



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2022*

AUGUST 2023

LEGISLATIVE AUDIT
DIVISION

22-27

**LEGISLATIVE AUDIT
COMMITTEE**

REPRESENTATIVES

LYN HELLEGAARD

Lyn.Hellegard@legmt.gov

SJ HOWELL

SJ.Howell@legmt.gov

EMMA KERR-CARPENTER

Emma.KC@legmt.gov

FIONA NAVE

Fiona.Nave@legmt.gov

JERRY SCHILLINGER

Jerry.Schillinger@legmt.gov

LAURA SMITH, VICE CHAIR

Laura.Smith@legmt.gov

SENATORS

JASON ELLSWORTH, CHAIR

Jason.Ellsworth@legmt.gov

PAT FLOWERS

Pat.Flowers@legmt.gov

CHRIS FRIEDEL

Chris.Friedel@legmt.gov

DENISE HAYMAN

Denise.Hayman@legmt.gov

KATHY KELKER

Kathy.Kelker@legmt.gov

FORREST MANDEVILLE

Forrest.Mandeville@legmt.gov

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
LADHotline@legmt.gov
www.montanafraud.gov

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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. 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, 2021, was issued June 21, 2022. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is March 31, 2024.

AUDIT STAFF

ADAM HEFENIEDER
JENNIFER ERDAHL

LESLIE LAHTI

Reports can be found in electronic format at:
<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

August 2023

The Legislative Audit Committee
of the Montana State Legislature:

We are pleased to present our financial-compliance audit report of the Judicial Branch (branch) for the two fiscal years ended June 30, 2022. During the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with state laws and regulations that were directly material to the branch. This audit report includes no audit recommendations.

We issued unmodified opinions on the financial schedules for each of the two fiscal years, which means the reader can rely on the information in the schedules. The report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* does not report any significant deficiencies, material weaknesses, or material noncompliance.

The branch's written response to the audit is on page C-1. We thank the Chief Justice, Court Administrator, and the branch staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Elected and Appointed Officials	ii
Report Summary	S-1
INDEPENDENT AUDITOR’S REPORT AND BRANCH FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2022	A-5
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2021	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2022	A-7
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2021	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2022	A-9
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2021	A-10
Notes to the Financial Schedules	A-11
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	B-1
BRANCH RESPONSE	
Judicial Branch	C-1

ELECTED AND APPOINTED OFFICIALS

Supreme Court

Mike McGrath, Chief Justice

Elizabeth Baker, Justice

Ingrid Gustafson, Justice

Laurie McKinnon, Justice

James A. Rice, Jr., Justice

Dirk Sandefur, Justice

James Jeremiah Shea, Justice

Clerk of Supreme Court

Bowen Greenwood

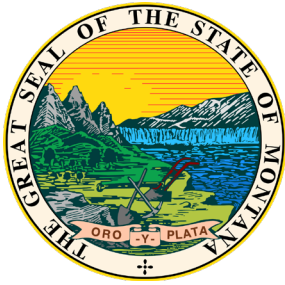
Appointed Officials

Beth McLaughlin, Court Administrator

Franklin Runge, State Law Librarian

For additional information concerning the Judicial Branch, contact:

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



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The state's judicial power is vested in the Supreme Court; District courts in each of the 22 judicial districts; Workers' Compensation Court; Water Court; courts of limited jurisdiction; and any other courts established by law.

Judicial Branch (branch) operations include the Supreme Court, Clerk of the Court, Water Court, District courts, State law library, and the computer support of all courts, including those of limited jurisdiction.

Branch activities include district court expenses for judges, staff and youth probation officers; Supreme Court Justices; Court Administrator's Office; Clerk of the Supreme Court; Law Library; and Water Courts.

The branch is overseen by the Supreme Court and administered by the Court Administrator's Office. District courts' jurisdiction includes criminal, contract, property rights, domestic relations, mental health, and other miscellaneous civil cases.

The water court's activities are limited to adjudication of existing water rights. The Law Library provides references services to the public.

The Judicial Branch has courts throughout Montana with primary operations consisting of the Supreme Court and District courts. During fiscal year 2022 the district courts had over 55,000 cases. The scope of our audit includes auditing the expenditures related to these cases and not the cases themselves.

