

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS**

**FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Reporting Entity And Scope	1
Organization.....	1
Responsibilities.....	2
Funding	2
Prior Audit	2
Audit Objectives And Scope.....	3
CONSTRUCTIVE SERVICE COMMENTS SECTION	
Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters.....	4
<i>Internal Control Comments</i>	
<i>Significant Deficiencies</i>	
1. Strengthen Internal Control.....	6
2. Improve Control Environment.....	8
3. Establish A Risk Assessment Process.....	11
4. Control Activities Should Be Reestablished.....	13
5. Information Sharing And Communication Should Be Improved.....	15
6. Monitoring Of Court Financial Activities Must Be Improved	21
FINANCIAL SECTION	
Independent Auditor’s Report.....	23
Financial Statement	
<i>Fund Financial Statement</i>	
Governmental Funds	
Statement Of Revenues And Expenditures - General Fund.....	25
<i>Fiduciary Fund Financial Statement</i>	
Statement Of Changes In Assets And Liabilities - Agency Funds	26
Notes To The Financial Statements	27
APPENDIX A - Current Status Of Prior Audit Finding.....	35
APPENDIX B - Letter From The Chief Justice.....	37

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

THIS PAGE INTENTIONALLY LEFT BLANK

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire District Courts. The scope of this audit and audit report does not include the financial activity of the Administrative Office of the Courts which provides administrative services to the District Courts, and the financial activity related to the facilities used by the District Courts which are provided by the Department of Administrative Services. The scope of this audit and audit report includes the financial activity of the District Courts for the fiscal year ended June 30, 2008. Unless otherwise indicated, reference to the Courts or auditee refers to the District Courts.

Organization

Chapter 383, Laws of 1983, created a unified court system with the State responsible for the funding and operation of all courts including the District Courts. The Supreme Court has overall responsibility for the operation of the unified court system. The Administrative Office of the Courts (AOC) is the administrative arm of the Supreme Court and carries out the Supreme Court's directives in its oversight of the unified court system. The AOC is headed by a director who serves at the pleasure of the Supreme Court.

At June 30, 2008, 353 employees including 25 full-time and 29 part-time judges and 183 full-time and 116 part-time non-judicial employees staffed the District Courts.

District Court Locations

District courts serve one or more towns. At June 30, 2008, thirty-four District Courts operated in the State in the following thirty-five locations.

Berlin	Haverhill	Milford
Candia	Henniker	Nashua
Claremont	Hillsborough	New London
Colebrook	Hooksett	Newport
Concord	Jaffrey/Peterborough	Northern Carroll County (Conway)
Derry	Keene	Plaistow
Dover	Laconia	Plymouth
Durham	Lancaster	Portsmouth
Exeter	Lebanon	Rochester
Franklin	Littleton	Salem
Goffstown	Manchester	Southern Carroll County (Ossipee)
Hampton	Merrimack	

Responsibilities

The District Courts are primarily responsible for the following cases: traffic violations; violation-level criminal matters; juvenile delinquency and domestic violence (in non-Family Division locations); misdemeanors; preliminary hearings in felony cases; small claims (up to \$5,000); landlord/tenant cases; civil cases (under \$25,000). District Courts also issue search and arrest warrants.

The District Courts collect revenue for Court-ordered fines, entry fees, default fees, and other miscellaneous Courts fees. The District Courts also collect receipts that are subsequently posted as revenues of the New Hampshire Departments of Safety, Fish and Game, Transportation, Resources and Economic Development, Justice, and the Police Standards and Training Council. Certain amounts collected by the District Courts are paid directly by the Courts to cities and towns in the District Courts' jurisdictions. In addition, District Courts collect and disburse funds for bail, restitution, attorney fees for Court-appointed counsel, special escrows, transcripts, overpayments, and civil judgments.

Funding

The financial activity of the District Courts is accounted for and reported in the General and Agency Funds of the State of New Hampshire. A summary of the financial activity of the District Courts for the fiscal year ended June 30, 2008 is shown in the following schedule.

Summary Of District Court Financial Activity For The Fiscal Year Ended June 30, 2008

	<u>General Fund</u>	<u>Agency Fund</u>
Total Revenues/Additions	\$ 6,479,600	\$ 24,834,006
Total Expenditures/Deletions	<u>18,405,533</u>	<u>24,985,631</u>
Excess (Deficiency) Of Revenues/Additions Over (Under) Expenditures/Deletions	<u>(11,925,933)</u>	<u>\$ (151,625)</u>
Other Financing Sources (Uses)		
Net Transfers To Other Funds	(241,737)	
Net General Fund Appropriations	<u>18,080,936</u>	
Total Other Financing Sources (Uses)	<u>17,839,199</u>	
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 5,913,266</u>	

Prior Audit

The most recent prior financial audit of the District Courts was for the six months ended December 31, 1991. The appendix to this report on page 35 contains a summary of the current status of the observations contained in that report. A copy of the prior audit report can be obtained

from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the District Courts for the fiscal year ended June 30, 2008. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Courts and tested its compliance with certain provisions of applicable State laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and Expenditures, and
- Agency Funds.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, and financial statements are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the Statement Of Revenues And Expenditures, General Fund, and the Statement of Changes in Assets and Liabilities, Agency Funds, of the New Hampshire District Courts for the fiscal year ended June 30, 2008 and have issued our report thereon dated March 4, 2009, which was qualified as the governmental fund financial statement does not constitute a complete financial presentation of the District Courts in the governmental fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District Courts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District Courts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District Courts' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's

financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the District Courts' financial statements are free of material misstatement, we performed tests of the District Courts' compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

The District Courts' response is included with each observation in this report. We did not audit the District Courts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the District Courts, others within the District Courts, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

March 4, 2009

Internal Control Comments
Significant Deficiencies

Observation No. 1: Strengthen Internal Control

Observation:

Sufficient attention and resources have not been applied to establishing and maintaining effective internal controls over the financial operations of the District Court system. Deficiencies in the internal controls at the District Courts put the achievement of efficient and effective Court financial operations, including reliable financial reporting, at risk.

Internal control is defined as a process, affected by an entity's people, designed to accomplish specified objectives. The definition is broad, encompassing all aspects of controlling a business, yet facilitates a directed focus on specific objectives. Internal control consists of five interrelated components, which are inherent in the way management runs an enterprise. The components are linked, and serve as criteria for determining whether the system is effective.¹

Internal controls affecting the District Court financial operations are centered in several locations and applied by levels of District Court management with differing primary objectives. Controls covering District Court financial operations include the controls affected at and by the 34 individual District Courts, the Office of Administrative Judge (OAJ), and the Administrative Office of the Courts (AOC). The District Courts, like the remainder of the Judicial Branch, are not subject to many of the State's centralized financial control systems.

The financial operations at each of the District Courts include the collection of revenues and the payment of expenditures ultimately reported in the State's accounting system (NHIFS) and also receipts and expenditures that are processed outside the State's central NHIFS controls. In the 11 District Courts that continue to use the SUSTAIN information system, the financial activity also includes transactions processed entirely at the individual courts via local bank checking accounts used to deposit and transfer revenue collected to the State and other agencies, hold and return bail, and process other transactions. These local bank account transactions at the District Courts that continued to use the SUSTAIN system were largely outside any effective OAJ, AOC, or NHIFS review and control during fiscal year 2008.

