064,367
Federal Special Revenue Fund			340,671		792,175		1,132,846
Capital Projects Fund					(158,893)		(158,893)
Enterprise Fund				189,722			189,722
Total Expenditures & Transfers-Out	<u>362,275</u>	<u>450,447</u>	<u>26,430,724</u>	<u>1,092,061</u>	<u>10,349,473</u>	<u>1,551,181</u>	<u>40,236,161</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(23)	(63)	3,674	18,807	(694)	(393)	21,308
Prior Year Expenditures & Transfers-Out Adjustments	1		29,105	(5,367)	21,825		45,564
Actual Budgeted Expenditures & Transfers-Out	<u>362,297</u>	<u>450,510</u>	<u>26,397,945</u>	<u>1,078,621</u>	<u>10,328,342</u>	<u>1,551,574</u>	<u>40,169,289</u>
Budget Authority	386,384	466,821	30,054,355	1,079,348	13,514,291	1,608,732	47,109,931
Unspent Budget Authority	\$ <u>24,087</u>	\$ <u>16,311</u>	\$ <u>3,656,410</u>	\$ <u>727</u>	\$ <u>3,185,949</u>	\$ <u>57,158</u>	\$ <u>6,940,642</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 22,948	\$ 16,311	\$ 653,422	\$ 707	\$ 272,951		\$ 966,339
State Special Revenue Fund	1,139		2,518,649		67,257	57,158	2,644,203
Federal Special Revenue Fund			484,339		644,117		1,128,456
Capital Projects Fund					2,201,624		2,201,624
Enterprise Fund				20			20
Unspent Budget Authority	\$ <u>24,087</u>	\$ <u>16,311</u>	\$ <u>3,656,410</u>	\$ <u>727</u>	\$ <u>3,185,949</u>	\$ <u>57,158</u>	\$ <u>6,940,642</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 132,082	\$ 308,947	\$ 15,036,459	\$ 286,702	\$ 3,665,073	\$ 980,017	\$ 20,409,280
Employee Benefits	42,564	99,941	5,433,066	96,746	1,244,565	314,737	7,231,619
Total	<u>174,646</u>	<u>408,888</u>	<u>20,469,525</u>	<u>383,448</u>	<u>4,909,638</u>	<u>1,294,754</u>	<u>27,640,899</u>
Operating Expenses							
Other Services	34,167	12,218	2,183,555	293,909	2,622,350	6,168	5,152,367
Supplies & Materials	5,116	7,254	512,378	285,923	880,732	25,315	1,716,718
Communications	6,266	13,355	245,113	7,726	339,736	27,564	639,760
Travel	101,065	3,623	475,180	5,859	213,913	12,136	811,776
Rent	4,722	7,594	66,566	349	577,963	96,715	753,909
Repair & Maintenance	15		61,550	1,664	570,253	5,079	638,561
Other Expenses	1,508	1,921	127,438	6,354	37,160	24,344	198,725
Total	<u>152,859</u>	<u>45,965</u>	<u>3,671,780</u>	<u>601,784</u>	<u>5,242,107</u>	<u>197,321</u>	<u>9,911,816</u>
Equipment & Intangible Assets							
Equipment			5,560	84,826	214,640		305,026
Intangible Assets					45,542		45,542
Total			<u>5,560</u>	<u>84,826</u>	<u>260,181</u>		<u>350,568</u>
Grants							
From State Sources			(2,010)				(2,010)
Total			<u>(2,010)</u>				<u>(2,010)</u>
Benefits & Claims							
To Individuals			2,188,167				2,188,167
Total			<u>2,188,167</u>				<u>2,188,167</u>
Transfers-out							
Fund transfers					816,404		816,404
Total					<u>816,404</u>		<u>816,404</u>
Debt Service							
Capital Leases			3,750	23,308			27,058
Total			<u>3,750</u>	<u>23,308</u>			<u>27,058</u>
Total Expenditures & Transfers-Out	\$ <u>327,505</u>	\$ <u>454,853</u>	\$ <u>26,336,772</u>	\$ <u>1,093,366</u>	\$ <u>11,228,331</u>	\$ <u>1,492,075</u>	\$ <u>40,932,902</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 290,956	\$ 454,853	\$ 23,566,230	\$ 896,818	\$ 9,625,122		\$ 34,833,979
State Special Revenue Fund	36,549		2,528,509	44,051	997,968	1,492,075	5,099,152
Federal Special Revenue Fund			242,033		326,686		568,719
Capital Projects Fund					278,555		278,555
Enterprise Fund				152,497			152,497
Total Expenditures & Transfers-Out	<u>327,505</u>	<u>454,853</u>	<u>26,336,772</u>	<u>1,093,366</u>	<u>11,228,331</u>	<u>1,492,075</u>	<u>40,932,902</u>
Less: Nonbudgeted Expenditures & Transfers-Out			5,840				5,840
Prior Year Expenditures & Transfers-Out Adjustments	24		20,247	(99)	(1,501)	(489)	18,182
Actual Budgeted Expenditures & Transfers-Out	<u>327,481</u>	<u>454,853</u>	<u>26,310,685</u>	<u>1,093,464</u>	<u>11,229,832</u>	<u>1,492,564</u>	<u>40,908,880</u>
Budget Authority	345,676	455,179	29,864,831	1,100,051	14,613,234	1,528,940	47,907,911
Unspent Budget Authority	\$ <u>18,195</u>	\$ <u>326</u>	\$ <u>3,554,146</u>	\$ <u>6,586</u>	\$ <u>3,383,402</u>	\$ <u>36,376</u>	\$ <u>6,999,031</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 18,195	\$ 326	\$ 1,257,511	\$ 407	\$ 1,186,981		\$ 2,463,420
State Special Revenue Fund			1,724,577		70,572	36,376	1,831,525
Federal Special Revenue Fund			572,058		830,092		1,402,150
Capital Projects Fund					1,295,757		1,295,757
Enterprise Fund				6,179			6,179
Unspent Budget Authority	\$ <u>18,195</u>	\$ <u>326</u>	\$ <u>3,554,146</u>	\$ <u>6,586</u>	\$ <u>3,383,402</u>	\$ <u>36,376</u>	\$ <u>6,999,031</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Judicial Branch Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects). In applying the modified accrual basis, the branch records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than major capital projects that are legally restricted to

