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IOWA HOUSE OF REPRESENTATIVES
HOUSE GOVERNMENT OVERSIGHT COMMITTEE

91st General Assembly

Investigation into the Misallocation of Court Debt Funds
by the Iowa Judicial Branch

Fiscal Years 2021–2024

February 2026

Representative Charles M. Thomson, Chairman

EXECUTIVE SUMMARY

The House Government Oversight Committee has conducted an extensive investigation into the misallocation of court debt funds by the Iowa Judicial Branch. Our investigation¹ reveals systemic failures in financial management, a deliberate pattern of concealment from the Legislature and the public, and a stunning abdication of oversight responsibility by the State Auditor's Office.

Between January 2021 and the end of Fiscal Year 2024, the Iowa Judicial Branch misallocated approximately \$25 million² in court debt—fees, fines, and surcharges collected from Iowans and owed to designated state and local funds. The General Fund was said to have been overpaid by this same \$25 million, while critical programs serving Iowa's most vulnerable citizens were systematically shortchanged:

- Road Use Tax Fund: shorted approximately \$10.4 million
- Victim Compensation Fund: shorted approximately \$3.7 million
- Juvenile Detention Home Fund: shorted approximately \$3.5 million

Most disturbing is not merely the financial error, but the three-year concealment³ of this problem from the Legislature and the public. The Judicial Branch became aware of programming issues as early as late 2021, yet the Legislature was not notified until September 2024. During this period, the Judicial Branch attempted to quietly fix the problem itself, hiring consultants who were not certified public accountants and who explicitly stated they could not audit financial practices. No independent, comprehensive forensic audit has ever been conducted by the State Auditor or anyone else. To this day, no one can state with credible certainty and personal knowledge the precise date the errors began, whether they have ended, or whether any funds were improperly diverted to private hands.

The Committee finds this conduct unacceptable and inexcusable. The same Judicial Branch that enforces strict trust account rules upon Iowa attorneys—rules that have resulted in license revocations for far lesser accounting failures—has demonstrated it cannot manage public funds with even basic competence. As one Iowa Supreme Court auditor concluded about an attorney who committed similar violations: the attorney "*committed nearly every wrong possible in handling client funds and managing an attorney's trust account.*" *Iowa Supreme Ct. Att'y Disciplinary Bd. v. Cross*, 861 N.W.2d 211, 214 (Iowa 2015). The same could be said of the Judicial Branch's management of court debt.

I. BACKGROUND AND SCOPE OF INVESTIGATION

A. Legislative Framework

¹ As used in this report, "our investigation" refers to the Committee's review of documents, interviews, testimony, and other materials gathered pursuant to the Committee's oversight authority under Iowa Code §2.15. The Committee held public hearings on April 16, 2025, and April 30, 2025, at which Judicial Branch officials and State Auditor Rob Sand testified. The Committee also reviewed thousands of pages of documents produced (in varying degrees of completeness) by the Judicial Branch, the State Auditor's Office, and other state agencies, including the National Center for State Courts Cost Distribution Study and Interview Summary, the Zirous analysis, correspondence between the Department of Management and the State Auditor, internal Judicial Branch communications, and audit reports. This Majority Report represents the conclusions of the undersigned members of the Committee based on the evidence reviewed; it is not a judicial proceeding, a criminal investigation, or a formal audit.

² For reasons that will become apparent below, the precise amount in question remains subject to dispute. For ease of reference, this Report shall use the \$25 million amount.

³ The Committee does not allege criminal intent or personal enrichment. However, under any reasonable standard of public financial governance, the prolonged failure to notify constitutes concealment by omission.

In 2020, the Iowa Legislature enacted Senate File 457, a comprehensive restructuring of court debt collection and distribution. Signed by Governor Reynolds on June 25, 2020, this legislation:

- Created the Crime Services Surcharge (15% of fines) with specific distributions: 46% to the Juvenile Detention Home Fund, 32% to the Victim Compensation Fund, 20% to the Criminalistics Laboratory Fund, and 2% to the DARE Fund
- Changed city/state fine distribution to an 80%/20% split
- Modified county distributions: 91% to the State Court Administrator, 9% to the county (with 1.3% of the state portion to the EMS Fund)
- Increased the Court Technology and Modernization Fund allocation from \$1 million to \$7 million

The legislation had effective dates of July 15, 2020 and January 1, 2021. The Judicial Branch was given approximately three weeks to implement a complete overhaul of its court debt distribution system. In 2021, the Legislature enacted Senate File 367 as a cleanup bill to SF 457. This legislation was retroactive in some areas and immediately effective in others.

While the compressed implementation timeline for SF 457 created challenges, these challenges do not excuse the Judicial Branch's subsequent failures in transparency, notification, and remediation—nor do they excuse the State Auditor's decision to look the other way.