The distributed and disparate nature of the District Courts' financial activity and controls over that activity makes an effective internal control system and process imperative to lessen the risk that errors or frauds that may occur will go undetected and uncorrected.

The following five observations provide specific examples of significant deficiencies in each of the five generally recognized interrelated components of internal control.

¹ Committee of Sponsoring Organizations of the Treadway Commission, Internal Control-Integrated Framework, May 1994, page 13.

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication, and
- Monitoring.

Recommendation:

The AOC, in conjunction with the Office of the Administrative Judge, must strengthen the internal controls over the financial operations of the District Court system by incorporating all of the components of internal control in the District Courts' daily financial operating activities. Sufficient attention and resources to financial operations must be applied to reasonably ensure that the District Courts' overall objectives of efficient and effective financial operations are achieved.

The strength of the District Courts' internal controls should be based on its business needs, priorities, and availability of resources. While limited resources may make other District Court financial activities seem to be of higher priority, the Courts must consider the risk their controlled operations face from uncorrected errors or frauds that could occur.

Auditee Response:

We concur.

The AOC and the Administrative Judge are well aware of the increased risk that has resulted from the discontinuation of the internal audit function and the delays in the development of financial reports that would enable monitoring. We are balancing risks and resources. There were offsetting improvements in internal controls as each additional court transitioned to the Odyssey case management system. The Odyssey case management system moves all check disbursement and reconciliation activities to the AOC, thus increasing the segregation of duties. Limited real-time monitoring of adjustments, deposits and month end closing, occurs by the AOC Accounting Support staff particularly with those courts that are new to the Odyssey system.

The LBA audit was particularly helpful to us at this point in time (approximately midway through the Odyssey transition) because with the introduction of any new system, business processes change, new controls are required, training on the new system is condensed in a very short period, and its difficult to determine what tasks or responsibilities has been misunderstood or overlooked.

- The revised Financial Policy Manual was released on December 1, 2008. We will continue to update the manual semi-annually.
- Guidance will be issued to clarify responsibility for accounting functions, and to clarify the responsibilities that came into question as a result of the audit.
- Periodic accounting training for clerks and staff will be held using web conferencing. These sessions will be used to review financial policies and to answer questions.

- The Judicial Branch has requested one full-time accounting position to resume Internal Audit function in our FY 2010-2011 budget request. This was initiative #1 in our request.

A work plan has been developed to improve the allocation of costs and the internal financial reporting for each court. We have requested an additional part-time accounting position to assist with this process. If a position is not funded, this issue will not be addressed until the NHFIRST implementation is complete.

Observation No. 2: Improve Control Environment

Observation:

The financial operations control environment is weakened due to a combination of confusion concerning the lines of authority in that aspect of the Court's work, an incomplete understanding of lines of responsibility, and a lack of sufficient resources to allow the Court system to focus the proper attention on enhancing the control environment.

The control environment encompasses a number of factors that have a pervasive influence on the way business activities are structured, objectives are established, and risks are assessed. The control environment sets the tone of an organization and influences employees' control awareness and instills an enterprise-wide attitude of integrity and control consciousness, commonly referred to as the "tone at the top." The tone at the top is the foundation for all other components of internal control providing discipline and structure and affects all aspects of the entity's operations and is evidenced in management's philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resources policies and procedures.

The following items are examples where the Court system should undertake specific actions to strengthen the control environment for the District Court's financial operations.

1. Clear lines of authority and responsibility among the Administrative Office of the Courts (AOC), the Office of Administrative Judge (OAJ), and the individual Courts for the financial operations of the District Courts must be articulated. For example, the authority and responsibility for establishing financial operating policies and procedures should be clearly assigned and accepted. The AOC, working in conjunction with the Office of Administrative Judge should make certain that all aspects of District Court operations are aware of, and responsive to, that assignment of authority and responsibility for financial operations. The lack of clear responsibility for policy and procedure guidance contributed to a number of the control weakness noted at the District Courts, including the delay in releasing an updated Judicial Branch Financial Policy Manual. At November 2008, a revision of the Judicial Branch Financial Policy Manual had been available for approval and issuance by the Administrative Office of the Courts for approximately one year without substantive action having been taken to issue the updates.

2. The AOC should reestablish its internal audit function as a financial internal control operation. The use of the internal audit staff to support the multiyear implementation of the District Court's new information system (ODYSSEY) has assisted that endeavor but has prevented the internal auditor from being available to perform onsite reviews of Court financial operations and remote reviews of Court financial reporting. Both onsite and remote reviews of Court financial operations would likely reveal many of the control weaknesses and financial errors that we noted at the District Courts.
3. The AOC should further develop its employee-training program to provide Court staff with regular access to appropriate training to ensure that all new and continuing employees remain cognizant of current Court financial policies, procedures, and practices. During auditor's visits to the District Courts, employees stated they were in need of continuing training in Court financial operations. Local Court employees involved at all levels of financial operations reported that their Courts' financial operations would be improved by additional staff training in standard operating policies and procedures.
4. District Court management should ensure that all employees receive annual employee performance evaluations. Annual employee evaluations are a critical management human resources tool to demonstrate concerns for employee job performance and its impact on an appropriate control environment. It was noted that none of the 19 non-judicial employees selected for payroll testing had received an annual evaluation during the fiscal year ended June 30, 2008.
5. The AOC should establish a formal fraud prevention and detection program, including a fraud reporting policy. The District Courts' operations require the regular collection of significant amounts of cash and checks in the mail and over the counter from individuals with business at the District Courts. The amount of money collected, in conjunction with the opportunity for an unscrupulous employee to have improper access to both amounts collected and accounting transactions that could hide the diversion of money, makes the need for vigorous fraud prevention and detection programs critical to the District Courts' controlled financial operations.
6. Court employees responsible for performing control activities should be trained in the objectives of those activities, including indicators of errors, frauds, and control failures to allow for reliable performance of their control activities. Instances were noted during audit testing where employees performed control activities without fully understanding the purpose of their activities, resulting in the control activities being ineffective. For example, an employee who had signed as the approving authority for a financial transaction later stated they were unaware of the purpose of the transaction and approved the transaction based on the employee's confidence in the preparer of the transaction. Another employee responsible for approving certain invoice payments indicated they were generally not knowledgeable about the terms of the contract and were unaware of how the services were being billed.

Recommendation:

Significant aspects of the District Court's control environment must be improved. The Court system must demonstrate by its actions its commitment to internal controls.

As a first step, clear lines of authority and responsibility for Court financial activity should be articulated and formalized. Once that is accomplished, management from the Chief Justice to the Office of Administrative Judge, the Administrative Office of the Courts, and the District Court Clerks must understand and accept their respective responsibilities to ensure that District Court employees are and remain knowledgeable of District Court financial policies, procedures, and practices and their roles in those controls.

The AOC and District Court management must ensure its employees have the training and performance feedback that encourages District Court employees to continue to perform their responsibilities with competence and integrity and in a manner that promotes management's objectives for controlled financial operations.

Auditee Response:

We concur.