The general fund primarily supports the branch, with state special revenue supporting specific functions. The branch expended total General Fund resources of approximately \$48.9 million and \$50.8 million in fiscal year 2021 and 2022. This audit contains no recommendations.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the branch's financial schedules and note disclosures presented fairly the activity of the branch in all material respects and have issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued no recommendations.

SUMMARY OF AUDIT WORK:

During the audit we reviewed personal services, operating expenses, benefits to individuals, cash and transfers, budget authority and unspent budget authority. We reviewed the overall reasonableness of the financial schedules and note disclosures to determine if underlying accounting records supported them, while considering the branch's control systems throughout the audit. Additionally, our audit work over personal services included determining compliance with state laws establishing judges' salaries.

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705
(406) 444-3122

The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

To report fraud, waste, or abuse:

Online
www.Montanafraud.gov

Email
LADHotline@legmt.gov

Call
(Statewide)
(800) 222-4446 or
(Helena)
(406) 444-4446

Text
(704) 430-3930

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

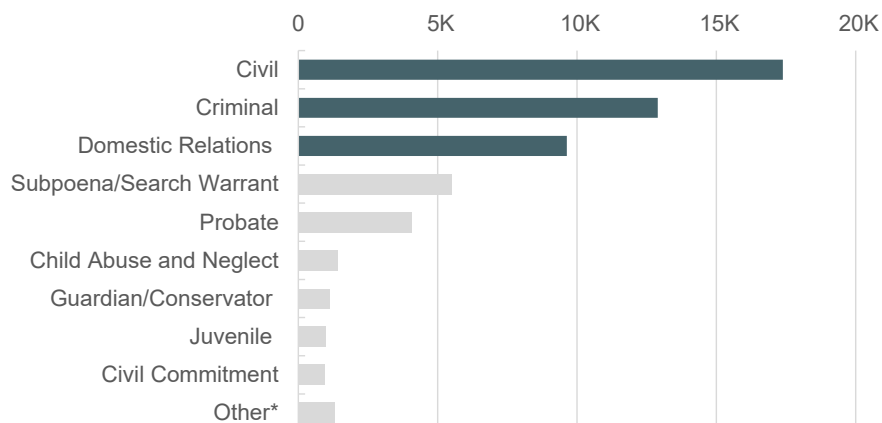
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

As seen below, the judicial branch handles an array of cases involving adoptions through criminal cases.

District Court Cases in 2022

In 2022, district courts handled a wide array of cases, with **civil, criminal, and domestic relations cases** accounting for the most.

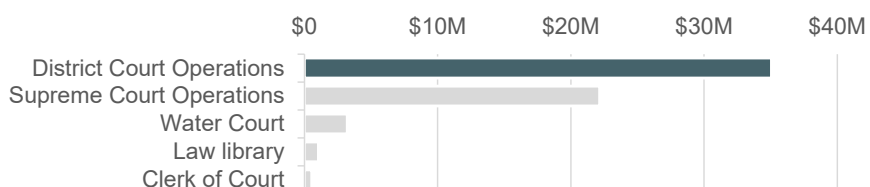


Source: Compiled by the Legislative Audit Division from department records.

*Adoptions, Paternity, Treatment Courts/Drug Courts, Commitment of a Person with Developmental Disability.

Expenditures largely consist of personal services expenses for each program. District Court Operations consist of 56 courts across the state. Supreme Court Operations consist of the court and the Court Administrator, who provides services to the branch and administers the juvenile placement funds.

FY2022 Program Expenditures



Source: Compiled by the Legislative Audit Division using SABHRS.

Independent Auditor's Report and Branch Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL SCHEDULES

Opinions

We have audited the financial schedules of the Judicial Branch (branch), which are comprised of the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2022, and 2021, and the related notes to the financial schedules.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying financial schedules, presents fairly, in all material respects, the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2022, and 2021, in conformity with the basis of accounting described in Note 1.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions" on U.S. Generally Accepted Accounting Principles section of our report, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Judicial Branch as of June 30, 2021, and June 30, 2022, or changes in financial position for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Schedules section of our report. We are required to be independent of the branch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Judicial Branch from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other

than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, and deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

In preparing the financial schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the branch's ability to continue as a going concern for twelve months beyond the financial schedule date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Schedules

Our objectives are to obtain reasonable assurance about whether the financial schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedules.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedules.

- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the branch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2023, on our consideration of the branch's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the branch's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

June 14, 2023

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2021	\$ (2,630,699)	\$ 12,666,208	\$ (3,376)	\$ 185,212	\$ 38,306	\$ 8,663
ADDITIONS						
Budgeted Revenues & Transfers-In	226,229	6,035,947	2,306,166		258,361	
Nonbudgeted Revenues & Transfers-In	3,741,596	1,004,461	227,415			242,674
Prior Year Revenues & Transfers-In Adjustments	975	2,290	22,009		5,211	
Direct Entries to Fund Equity	46,622,912	1,514,166	45,533			
Total Additions	50,591,712	8,556,864	2,601,123	0	263,572	242,674
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	48,029,351	6,173,533	2,377,707	29,025	262,932	
Nonbudgeted Expenditures & Transfers-Out	2,820,054	1,835,092	227,415			246,677
Prior Year Expenditures & Transfers-Out Adjustments	14,069	22,479				
Total Reductions	50,863,473	8,031,104	2,605,122	29,025	262,932	246,677
FUND EQUITY: June 30, 2022	\$ (2,902,460)	\$ 13,191,967	\$ (7,375)	\$ 156,187	\$ 38,946	\$ 4,660

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-11.

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2020	\$ (3,501,817)	\$ 12,598,803	\$ 0	\$ 208,212	\$ 41,744	\$ 2,360
ADDITIONS						
Budgeted Revenues & Transfers-In	220,810	5,707,653	2,547,417		251,741	244,867
Nonbudgeted Revenues & Transfers-In	745,572	16,784				
Prior Year Revenues & Transfers-In Adjustments	1,333	(26,661)	805			
Direct Entries to Fund Equity	48,813,310	1,504,905				
Total Additions	49,781,025	7,202,682	2,548,222	0	251,741	244,867
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	48,950,129	6,387,490	2,551,598	23,000	255,179	238,563
Nonbudgeted Expenditures & Transfers-Out	(34,906)	750,913				
Prior Year Expenditures & Transfers-Out Adjustments	(5,317)	(3,127)				
Total Reductions	48,909,906	7,135,277	2,551,598	23,000	255,179	238,563
FUND EQUITY: June 30, 2021	\$ (2,630,699)	\$ 12,666,208	\$ (3,376)	\$ 185,212	\$ 38,306	\$ 8,663

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-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 123,104					\$ 123,104
Charges for Services	31,670	\$ 1,236,573		\$ 263,572		1,531,815
Monetary Settlements	1,284					1,284
Grants, Contracts, and Donations	50	70,156				70,205
Transfers-in	838,243	4,744,796	\$ 301,628			5,884,667
Inception of Lease/Installment Contract	2,888,699	981,096	227,415			4,097,210
Federal Indirect Cost Recoveries	71,147					71,147
Miscellaneous	14,605	10,077			\$ 242,674	267,356
Federal			2,026,548			2,026,548
Total Revenues & Transfers-In	3,968,800	7,042,698	2,555,591	263,572	242,674	14,073,334
Less: Nonbudgeted Revenues & Transfers-In	3,741,596	1,004,461	227,415		242,674	5,216,146
Prior Year Revenues & Transfers-In Adjustments	975	2,290	22,009	5,211		30,485
Actual Budgeted Revenues & Transfers-In	\$ 226,229	\$ 6,035,947	\$ 2,306,166	\$ 258,361	\$ 0	\$ 8,826,703

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-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Custodial Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 121,050					\$ 121,050
Taxes	308					1,113
Charges for Services	33,672	\$ 1,218,093	805	251,741		1,503,506
Monetary Settlements	780					780
Grants, Contracts, and Donations		89,763				89,763
Transfers-in	736,122	4,389,895	837,374			5,963,391
Inception of Lease/Installment Contract	5,562					5,562
Federal Indirect Cost Recoveries	66,333					66,333
Miscellaneous	3,887	25			\$ 244,867	248,779
Federal			1,710,043			1,710,043
Total Revenues & Transfers-In	967,715	5,697,777	2,548,222	251,741	244,867	9,710,320
Less: Nonbudgeted Revenues & Transfers-In	745,572	16,784			244,867	1,007,223
Prior Year Revenues & Transfers-In Adjustment:	1,333	(26,661)	805			(24,522)
Actual Budgeted Revenues & Transfers-In	\$ 220,810	\$ 5,707,653	\$ 2,547,417	\$ 251,741	\$ 0	\$ 8,727,620