expenditures for specific state program purposes. The branch State Special Revenue Funds include Youth Court Fines and Fees, Juvenile Delinquency Intervention Program Surplus, Renewable Resources, Law Library Digital Project, Judicial Education, Water Adjudication, Legal Assistance, Natural Resources, State Grants to Drug Courts, Accrued County Sick and Vacation Leave Balances and Judiciary nonbudgeted private funds.

- ♦ **Federal Special Revenue Fund** — to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.
- ♦ **Capital Projects Fund** — to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The branch's capital project fund is used for Long Range Information Technology Projects.

Proprietary Fund Category

- ♦ **Enterprise Fund** — to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The Branch Enterprise Fund consists of the Law Library Searches/Research fund.

Fiduciary Fund Category

- ♦ **Agency Fund** — to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity of the state but these must have a zero fund balance at fiscal year-end. The Branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2010 and June 30, 2009.

3. Direct Entries to Fund Balance

In fiscal year 2009, direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. In fiscal year 2010, direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Revenue Estimates

The \$2,605,791 in transfers-in over the estimate on the fiscal year 2009 Schedule of Revenues & Transfers-In, consists primarily of Juvenile Delinquency Intervention Program transfers from the Department of Corrections, received with a zero revenue estimate.

JUDICIAL BRANCH

BRANCH RESPONSE

THE SUPREME COURT OF MONTANA

MIKE McGRATH
CHIEF JUSTICE



JUSTICE BUILDING
215 NORTH SANDERS
PO BOX 203001
HELENA, MONTANA 59620-3001
TELEPHONE (406) 444-5490
FAX (406) 444-3274

November 10, 2010

RECEIVED

NOV 12 2010

LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

Re: Judicial Branch Financial-Compliance Audit for FY 2009 and FY 2010

Dear Ms. Hunthausen:

We have reviewed the November 2010 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2010. As always, we value the assistance from your office in helping us identify areas in which accounting weaknesses or gaps exist. We appreciate the opportunity to respond.

The audit contains three recommendations for improving the Branch's fiscal operations. Our responses and corrective actions are presented below:

Recommendation #1

We recommend the Judicial Branch implement controls at the Family Drug Courts related to authorization of gifts and loans and cash handling.

Response:

We concur. The Office of Court Administrator (OCA) will work to implement controls to prevent unauthorized payments and provide for adequate segregation of duties related to cash receipts in drug courts.

Recommendation #2

We recommend the branch implement control procedures to ensure filing fee revenue is complete.

Response:

We concur. The OCA will develop procedures for using historical revenue collection data and case filing data from the District Court case management system to estimate the reasonableness of the marriage dissolution receipts recorded by the Department of Revenue. This procedure will be conducted in the first quarter of each calendar year for the previous year.

Recommendation #3

We recommend the Judicial Branch not record Department of Corrections obligations as branch expenditures.

Response:

We concur. The OCA has implemented this recommendation. The Department of Corrections processed payments for FY10 bills received after fiscal year end.

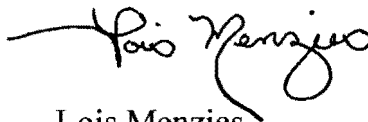
We would like to personally thank your staff for conducting this audit in such a cooperative, professional manner. Their findings and recommendations provide valuable insight as we continue to provide judicial services in a fiscally appropriate and prudent manner.

We are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Very truly yours,



Mike McGrath
Chief Justice



Lois Menzies
Court Administrator