- An internal, written clarification will be issued to address uncertainty about responsibility for financial activities raised during the audit. A formal mechanism for promulgating new financial policies or changes to the financial policy manual has been adopted. The AOC drafts the policies; the Administrative Council reviews the proposed policies and makes recommendations to the Supreme Court. The Supreme Court adopts financial policies.
- The Judicial Branch has requested one full-time accounting position to resume Internal Audit function in our FY 2010-2011 budget request. This was initiative #1 in our request.
- Periodic accounting training will be offered by web conferencing for clerks and staff to review financial policies and to answer questions. Specific training on control objectives will be included.
- The AOC Human Resources department has an organizational development initiative directed at improving the performance evaluation process. A revised plan should be in place by June 30, 2009.
- We are committed to establishing a fraud prevention and detection program that will be incorporated into the Financial Policy Manual.
- Court employees will be trained in control activities and the purposes underlying those activities.

Observation No. 3: Establish A Risk Assessment Process

Observation:

No formal risk assessment process exists in the Court system's internal financial control structure. There is no clear indication the AOC has regularly reviewed Court operations, including planned changes in operations, for exposure and response to risk.

Risk assessment is a process for identifying and responding to business risks and the results thereof. A prerequisite to an effective risk assessment is the establishment and recognition of an organization's objectives and the risks that may put achieving those objectives in jeopardy. While the District Courts have experienced organizational and operational changes over time, they have not periodically and formally reviewed operations to assess where and how things could go wrong, evaluated the likelihood of those occurrences, and established reasonable responses to those potential occurrences. Without a risk assessment process, the identification and response to risk occurs in a reactive mode, often after a risk has been realized and a loss incurred.

Risks relevant to financial reporting include internal and external events and circumstances that may occur and adversely affect an entity's ability to initiate, authorize, record, process, and report financial data consistent with the assertions of management in the financial statements. Other risks include risks that may affect the entity's ability to reach and maintain adherence to its stated or implied objectives. External factors include economic changes having an effect on decisions related to financing, capital expenditures, changing customer needs or expectations, new legislation, natural catastrophes, and others. Internal factors including disruption of information systems, quality of personnel hired, methods of training and motivating employees, and change in management responsibilities can also affect the way certain controls operate. Risks increase at times of change, including changes in personnel and changes in procedures.

In our 2003 performance audit of the Judicial Branch Administration, we reported the need for improved information technology (IT) planning for the District Courts, including the need for more comprehensive IT plans and regular plan updates. During this current audit, we again note there is no current IT plan for the District Courts. While the Judicial Branch has a consultant's report that includes a number of recommendations for improving the District Courts' IT systems, the report does not by itself constitute an IT plan, as it does not include management's commitment and plan to implement those recommendations.

For example, issues as fundamental as a formal strategy for both the near and long term retirement of obsolete IT equipment, the tracking and maintenance of owned IT equipment, and the acquisition of new equipment are not currently documented in an IT plan for the District Courts. The lack of a documented, comprehensive IT plan presents a significant risk that Court operations may be negatively impacted by foreseeable as well as unforeseen interruptions. The lack of a sufficiently comprehensive IT planning process may have contributed to the difficulties

experienced in the implementation of the District Courts' new information system as noted below.

1. At June 30, 2008, the Judicial Branch, including the District Courts, was in the midst of a major information system conversion from the SUSTAIN system to the ODYSSEY system. Aspects of the SUSTAIN system have been used by the District Courts since 1989. The financial aspects of the SUSTAIN system were brought on line at the District Courts in 1993. In April of 2004, the Judicial Branch signed a contract to convert its information system over to the ODYSSEY system. It was anticipated that the implementation and conversion would be complete within two to three years. Difficulties experienced in the implementation, including unanticipated difficulties in converting District Court processes and data to the new system, resulted in the implementation taking longer than initially planned, the use of unplanned for resources, and continued operational inefficiencies, as the District Courts maintained, supported, and accumulated financial information from two separate information systems. At June 30, 2008, 23 of the District Courts had been converted to the ODYSSEY system and 11 of the District Courts remained on the SUSTAIN system. The Administrative Office of the Courts (AOC) reports the ODYSSEY system will be fully implemented at all Courts by December 2010.
2. A strength of the new ODYSSEY system is the centralization of the District Courts' cash disbursements at the AOC. With the prior SUSTAIN system, individual District Courts processed disbursements from local checking accounts maintained by the District Courts. With the new ODYSSEY system, all disbursements are controlled by the AOC and processed from a single AOC checking account. While overall this change in practice provides increased controls over disbursements, the AOC must assess and respond to the increased risk that Courts may process certain transactions in cash to avoid the central check generation process and the delay incidental to that process, contrary to the intent of the AOC. For example, at one Court visited, the District Court paid certain bail commissioner fees in cash in lieu of requesting an AOC generated check.

In each of the above-noted examples, the efficient and effective operations of the District Courts were negatively impacted during fiscal year 2008 by foreseeable risks that were not effectively considered and responded to by the Court system.

Recommendation:

The AOC should establish a formal and documented risk assessment process to continuously review District Court financial operations for exposure to risk and to plan for and reasonably respond to the identified risk through risk elimination or mitigation as appropriate.

As part of that risk assessment and response to risk, the AOC should establish a current IT plan that addresses the District Courts' use of IT resources including the ongoing implementation of the ODYSSEY system, the utilization and safeguarding of IT assets, and the establishment of a business continuity/disaster recovery plan intended to minimize disruptions to operations that could occur if the District Courts' IT systems were compromised by an unplanned disruption.

Auditee response:

We concur with this finding in concept, however, risk assessment and IT planning are functions that are performed centrally with the collaboration of the Supreme Court, the administrative judges, and management of the AOC because of the unified organizational structure of the NH Judicial Branch.

- Planning and risk assessment over information technology has been improved since April 18, 2008, when our new Chief Technology Officer, took over leadership of the Judicial Branch IT operations.
- In January 2009, the Chief Technology Officer released a plan projecting the need to replace obsolete court technology infrastructure through FY 2015 and estimated the replacement costs. The Judicial Branch has asked the Legislature to create a dedicated fund which would ensure the courts have a dependable source of funds with which to replace obsolete court technology infrastructure.
- While it is true that a formal risk assessment process has not been undertaken, an informal process exists in the district court and that process has been fairly effective. Examples of risk assessments that regularly occur include: continuity of operations with the loss of key personnel, security that is commensurate with the risk profile of notorious defendants, threats on the life of judicial officers, mandatory training to prevent sexual harassment, judicial performance evaluations, 24/7 judicial emergency response, and an external financial audit when an internal audit function was not in place. A fidelity bond protects the State against financial loss from theft of funds by state employees. In addition, the Supreme Court, Administrative Judges, and members of the AOC spent considerable time over the summer of 2006 analyzing the delay in the implementation of Odyssey, quantifying the additional resources that would be required to accelerate deployment, and ultimately deciding not to seek additional funding.
- Areas to be further developed in our risk assessment and planning include disaster recovery, security threats, and data security.
- Our financial policy manual has always mandated that all court disbursements be made by check. This policy, particularly in the area of bail commissioner's fees, will be strictly enforced in the future.

Observation No. 4: Control Activities Should Be Reestablished

Observation:

Many financial control activities at the District Courts have become ineffective due to the lack of proper design and performance of controls and the lack of follow-up on the results of the control activities that are performed.