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-11

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

A-9

	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Court	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 369,594	\$ 20,320,345	\$ 247,108	\$ 5,452,710	\$ 1,498,127	\$ 27,887,883
Employee Benefits	124,973	6,098,315	94,559	1,779,162	449,328	8,546,337
Total	494,567	26,418,660	341,666	7,231,872	1,947,455	36,434,220
Operating Expenses						
Other Services	9,499	1,965,151	1,180	2,139,264	6,834	4,121,928
Supplies & Materials	2,911	324,226	132,503	1,308,249	10,232	1,778,121
Communications	6,996	278,768	4,668	986,741	25,497	1,302,670
Travel	417	222,120		91,399	4,578	318,513
Rent	8,385	79,499		626,683	7,414	721,981
Repair & Maintenance	1,375	45,313	3,626	943,203	6,653	1,000,171
Other Expenses	15,195	385,143	452,794	7,805	24,194	885,131
Total	44,776	3,300,220	594,772	6,103,344	85,403	10,128,516
Equipment & Intangible Assets						
Equipment			113,797	136,999		250,796
Intangible Assets		108,906		3,007,208	981,096	4,097,210
Total		108,906	113,797	3,144,207	981,096	4,348,006
Grants						
From State Sources				485,353		485,353
Total				485,353		485,353
Benefits & Claims						
To Individuals		4,280,247		628,728		4,908,975
Total		4,280,247		628,728		4,908,975
Transfers-out						
Fund transfers		927,422		4,389,895		5,317,317
Total		927,422		4,389,895		5,317,317
Debt Service						
Lease Liability		32,450		175,896	207,600	415,946
Total		32,450		175,896	207,600	415,946
Total Expenditures & Transfers-Out	\$ 539,344	\$ 35,067,904	\$ 1,050,235	\$ 22,159,296	\$ 3,221,553	\$ 62,038,332
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 539,344	\$ 27,650,896	\$ 787,304	\$ 21,088,195	\$ 797,736	\$ 50,863,473
State Special Revenue Fund		5,098,338		508,948	2,423,818	8,031,104
Federal Special Revenue Fund		2,071,994		533,128		2,605,122
Capital Projects Fund				29,025		29,025
Enterprise Fund			262,932			262,932
Custodial Fund		246,677				246,677
Total Expenditures & Transfers-Out	539,344	35,067,904	1,050,235	22,159,296	3,221,553	62,038,332
Less: Nonbudgeted Expenditures & Transfers-Out	(936)	1,162,518	(694)	2,990,640	977,710	5,129,238
Prior Year Expenditures & Transfers-Out Adjustments	12,389	47,088		(22,929)		36,548
Actual Budgeted Expenditures & Transfers-Out	527,891	33,858,297	1,050,930	19,191,585	2,243,843	56,872,546
Budget Authority	581,704	47,372,461	1,140,935	24,087,021	2,381,954	75,564,075
Unspent Budget Authority	\$ 53,813	\$ 13,514,164	\$ 90,005	\$ 4,895,436	\$ 138,111	\$ 18,691,528
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 52,892	\$ 1,838,941	\$ 88,040	\$ 1,991,597	\$ 125,790	\$ 4,097,260
State Special Revenue Fund	921	5,525,083		549,179	12,321	6,087,504
Federal Special Revenue Fund		6,150,140		2,198,473		8,348,612
Capital Projects Fund				156,187		156,187
Enterprise Fund			1,965			1,965
Unspent Budget Authority	\$ 53,813	\$ 13,514,164	\$ 90,005	\$ 4,895,436	\$ 138,111	\$ 18,691,528