Control activities are the policies and procedures used to ensure an entity's objectives are attained and management's directives identified as necessary to address risk are carried out. Controls are categorized as preventative, detective, manual, computer, and management controls

and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

1. As also noted in Observations No. 2, and No. 5, due to unclear lines of authority and responsibility and changes in financial control activities resulting from the District Courts' conversions from SUSTAIN to ODYSSEY information systems, the District Courts have not been provided with current, documented policies and procedures for their financial activities. As a result, control activities at the individual Courts have become largely ad-hoc and not part of a Court-wide system of controls. Many of the control activities at the District Courts are based upon precedent at that Court and are not necessarily performed with an understanding of the control objectives essential to make the activities effective controls against error or fraud.
2. During auditor visits to the individual District Courts, we noted the controls at numerous Courts were compromised by the lack of segregation of duties over incompatible functions. While at some of the smaller District Courts the lack of segregation of duties was a result of not having the requisite number of employees to allow for an effective segregation of duties, the lack of segregation of duties at other Courts was a matter of an ill-advised assignment of responsibilities. Areas of District Court financial operations where segregation of duties could be improved included duties related to the processing of cash and the receipt and disbursement of checks, including the control activities over the checking accounts at the District Courts still operating with the SUSTAIN information system.
3. The District Courts are not utilizing preprinted document control numbers to ensure that all documents and collected revenues are accounted for. Both the hand cash receipt and the notice of cleared default documents have preprinted document control numbers. According to Administrative Office of the Courts (AOC) policy, Courts are to account for all prenumbered documents to ensure that cash and checks collected via those documents are accounted for. Essentially none of the District Courts were accounting for these documents in the manner directed by the policy during fiscal year 2008.

Recommendation:

The AOC must establish reasonable and appropriate control activities for the financial operations of the District Courts. The control activities should be appropriately designed and scaled for the different size and financial activity levels of the District Courts. In those smaller District Courts where limited numbers of employees may make the effective segregation of duties difficult, the AOC should, through its review of Court reporting and other financial information, assist in the regular oversight of Court financial activity.

As recommended in Observation No. 2, the AOC's internal audit function should be reestablished to assist District Courts in ensuring the Court's financial control activities are current, operating, and effective.

Auditee Response:

We concur.

- Clearly there are some policies that have not been incorporated into a manual, however the 1996 Court Financial Policy Manual has been posted on the Judicial Branch’s internal website, called JIBB, for many years. This manual contains our core financial policies. Although it was not comprehensively updated until December 1, 2008, it was still operative. All courts were provided with the Sustain Accounting Manual. The Odyssey Accounting Manual is also posted on JIBB.
- Training will be provided to clerks on proper segregation of accounting duties. Additional tools such as a scorecard may also be developed.
- Controls are only effective if those responsible for performing the control function understand their role. Training for clerks and staff and resumption of the internal audit function will educate employees on the proper performance of control activities.

Observation No. 5: Information Sharing And Communication Should Be Improved

District Court Clerks and other employees do not have timely access to the relevant, complete, and accurate information necessary to make informed decisions concerning the financial operations of the Courts.

The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records established to initiate, authorize, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and net assets or fund balance. The quality of system-generated information affects management’s ability to make appropriate decisions in controlling the entity’s activities, including preparing reliable financial reports.

1. As noted in Observation No. 2, for various reasons, including unclear assignment of responsibility, District Court personnel have not been provided with clear, updated, policy and procedure guidance. Policies that are in place are largely in need of update. Some policies have been issued by policy memos, which have had only transitory utility, as the Court system has not reissued the memos or incorporated them into an updated manual. Individual District Courts have not consistently and effectively integrated the directives into their ongoing practice.

Examples of policies and procedures that should be issued or reissued by the Court system include updated policies and procedures for:

- a. **Accepting, holding, and returning bail and other escrow funds.** The District Courts do not have a strong policy directing when the return of non-State funds should be made, and consequently, the time it takes a Court to return these funds varies by Court, case and type (i.e. bail commissioner’s fees, bail, etc). During testing at the District Courts, it was

noted that checks for agency funds were issued as soon as the same day to as late as five years after the final disposition of the related case in the instance of one tested restitution case. While the Administrative Office of the Court's 1996 policy manual is silent as to how soon funds must be paid, an emailed memo from the Administrative Judge to all municipal Court Judges contains an administrative order stating the court shall return the bail and discharge all sureties "Upon the final disposition of the case for which bail or surety bond has been posted by, or on behalf of, a defendant." The administrative order has an effective date of November 16, 1992, but was not incorporated into the 1996 policy manual. The Order is not specific as to how soon after disposition the court should remit agency-type funds, and also only addresses bail and not other agency-type funds like overpayments, restitution, special escrow, bail commissioner's fees, public-defender attorney fees, and transcript fees.

The District Courts appear to be similarly confused and inconsistent with the forfeiture of bail when a defendant fails to appear to court. Bail is frequently held after a defendant fails to appear for a scheduled court date to see if the defendant will contact the court with an explanation as to why they did not appear. At 16 of the 34 District Courts instances were noted during the audit where the Courts were holding bail for six months or more after the bail should have either been either returned to the defendant or forfeited. At four of those District Courts, bail was held by as much as three to over twelve years longer than required by the case.

- b. **Holding unrecorded cash and checks.** During audit testing, it was noted that two Courts were holding unrecorded checks, increasing the risk that amounts held by the District Courts could be lost, stolen, or otherwise misdirected.
- According to the Court Clerk at one District Court visited, the bail commissioners at that Court prefer to be paid their fees in cash. When the Court Clerk collects fees for these bail commissioners, the money is placed in an envelope and held in the Clerk's desk until retrieved. During our June 2008 visit to the District Court, \$190 in currency was observed as being held by the Court Clerk for the bail commissioners. While the District Court's customer signs an informal receipt stating that they have remitted their bail commissioners fee to the Court Clerk, there is no record of the Clerk having collected this fee in the District Court's official accounting system and there is also no record of when the cash collected is subsequently remitted to the bail commissioner. According to the Clerk, the Clerk was directed by the Judge to continue to process unrecorded cash transactions for bail commissioners because the Judge was concerned the bail commissioners would otherwise quit.
 - At one other Court visited, a defendant was ordered by the Judge to provide a \$1,200 check to the court with the condition that the check would be returned uncashed if the defendant complied with a court order by a specified date. Otherwise, the District Court would cash the check. The Judge directed the Court Clerk to issue a hand receipt for the check, but not to enter the check into the accounting system. The Judge ordered the defendant make a payment for the full fine amount on August 31, 2007. On December 11, 2007, the Judge ordered that the defendant's bond be released. The

check remained in the physical custody of the court, undeposited, for over three months.