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-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Court	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 367,428	\$ 19,764,359	\$ 267,915	\$ 5,329,694	\$ 1,447,134	\$ 27,176,529
Employee Benefits	139,636	8,514,644	121,175	2,261,565	573,131	11,610,151
Total	<u>507,063</u>	<u>28,279,003</u>	<u>389,091</u>	<u>7,591,259</u>	<u>2,020,265</u>	<u>38,786,680</u>
Operating Expenses						
Other Services	9,095	1,742,833		1,498,005	6,706	3,256,638
Supplies & Materials	(9,937)	268,980	128,684	981,252	13,625	1,382,604
Communications	6,376	269,964	4,209	995,691	45,298	1,321,539
Travel	354	80,085		36,008	3,016	119,463
Rent	8,476	136,709	110	730,054	215,180	1,090,530
Repair & Maintenance	82	31,015	633	931,831	9,667	973,228
Other Expenses	15,611	326,091	448,888	32,995	20,530	844,116
Goods Purchased For Resale		30				30
Total	<u>30,058</u>	<u>2,855,708</u>	<u>582,524</u>	<u>5,205,836</u>	<u>314,023</u>	<u>8,988,149</u>
Equipment & Intangible Assets						
Equipment		296,602	113,582	83,299		493,483
Total		<u>296,602</u>	<u>113,582</u>	<u>83,299</u>		<u>493,483</u>
Grants						
From State Sources				456,002		456,002
From Federal Sources				171,484		171,484
Total				<u>627,487</u>		<u>627,487</u>
Benefits & Claims						
To Individuals		4,076,594		958,710		5,035,305
Total		<u>4,076,594</u>		<u>958,710</u>		<u>5,035,305</u>
Transfers-out						
Fund transfers		782,782		4,389,895		5,172,677
Total		<u>782,782</u>		<u>4,389,895</u>		<u>5,172,677</u>
Debt Service						
Capital Leases	1,090	2,561	2,026	4,065		9,742
Total	<u>1,090</u>	<u>2,561</u>	<u>2,026</u>	<u>4,065</u>		<u>9,742</u>
Total Expenditures & Transfers-Out	\$ <u>538,211</u>	\$ <u>36,293,250</u>	\$ <u>1,087,223</u>	\$ <u>18,860,550</u>	\$ <u>2,334,288</u>	\$ <u>59,113,522</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 538,211	\$ 29,566,271	\$ 831,927	\$ 17,033,335	\$ 940,162	\$ 48,909,906
State Special Revenue Fund		4,642,500		1,098,651	1,394,126	7,135,277
Federal Special Revenue Fund		1,845,917	117	705,564		2,551,598
Capital Projects Fund				23,000		23,000
Enterprise Fund			255,179			255,179
Custodial Fund		238,563				238,563
Total Expenditures & Transfers-Out	538,211	36,293,250	1,087,223	18,860,550	2,334,288	59,113,522
Less: Nonbudgeted Expenditures & Transfers-Out	(580)	964,379	1,560	(8,783)	(2,007)	954,570
Prior Year Expenditures & Transfers-Out Adjustments	(15,013)	10,955		(4,386)		(8,444)
Actual Budgeted Expenditures & Transfers-Out	553,804	35,317,916	1,085,663	18,873,719	2,336,294	58,167,396
Budget Authority	586,161	49,634,198	1,135,975	21,867,883	2,368,227	75,592,444
Unspent Budget Authority	\$ <u>32,357</u>	\$ <u>14,316,282</u>	\$ <u>50,313</u>	\$ <u>2,994,164</u>	\$ <u>31,933</u>	\$ <u>17,425,048</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 32,136	\$ 1,777,936	\$ 49,050	\$ 1,367,921	\$ 31,544	\$ 3,258,588
State Special Revenue Fund	221	5,558,911		525,425	389	6,084,946
Federal Special Revenue Fund		6,979,435		915,606		7,895,041
Capital Projects Fund				185,212		185,212
Enterprise Fund			1,262			1,262
Unspent Budget Authority	\$ <u>32,357</u>	\$ <u>14,316,282</u>	\$ <u>50,313</u>	\$ <u>2,994,164</u>	\$ <u>31,933</u>	\$ <u>17,425,048</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-11.

Judicial Branch

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2022

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 (Custodial) 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 was adopted by 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. General Fund includes funds appropriated for ongoing personal services and general operations of the Judicial Branch, including Supreme Court Operations, the Law Library, District Court Operations, Water Court and the Clerk of Supreme Court.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Branch State Special Revenue Funds include Youth Court and Drug Court fees, Juvenile Delinquency Intervention Program Transfer, Parental Contributions related to juvenile placements, Judicial Education, Legal Assistance, Court

Appointed Special Advocate and Guardian ad Litem, Judiciary private funds, Water Court, Treatment Court Support and the Pretrial Diversion Program (in fiscal year 2021).

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include grants for drug treatment courts and various branch grants including projects related to Information Technology, the Court Improvement Program, and the American Plan Rescue ACT (ARPA).
- ♦ **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 uses this fund 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. Branch Enterprise Funds include Lexis Proprietary Account.

Fiduciary Fund Category

- ♦ **Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The branch custodial funds include District Court Youth Probation Restitution.

Changes in Accounting Policy

Beginning in fiscal year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset.

In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

2. Negative Fund Equity Balance

General Fund - The negative fund equity 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 equity balances for each of the fiscal years ended June 30, 2021, and June 30, 2022.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, and Federal Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Leases

With the implementation of GASB 87 in FY 2022, the accounting treatment of leases differs between the FY 2021 and FY 2022 financial schedules. Additionally, there is a significant impact to the FY 2022 financial schedules as a result of recording the present value of lease payments as a non-budgeted Inception of Lease/Installment Contract on the Schedule of Revenues and Transfers-in and a corresponding non-budgeted expenditure (Intangible Assets) on the Schedule of Total Expenditures and Transfers-out.

The Judicial Branch has three leases met the requirements established by GASB 87:

- ♦ Leased office space for the 8th Judicial District adult and veterans treatment courts located at 415 2nd Avenue North in Great Falls. The lease inception date was 11/1/2019 and terminates 10/31/2024. Fiscal year 2022 lease payments were \$45,704 (\$32,450 in the federal special revenue fund in District Court Operations and \$13,254 in the general fund in Supreme Court Operations). The present value of the lease payments is \$153,389 (\$108,906 in District Court Operations and \$44,483 in Supreme Court Operations).
- ♦ Leased office space for the Office of the Court Administrator located at 301 S. Park Avenue in Helena. The lease inception date was 7/3/2002 and terminates 11/30/2039. Fiscal year 2022 lease payments were \$162,642 in Supreme Court Operations (\$156,642 in general fund and \$6,000 in the federal special revenue fund). The present value of the lease payments is \$2,962,725 (\$2,844,216 in general fund and \$118,509 in federal special revenue).
- ♦ Leased office space for the Water Court located at 1123 Research Drive in Bozeman. The lease inception date was 7/1/2016 and terminates 5/31/2026. Fiscal year 2022 lease payments in the Water Court Program were \$207,600 from the state special fund. The present value of the lease payments is \$981,096.

The present value of the lease liability for the Water Court lease is understated by approximately \$1.2 million as a result of not including the renewal option when determining the value of the asset. The lease contract will be re-evaluated for fiscal year 2023 and any adjustments to the asset value will be included in the fiscal year 2023 schedules.

5. Judges Retirement System Holiday and State Share Holiday

Fiscal year 2022 expenditures in Personal Services - Benefits for the branch were approximately 26% or \$3.1 million less than in fiscal year 2021. The difference is attributed to two pieces of legislation passed by the 2021 Montana State Legislature. Senate bill 175 provided for a two-year holiday on contributions to the judges' retirement system (JRS) beginning the first full pay period of fiscal

year 2022. Senate bill 110 suspended employer contributions for the state employees group benefit plan for up to two months.

Fiscal year 2022 benefits in the Supreme Court Operations Program were \$482,000 less than in fiscal year 2021. Approximately \$270,000 of the reduction is related to the JRS holiday and approximately \$196,000 is related to the state share holiday.

Fiscal year 2022 benefits in the District Court Operations Program were \$2.4 million less than in fiscal year 2021. The reduction related to the JRS holiday is approximately \$1.7 million and the reduction related to the state share suspension is approximately \$647,000.

Reductions related to SB 175 and SB 110 in these two programs account for 91% of the difference in branch benefits between fiscal years.

6. Supreme Court Operations

The Supreme Court Operations Program includes funding for supreme court justices and their staff, the Office of the Court Administrator, Information Technology, Drug Courts, Boards and Commissions, the Pretrial Diversion Program, the Juvenile Delinquency Intervention Program (JDIP), and Youth Parole. Total HB 2 approved FTE in this program are approximately 94.5. This program accounts for 32% of total branch expenditures recorded in FY 2021 and 36% in FY 2022.