- c. **Court-ordered community service and community service performed in lieu of payment of a monetary fine.** In June 2008, the Office of Administrative Judge issued a protocol, which included provisions related to defendant's performance of community service in lieu of the payment of fines. Even with the protocol issued in June 2008, there is insufficient guidance to the District Courts related to accounting for community service credits to ensure that the credits granted in lieu of fine collections are controlled. For example:

- Court Rule 2.7 (C) provides "Every hour of verified community service shall be applied against the fine at the rate of \$10 per hour." At one Court visited, records indicated a \$350 fine was satisfied by a defendant performing 20 hours of community service. The case file did not contain any documentation to explain how the remaining \$150 balance of the fine was satisfied, yet the case was apparently paid in full. While the Court Clerk ventured the Judge must have verbally stated the 20 hours of service was sufficient to clear the fine, the Clerk agreed the default would appear to have been cleared inappropriately, since the status of the remaining \$150 balance is not documented in the case file.

While the protocol issued by the Office of Administrative Judge in June 2008, which requires the preparation of a financial affidavit to support the use of a community service penalty, should address some of the need for policies and procedures in this regard, other aspects, such as what types of activities should qualify as acceptable community services and how a defendant's compliance with the community service plan should be monitored to promote compliance with the plan, continue to be performed on an ad hoc basis by the District Courts, as there are no formal guiding policies and procedures.

- d. **Charging Court defaults.** Defendants that do not appear at Court, do not make payment on their Court obligations, or make payment with a bad check may be placed into default by a District Court. Depending upon the underlying charge, the default is categorized as either a discretionary or a mandatory default. Mandatory default fees are deposited as unrestricted revenue in the State's General Fund and discretionary default fees are deposited in the Default Fund, a restricted revenue account available to fund Court expenditures. At 32 of the 34 District Courts visited, Court Clerks reported being unclear as to when to charge a discretionary versus a mandatory default. While the AOC has issued guidance on this issue, the fact that essentially all Court Clerks reported continuing confusion indicates that additional information and training is required. During fiscal year 2008, the District Courts collected \$383,428 in mandatory and \$94,750 in discretionary default fees.
- e. **Clearing of Court defaults.** To clear a default, in addition to resolving the issue that caused the default, the defendant is required to pay a default fee to the Court. The defendant may also need to make payments to the Department of Safety if the defendant's motor vehicle license was suspended as a consequence of the default. At all

34 District Courts visited, issues were noted where documentation supporting the clearing of defendants' defaults were not sufficiently controlled to provide accountability for the transactions and to allow assurance that all revenues related to the clearance of defaults were collected and deposited to the credit of the State. In most Courts visited, completed clearance of default documents are not reviewed and reconciled to revenues deposited to ensure that defaults requiring payment of a default fee were cleared only upon the payment of the fee and that all default fees collected were ultimately deposited. In many courts, cleared default documents are stamped with the Court Clerk's name and are not signed or initialed by the preparer, resulting in a lack of employee accountability for the transaction. In samples of cleared defaults tested at each of the 34 Courts, instances were noted at eight Courts where default fees may have been waived improperly or inaccurately or where a default fee was not properly charged. Error rates for the eight Courts with sample errors included two Courts at 40%, one Court at 30%, and the remaining five Courts at 10%. Controls over the clearance of defaults are critical as the improper clearance of defaults could be used to disguise the theft of Court money.

According to the District Court personnel, there has been no specific policy and procedure guidance provided to the Courts to direct how defaults are to be cleared, who at the Courts should be authorized to clear defaults, and how the clearance of defaults should be monitored to promote a consistent practice that safeguards the collection of District Court revenues.

- f. **Limiting the use of hand-written receipts.** The Administrative Office of the Courts last issued a policy on cash receipts in March 1997, which included authority to utilize hand-written receipts when "the computer system is inoperative or the cashier is balancing". The policy also requires recording the hand-written receipts in the accounting system as soon as the system becomes available and a daily review by the Court Clerk of the timely recording of hand-written receipts. During visits to the District Courts, it was noted the Courts were not consistently adhering to the March 1997 policy. At 25 of the 34 District Courts visited, issues related to hand-written cash receipts were noted, predominately involving untimely recording. However, other issues included inaccurate completion of the receipts, not accounting for all hand-written receipts and using hand-written receipts for purposes outside of those envisioned by the 1997 policy. For example, one District Court had an employee regularly issue hand-written receipts due to concerns about the employee's lack of training to operate the computer system. In another District Court, hand-written cash receipts were regularly issued at a "satellite office" during an annual community event. Use of hand-written receipts increases the risk that cash and checks received by the District Courts may be applied incorrectly, lost, or stolen.
- g. **Monitoring and acting upon debts owed the District Court.** The District Courts have not been provided with policies and procedures for reviewing the status of debts owed to the District Courts by a defendant from previous Court orders prior to subsequent Court orders for payments. At 15 of the 34 District Courts visited, the Courts had no formal process to review a defendant's prior payment history prior to the Court determining a fine and payment options for a subsequent charge. At Courts that did review a defendant's payment history, prior to September 2008 the Courts were only able to

review the defendant's payment history at the instant court, as the information system available to the District Courts did not share this information among the Courts. Even after September 2008, the District Courts using the new District Court information system (ODYSSEY) could not access defendant payment history from other court levels, including the Superior Court. Without timely review of this information, Judges may not become aware that a defendant is in default status for a prior obligation with a Court and may allow a defendant to enter into another payment plan prior to addressing an existing payment delinquency. A defendant that does not appear at Court, does not make payment on an obligation to the Court, or makes payment with a bad check may be placed into default by a District Court. The District Court's information system could not quantify the number of defendants and amounts owed the District Courts for defendants with multiple defaults.

- h. Establishing and maintaining accountability and information security in information technology (IT) systems.** The Court system does not have clear, current, and comprehensive policies and procedures for IT systems including policies and procedures for security over user accounts, passwords, and assignment of appropriate access levels within IT systems and change controls over software revisions. This comment was also noted in the 2003 performance audit of the Judicial Branch Administration. While the Court system is not subject to the State Office of Information Technology policies and procedures, the Court system has not established and maintained its own equivalent IT policies and procedures to reasonably protect IT systems and information. As a result, user accounts and passwords are shared at some District Courts, compromising accountability over some financial transactions, and certain changes to financial system software are made without the controls of a documented change control process, increasing the risks of an unauthorized or faulty software change, contrary to generally recognized IT control processes.
- i. Other examples of unclear or ineffective internal communications included the lack of policies and procedures for charging credit card fees, a change in civil filing fees, and processing municipal violation defaults through the Department of Safety.** The lack of clear direction related to these issues contributed to inconsistent District Court processes during fiscal year 2008.

The lack of clear directives in the financial activities of the District Courts, as illustrated in these examples, increases the risk individual Courts will perform these activities in an ad-hoc manner, which are inconsistently applied across the District Court system, and not understood or condoned by the Administrative Office of the Courts (AOC).

- 2.** The financial information system used by the AOC to accumulate and report court-level financial information during fiscal year 2008 was not maintained at a level of accuracy necessary to provide correct financial information by Court. For example, expenditures for computer hardware totaling \$16,328 to be used in multiple District and other Courts were posted to the expenditure account of one District Court as a matter of convenience. Also, salaries for Judges and Court security personnel who work in more than one court, for example District Court and Family Division, are not allocated. As a result, a review of costs

by Court would inaccurately indicate that specific Courts had costs greater than or less than actual. While the AOC does not regularly report financial information on an individual Court basis, information that is recorded in information systems should be as accurate as reasonably possible so that information drawn from system whether for regular reporting purposes or as part of an ad-hoc information request can be relied upon for decision making.