Operating expenditures in fiscal year 2022 increased by 17%, or \$898,000 from fiscal year 2021. Approximately 59% of this increase is attributable to an increase in other services as a result of an increase in fixed costs related to the ITSD Cybersecurity Enterprise Allocation, which was incurred for the first time in fiscal year 2022. The increase related to cybersecurity is approximately \$526,000. Another 34% or \$306,000, of the difference is related to an increase in supplies and materials for computer equipment purchased as part of the Judicial Branch IT equipment replacement plan. As a result of the pandemic, the branch moved toward laptops, which are more costly than desktop computers, to allow for a more mobile workforce. Additionally, costs for all information technology equipment increased because of inflation. The increases related to these expenditures account for 93% of the total increase in operating expenditures.

Also included in the Supreme Court Operations Program is the Pretrial Diversion Program, which was funded as a one-time-only program in the general fund by the 2017 Legislature. The 2019 Legislature passed HB 684 which switched the funding from general fund to state special revenue for fiscal years 2020 and 2021. The 2021 Legislature effectively switched the funding back to general fund in HB 2 for the 2023 biennium. In fiscal year 2021 Pretrial expenditures reported in the state special revenue fund were approximately \$667,000, and in fiscal year 2022, pretrial expenditures in the general fund were approximately \$659,000.

Unspent Budget Authority: The Supreme Court Operations Program has \$3 million and \$4.9 million in unspent budget authority in FY 2021 and FY 2022 respectively. Unspent budget authority in FY 2021 is consistent with recent prior years, however FY 2022 unspent authority increased by 63%. The majority of the increase in general fund unspent authority is attributed to unspent personal services authority, which is a result of higher-than-normal vacant positions. Unspent federal special revenue

fund authority, which includes authority related to the Court Improvement Program (CIP) grant and a grant from Montana Board of Crime Control, increased from \$916,000 in FY 2021 to \$2.2 million in FY 2022. Fiscal year 2022 unspent authority increased as a result of a statewide grant from the Department of Justice for treatment court tele-med services and unspent authority related to HB 632 ARPA funding.

7. District Court Operations

The District Court Operations Program includes funding for district court judges, their staff and youth probation officers. Total HB 2 approved FTE in this program are approximately 335. This program accounts for more than 61% of branch expenditures in FY 2021 and nearly 57% in FY 2022.

Unspent Budget Authority: The majority of unspent budget authority in the District Court Operations Program in FY 2021 consists of \$5.1 million related to the prevention and intervention account in the state special revenue fund and nearly \$7 million related to drug treatment court grants in the federal special revenue fund. In FY 2022, the majority of the unspent authority consists of \$5.2 million related to the prevention and intervention account and nearly \$6.2 million related to drug treatment court grants.

8. Related Party Transactions

During the period covered by the audit the Judicial Branch had two contracts with vendors related to branch employees.

The 13th Judicial District SOAR Court (pre-plea drug treatment court located in Billings) had a contract with a life coach where the vendor (a sole proprietor) is a direct relative of the treatment court coordinator. Total payments during the audit period were \$1,325.

The 21st Judicial District Adult Drug Treatment Court (Ravalli County) contracted for treatment services provided by a facility where the CEO is a relative of the Judicial Branch Statewide Drug Court Coordinator. The treatment court contracted with both treatment providers in the area. Total payments to the vendor for the audit period were \$1,255. The CEO retired from the facility effective January 2023.

9. Financial Schedules Rounding

The financial schedules for the two fiscal years ended June 30, 2022, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the Judicial Branch considers the schedules an accurate representation of the financial activity reported in SABHRS by the branch.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch (branch) for each of the fiscal years ended June 30, 2021, and 2022, and the related notes to the financial schedules, and have issued our report thereon dated June 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the branch's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the branch's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the branch's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the branch's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the branch's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

June 14, 2023

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

July 28, 2023

RECEIVED

JUL 28 2023

LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

Re: Judicial Branch Financial-Compliance Audit for FY 2021 and FY 2022

Dear Mr. Maciver:

We have reviewed the August 2023 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2022, and have no comments or exceptions to the report.

We would like to thank your staff for conducting this audit in such a cooperative, professional manner. We consider the audit process as a valuable opportunity to evaluate and improve our operations and performance. The Judicial Branch is committed to complying with state and federal laws, maintaining effective internal controls, and ensuring complete and accurate financial information is recorded in the state's accounting system.

Sincerely,

A blue ink signature of Mike McGrath, written in a cursive style.

Mike McGrath
Chief Justice

A blue ink signature of Beth McLaughlin, written in a cursive style.

Beth McLaughlin
Court Administrator