Recommendation:

1. Information sharing and communication in the form of clear and consistent policies and procedure guidance must be improved to advance the controls over the financial operations of the District Court system including promoting the consistent and accurate reporting of financial information by the District Courts. These policies and procedures must be in a form and format that will promote their use by District Court employees. As discussed in Observation No. 2, responsibility for the establishment and communication of these financial operating policies and procedures must be established and fully accepted by the respective parties.

As part of the effort to provide current and consistent financial policies and procedures, the AOC should review and re-engineer District Court financial operating processes where appropriate to promote greater efficiency and effectiveness. As part of that review and re-engineering effort, the AOC should consider the need to establish additional controls over transactions that could be employed to disguise errors or frauds.

2. The AOC financial information system should be maintained at a sufficient level of accuracy to allow for meaningful and accurate financial information at a specific court level. Allocations should be regularly made where appropriate to reflect timely and accurate court financial information. Financial information by court should be used for accurate management information including supporting management decision-making.

Auditee Response:

We concur.

Policies and training on the following topics will be conducted.

- Timely disposition of funds held for others,
- Bail forfeitures,
- Recording and paying bail commissioner fees,
- Accounting for community service in lieu of fine payment,
- Prohibition on holding unrecorded cash & making cash disbursements,
- Prohibit the holding of uncashed checks,
- More specific guidance on accounting for community service,
- Difference between mandatory and discretionary default fees,
- Policy on the use of handwritten receipts,
- Protocol for reviewing unpaid fines and defaults before each district court hearing,
- Defaults of municipal ordinances through the Department of Safety,

- Fraud prevention, and
- Computer passwords and authorized access.

A work plan has been developed to improve the allocation of costs and the internal financial reporting for each court. We have requested an additional part-time accounting position to assist with this process. If a position is not funded, this issue will not be addressed until the NHFIRST implementation is complete.

A protocol will be developed to address delinquent and outstanding orders in the district court while preserving the defendant's right to due process. Implementation may involve significant programming efforts from our vendor of the case management system.

We instituted a practice to manually control the issuance of pre-numbered, multi-part receipt forms for the clearing of court defaults in 1996. This was intended to be a temporary measure until the information could be passed electronically to the Department of Safety in the State's criminal justice J-One network. The volume of default receipts issued does not lend itself to a manual process. Delays in this project have postponed the retooling of this notification/receipting process. We now anticipate that the functionality will be available in April 2010.

Observation No. 6: Monitoring Of Court Financial Activities Must Be Improved

The Administrative Office of the Courts' (AOC) control monitoring process has not been properly maintained, resulting in a condition during fiscal year 2008 where control activities lost their intended effectiveness without the AOC taking corrective action.

Monitoring is a two-step process intended to ensure that internal controls operate effectively and as intended by management. This involves: 1) assessments by appropriate personnel of the design and operation of the controls on a timely basis, and 2) taking necessary actions to ensure controls remain responsive to changes in risks and are operating effectively. Without effective monitoring of controls, a false sense of assurance can result if controls assumed to be effective prove otherwise.

As noted in Observation No. 2, the AOC's internal audit function was assigned to help with the implementation of the new ODYSSEY information system and did not issue any internal audit reports during fiscal year 2008. Due to the distributed nature of the District Court system, with Courts being located throughout the State, internal audit should be a primary mechanism for on-site monitoring of financial operations and controls. The fact that internal audit was not on task during fiscal year 2008 presents a significant risk that errors or frauds that may occur at the District Courts may not be detected and corrected in a timely manner.

In many entities, much of the information used in monitoring may be produced by the entity's information system. In our visits to the individual Courts, we noted that certain management information reports available to the District Courts were not regularly and effectively reviewed. For example, 28 of 34 Courts indicated they did not regularly review and act upon information

contained in the *End of Month Accounts Receivable Reports*. Had these reports been reviewed, it is likely the District Courts would have been more effective in the timely collection of amounts owed the District Courts and other agencies. Other reports, including *Daily Receipt Reports* and *Subsidiary Listing* reports are also not effectively reviewed, as obvious errors and data inconsistencies, including the excessively old bail amounts mentioned in Observation No. 5, had not been acted upon by the District Courts. In addition, since copies of these reports were regularly made available to the Administrative Office of the Courts (AOC), it also appears that AOC also was not thoroughly reviewing them. Some Courts reported to the auditors the lack of comment from AOC was taken as an assurance there were no problems with the District Court's reports.

In addition to management information reports currently available to the District Courts and AOC, there are also reports that are not currently available that could prove useful to review and monitor Court financial activity. For example, there is no current reporting for financial transactions that could be used to conceal certain error or fraud transactions. Certain non-cash transactions including credit transactions, time served and community service in lieu of financial payment, and deleted case transactions can be used to disguise the theft of funds. Currently, there is no reporting of these transactions that could allow managers at the District Courts and AOC to become aware of and review these high-risk transactions.

Recommendation:

The AOC must improve its control monitoring to ensure that the District Courts are adhering to relevant State, Office of Administrative Judge, Administrative Office of the Courts, and District Court policies and procedures.

Auditee Response:

We concur.

- Again, the Judicial Branch has requested one full-time accounting position to resume Internal Audit function in our FY 2010-2011 budget request. This was initiative #1 in our request.
- We also requested an additional programmer to enhance management reporting. The availability of reports from our financial data warehouse is critical to monitoring the activity of the courts.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement Of Revenues And Expenditures, General Fund, and Statement of Changes in Assets and Liabilities, Agency Funds, of the New Hampshire District Courts for the fiscal year ended June 30, 2008. These financial statements are the responsibility of the management of the District Courts. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Courts' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the District Courts are intended to present certain financial activity of only that portion of the State of New Hampshire that is attributable to the transactions of the District Courts. The financial statements do not purport to and do not constitute a complete financial presentation of either the District Courts or the State of New Hampshire in the governmental fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the District Courts for the fiscal year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2009 on our consideration of the District Courts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

March 4, 2009

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Revenues

Unrestricted Revenues

Fines	\$ 2,666,198
Entry Fees	1,970,173
Other Fees	442,452
Penalty Assessment	407,193
Mandatory Administrative Fees	383,428
Surcharge	164,261
Bail Forfeiture	88,054
Miscellaneous	<u>33,244</u>

Total Unrestricted Revenues 6,155,003

Restricted Revenues

Facilities Escrow	148,228
Discretionary Administrative Fees	94,750
Mediation Fee	77,014
Computerization Assessment	<u>4,605</u>

Total Restricted Revenues 324,597

Total Revenues 6,479,600

Expenditures

Salaries And Benefits	16,715,120
Current Expenses	842,578
Interpretation Services	235,527
Travel	203,442
Maintenance	155,961
Mediation Services	82,860
Library	63,451
Equipment	58,688
Other	<u>47,906</u>

Total Expenditures 18,405,533

**Excess (Deficiency) Of Revenues
Over (Under) Expenditures** (11,925,933)

Other Financing Sources (Uses)

Net Transfers To Escrow Fund For Court Facility Improvements	(148,228)
Net Transfers To Default Warrant Fund	(94,750)
Net Transfers From Mediation Fund	5,846
Net Transfers To Computerization Fund	(4,605)
Net General Fund Appropriations (Note 3)	<u>18,080,936</u>

Total Other Financing Sources (Uses) 17,839,199

**Excess (Deficiency) Of Revenues And
Other Financing Sources Over (Under)
Expenditures And Other Financing Uses** \$ 5,913,266

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS				
Cash And Cash Equivalents	\$ 1,447,938	\$ 20,805,489	\$ 20,944,419	\$ 1,309,008
Net Accounts Receivables	1,080,577	4,028,517	4,041,212	1,067,882
Total Assets	<u>\$ 2,528,515</u>	<u>\$ 24,834,006</u>	<u>\$ 24,985,631</u>	<u>\$ 2,376,890</u>
LIABILITIES				
Non-Governmental				
Bail Held For Sureties	\$ 1,252,287	\$ 5,989,882	\$ 6,071,629	\$ 1,170,540
Special Escrow Funds	55,528	311,800	320,953	46,375
Restitution	8,493	125,987	121,817	12,663
Transcripts	3,582	49,293	44,167	8,708
Civil Judgments	1,819	165,508	160,067	7,260
Prepaid Fines	750	5,722	1,355	5,117
Returnable Overpayments	<u>1,518</u>	<u>33,989</u>	<u>33,961</u>	<u>1,546</u>
Total Non-Governmental Agency				
Funds Payable	<u>1,323,977</u>	<u>6,682,181</u>	<u>6,753,949</u>	<u>1,252,209</u>
Due To General Fund				
<u>Department Of Safety</u>				
Fines - Motor Vehicle	840,935	9,773,244	9,791,878	822,301
Bail Forfeitures	-0-	54,362	54,362	-0-
Fines - Boats	-0-	28,062	28,062	-0-
Fines - Overweight	-0-	15,042	15,042	-0-
<u>Police Standards And Training</u>				
Penalty Assessment	114,611	1,812,783	1,809,942	117,452
<u>Department Of Justice</u>				
Victim Assistance Fund	31,258	552,632	551,858	32,032
<u>Department Of Administrative Services</u>				
Unit Of Cost Containment - Attorney Fees	3,964	162,305	157,058	9,211
<u>Other Agencies</u>				
Fines	<u>-0-</u>	<u>10,284</u>	<u>10,284</u>	<u>-0-</u>
Total Due To General Fund	<u>990,768</u>	<u>12,408,714</u>	<u>12,418,486</u>	<u>980,996</u>
Due To Other Funds				
<u>Fish And Game Department</u>				
Fines - Fish And Game Fund	-0-	157,914	157,914	-0-
<u>Department Of Transportation</u>				
Fines - Highway Fund	-0-	33,703	33,703	-0-
<u>Department Of Safety</u>				
Fines - Motor Vehicle - Highway Fund	<u>-0-</u>	<u>31,171</u>	<u>31,171</u>	<u>-0-</u>
Total Due To Other Funds	<u>-0-</u>	<u>222,788</u>	<u>222,788</u>	<u>-0-</u>
Due To Other Taxing Units				
Fines Due To Cities and Towns	<u>213,770</u>	<u>1,497,745</u>	<u>1,567,830</u>	<u>143,685</u>
Total Due To Other Taxing Units	<u>213,770</u>	<u>1,497,745</u>	<u>1,567,830</u>	<u>143,685</u>
Total Liabilities	<u>\$ 2,528,515</u>	<u>\$ 20,811,428</u>	<u>\$ 20,963,053</u>	<u>\$ 2,376,890</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
DISTRICT COURTS**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the New Hampshire District Courts have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The District Courts is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the District Courts.

The financial activity of the New Hampshire District Courts is accounted for and reported in the General and Agency Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The District Courts, as a portion of the Judicial Branch of the primary government, the State of New Hampshire, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the District Courts cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures is not intended to show the financial position or change in fund balance of the District Courts in the General Fund.

B. Financial Statement Presentation

The State of New Hampshire and the District Courts use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Courts report its financial activity in the funds described below:

Governmental Fund Type:

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Fiduciary Fund Type:

Agency Funds: Agency funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

D. Budget Control And Reporting

The New Hampshire Supreme Court has a general superintending responsibility for the District Court System. The District Court budget is a component of the Judicial Branch budget. The Chief Justice of the Supreme Court transmits the biennial budget request to the Speaker of the House, the President of the Senate, the House Finance Committee, the Senate Finance Committee, and the Commissioner of the Department of Administrative Services to be included in the Governor's budget in the amounts requested, and with such comments as the Governor deems appropriate.

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Budgetary control over the District Courts rests within the Judicial Branch. The Supreme Court is authorized to transfer appropriations with the prior approval of the Joint Legislative Fiscal Committee.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

E. Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The District Courts' unliquidated encumbrance balance in the General Fund at June 30, 2008 was \$28,651.

F. Cash Equivalents

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the State.

NOTE 2 – CASH AND CASH EQUIVALENTS

The District Courts maintain 16 demand deposit accounts (checking accounts) for depositing and holding cash prior to remitting amounts to the State Treasury, municipalities, and other payees as determined by the Courts' procedures and orders.

Agency Funds

Amounts held by the District Courts in cash accounts that will ultimately be paid to owners and accounts outside the District Courts' reporting entity are held and reported by the District Courts in an agency capacity for those other owners and accounts.

The District Courts act as a custodian for funds of various owners involved in court proceedings and report these funds on the accompanying financial statements as agency funds, a fiduciary fund type. The District Courts maintain checking accounts and accounts receivables. Additions to the checking accounts represent receipts of agency or town fines, bail, escrow funds, restitution, attorney fees payable to the State's Unit of Cost Containment, transcript fees, prepaid fines, and overpayments. Deletions from the checking accounts represent distributions of funds to their designated owners.

Deposits

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the state's deposits may not be recovered. Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the District Courts do utilize such arrangements where prudent and cost effective. The table below details the District Courts' bank balance at June 30, 2008 exposed to custodial credit risk:

<u>Account Type</u>	<u>Bank Balance</u>	<u>Insured</u>	<u>Collateralized</u>	<u>Uninsured/ Uncollateralized</u>
Demand Deposit				
Checking Accounts	\$ 1,966,932	\$ 501,260	\$ 1,213,374	\$ 252,298
Total	<u>\$ 1,966,932</u>	<u>\$ 501,260</u>	<u>\$ 1,213,374</u>	<u>\$ 252,298</u>

The difference between the carrying amount of demand deposits as reported by the District Courts (\$1,309,008) and the bank balance in the District Courts' accounts as noted above consists of checks and deposits which have not cleared the bank as of June 30, 2008 as well as amounts collected and deposited by the District Courts that have not been transferred to the State Treasury and recorded in State revenue accounts.

NOTE 3 - NET GENERAL FUND APPROPRIATIONS

Net General Fund appropriations reflect appropriations for expenditures in excess of restricted revenue.

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The District Courts, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers non-judicial full-time employees of the Courts. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered non-judicial Court employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2008, Group I members were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the District Courts' employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The District Courts' payments for normal contributions for the fiscal year ended June 30, 2008 amounted to 8.74% of the covered payroll for its group I employees. The District Courts' normal contributions for the fiscal year ended June 30, 2008 were \$705,343.

A special account was established by RSA 100-A:16, II (h) for additional benefits. Effective for fiscal year 2008, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% percent as long as the actuary determines the funded ratio of the retirement system to be as least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nhrs.org>.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or

before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the Courts' retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health benefits for retired District Courts' employees and spouses is not included in the District Courts' financial statement.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Department.

Judicial Retirement Plan

The New Hampshire Judicial Retirement Plan (the Plan) was established on January 1, 2005 pursuant to RSA 100-C:2 and is intended for all time to meet the requirements of a qualified pension trust within the meaning of section 401(a) and to qualify as a governmental plan within the meaning of section 414(d) of the United States Internal Revenue Code. The Plan is a defined benefit plan providing disability, death, and retirement protection for full-time Supreme Court, Superior Court, District Court, or Probate Court judges employed within the State.

The Plan is administered by an appointed Board of Trustees (Board), separate from the New Hampshire Retirement System, but certain daily administrative functions of the plan have been delegated by the Board to the New Hampshire Retirement System such as retirement request processing, member record maintenance and serving as the Plan's information center. The Plan has no full or part time employees. All employer and member contributions are deposited into separate trust funds that are managed and controlled by the Board of the Plan. Any member of the Plan who has at least 15 years of creditable service and who is at least 60 years old is entitled to retirement benefits equal to 70% of the member's final year's salary.

Any member of the Plan who has at least 10 years of creditable service and who is at least 65 years old is entitled to retirement benefits equal to 75% of the member's final year's salary. Any member who has at least 7 years of creditable service and who is at least 70 years old is entitled

to retirement benefits equal to 45% of the member's final year's salary. A member who is at least 70 years old shall be granted an additional 10% over the 45% level for each year of creditable service that a member has over seven years. A member who is at least 60 years old with at least 15 years of service is entitled to 70% of the member's final year's salary, plus an additional 1% for each year of additional service in excess of 15 years.

However, under no circumstances shall any retirement benefit exceed 75% of the member's final year's salary. For purposes of determining the above benefit, the member's final salary is equal to compensation earned in the prior 12-month period in which the employee was a member of the plan.

The Plan is financed by contributions from the members and the State. Pursuant to Chapter 311, Laws of 2003, on January 19, 2005, the State issued \$42.8 million of general obligation bonds in order to fund the Plan's initial unfunded accrued liability. All eligible judges are required to contribute 10% of their salaries to the Plan until they become eligible for a service retirement equal to 75% of their final years salary. For the bienniums beginning July 1, 2007 and July 1, 2005, the State was required to contribute 19.68% and 17.18%, respectively, of the member's salary. The District Courts' normal contributions for its members for the fiscal year ended June 30, 2008 were \$516,804.

As of January 1, 2006, the date of the most recent actuarial valuation, the net assets available to pay retirement benefits, at fair value, were reported by the Plan to be \$45.0 million. The total benefit liability was \$47.2 million, resulting in a funded ratio of 95% and projected liability in excess of assets of \$2.2 million.

Manchester Employees Contributory Retirement System

The District Courts participate in the Manchester Employees Contributory Retirement System for the benefit of one employee. Prior to the State unification of the court system in January 1984 court employees had the choice of remaining in their present retirement system or contributing to the State's retirement system. The District Courts' contributions for the fiscal year ended June 30, 2008 to the Manchester Employees Contributory System were \$6,843.

The Manchester Employees Contributory Retirement System issues a publicly available financial report that may be obtained by writing to them at 1045 Elm Street, Suite 403, Manchester, NH 03101-1824 or from their web site at <http://www.manchesterretirement.org>.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX A - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 4, 2009, of the current status of the observations contained in the audit report of the District And Municipal Court Systems for the six months ended December 31, 1991. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Segregation Of Incompatible Functions/Controls (<i>See Current Observation Nos. 2, 4, and 6</i>)	○	○	○
2. Time Payments			
A. Holding Partial Time Payments	●	●	●
B. Increase Coordination With The Department Of Corrections	●	○	○
C. Monthly Review Of Time Payment Documentation And Status (<i>See Current Observation No. 6</i>)	○	○	○
3. Receipt Posting And Depositing	●	●	○
4. Recording Prepaid Fines	●	●	●
5. Default Procedures/Administrative Fees (<i>See Current Observation No. 5</i>)	○	○	○
6. Processing Bad Checks Received In Payment	●	●	○
7. Restitution (<i>See Current Observation No. 5</i>)	○	○	○
8. Bail Held By The Courts (<i>See Current Observation Nos. 5 and 6</i>)	○	○	○
9. Attorney Fees Ordered Paid Through The Court	●	●	●
10. Incorrect Fine Amounts On Complaints	●	●	●
11. Equipment Provided To The District And Municipal Court Systems	●	●	●
12. Inventory And Recording Equipment	●	●	○
<i>State Compliance Comments</i>			
13. Distribution Of Fine Receipts From Violations Of Local Ordinances	●	●	●
14. Abandoned Property	●	●	○
15. Capital Project Status Reports	●	●	●

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	7
Substantially Resolved	●	●	○	4
Partially Resolved	●	○	○	1
Unresolved	○	○	○	5

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B – LETTER FROM THE CHIEF JUSTICE

**THE STATE OF NEW HAMPSHIRE
SUPREME COURT**

JOHN T. BRODERICK, JR.
CHIEF JUSTICE



SUPREME COURT BUILDING
ONE CHARLES DOE PLACE
CONCORD, N.H. 03301
(603) 271-3751
FAX: (603) 513-5475
email: jbroderick@courts.state.nh.us

March 10, 2009

Richard J. Mahoney, CPA
Director, Audit Division
Office of Legislative Budget Assistant
State House, Room 102
Concord, NH 03301

Dear Mr. Mahoney:

In May 2007, I wrote to request that your office conduct a financial audit of New Hampshire's trial courts. You readily agreed to conduct an audit and have just completed your financial audit of the district courts. I want to thank you for all the work you and your staff members have done in connection with this audit. I am especially pleased that your work disclosed no intentional irregularities that jeopardize the integrity of district court financial operations.

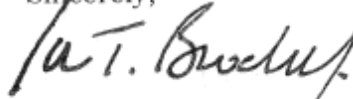
I was especially interested in your recommendation that we reinstitute our auditing capacity at the Administrative Office of the Courts. It will not surprise you to learn that creation of a new position that would allow us to assign someone full-time to auditing is the first priority in the "change" portion of our FY 2010-2011 operating budget request. In addition to allowing us to resume audits, creation of this position will permit us to promptly carry out many of your recommendations.

By all reports, your staff conducted a very professional audit. We concur with your findings; your observations will help us improve controls and communications in the judicial branch. We will pay special attention to clarification of roles and responsibilities among judges, administrators and clerks throughout 80 courts and the Administrative Office of the Courts.

Richard J. Mahoney, CPA
Page 2
March 10, 2009

Thank you once again for all the time and talent you dedicated to this financial audit. Your observations and recommendations are helpful and we plan to implement as many of them as possible in order to improve our financial operations.

Sincerely,

A handwritten signature in black ink that reads "John T. Broderick, Jr." with a stylized, cursive script.

John T. Broderick, Jr.
Chief Justice

JTB/pah