B. Committee Investigation

The House Government Oversight Committee initiated this investigation following the Judicial Branch's belated public disclosure of the misallocation in October 2024. Pursuant to Iowa Code §2.15(c), Chairman Charles M. Thomson issued a formal directive on March 3, 2025, requesting 26 categories of documents and information covering January 1, 2016, through January 13, 2025.

The Committee's investigation has been hampered by incomplete and unresponsive production from the Judicial Branch. The Committee has received data dumps without meaningful organization, lectures about the complexity of the issues rather than direct answers, and a general posture of defensiveness rather than cooperation. The response itself has been, to borrow the Iowa Supreme Court's characterization of attorney misconduct, evidence of "*sloppiness and oversight*" at best—and at worst, a deliberate effort to obstruct legislative oversight.

II. TIMELINE OF DISCOVERY AND CONCEALMENT

The following timeline demonstrates a pattern of discovery, suppression, and delayed notification that this Committee finds wholly unacceptable:

Late 2021: Judicial Branch staff began investigating programming issues in the court debt distribution system.

Early 2022: The internal investigation was **ordered to stop** because more problems were being discovered. This decision to halt an investigation upon finding additional problems is deeply troubling and suggests an intent to limit the scope of known issues.

March 2022: The Sheriff's Department first noticed irregularities in fund distributions.

Spring 2022: The Judicial Branch contracted with the National Center for State Courts (NCSC) for \$123,909 to review court debt distribution practices.

July 2022: The Iowa Department of Transportation (DOT) noticed a dramatic decline in Road Use Tax Fund remittances. DOT data showed deposits dropped from \$2,092,769 in FY20 to \$1,024,464 in FY21 to just \$69,661 in FY22—a **97% decline** over two years.

September 28, 2022: State Court Administrator Robert Gast sent a letter to DOT acknowledging the concerns and stating the Judicial Branch had "initiated a comprehensive review." The letter provided no specifics and no timeline for resolution.

October 7, 2022: The State Auditor's Office was first notified of the issue via email from Special Assistant Attorney General Shean Fletchall. This notification came after the Judicial Branch had already signed the NCSC contract. The Auditor's Chief of Staff, John McCormally, responded that they would "take it from here" and assigned staff to follow up. They did not.

November-December 2022: NCSC conducted interviews with Judicial Branch staff. IT staff admitted they "*did not think*" the coding was accurate and "*did not think the money was getting distributed correctly.*" Finance staff acknowledged they "*do not know if [the programming] accurately reflects what is in the Iowa Code.*"

July 2023: NCSC issued its final report, making 13 recommendations. The report explicitly stated it "is not intended to constitute an audit or review of accounting practices, internal controls, or financial activity" and that NCSC could not "provide legal advice or legal opinions."

September 3, 2024: The State Auditor's Office released long-overdue audit reports for the Judicial Branch for FY2020, FY2021, and FY2022. Despite knowing about the court debt issue since October 2022, none of these reports mentioned the misallocation.

September 2024: The Judicial Branch finally approached Representative Gary Mohr about the issue—nearly three years after discovery began.

October 11, 2024: Department of Management Director Kraig Paulsen sent a letter to State Auditor Rob Sand formally documenting the scope of the problem and expressing concern that the Judicial Branch "does not have a plan to correct the misallocation issue or even how they would recover the improper overpayments."

October 18, 2024: The Judicial Branch issued a public press release acknowledging the misallocation—three years after the problem was first discovered internally.

October 15-21, 2024: Exchange of letters and announcements between Speaker Grassley and State Auditor Rob Sand concerning the Auditor's responsibility for identifying and remedying the misallocations.

Late 2024: Zirous, Inc. hired by the Judicial Branch.

April 16, 2025: House Government Oversight Committee holds hearing on court debt questions with judicial branch representatives.

April 30, 2025: House Government Oversight Committee holds hearing on court debt questions with State Auditor Rob Sand and representatives from State Auditor's Office.

In short: the Judicial Branch knew in 2021, the Auditor knew in 2022, the Legislature was told in 2024 — and the public paid the price throughout.

III. FINDINGS

A. The Judicial Branch Engaged in a Pattern of Concealment

The Committee finds that the Judicial Branch's handling of this matter was designed to fix the problem quietly while avoiding public scrutiny. The evidence supporting this finding includes:

1. When the internal investigation in early 2022 began discovering additional problems, it was ordered to stop rather than continue to determine the full scope of the issue.
2. Rather than immediately notifying the State Auditor and/or the Legislature, the Judicial Branch contracted with NCSC—an organization that is explicitly not an audit firm and explicitly not an IT firm—to conduct a review.
3. The Judicial Branch signed the NCSC contract before notifying the State Auditor.
4. The Legislature was not notified until September 2024, despite the Judicial Branch knowing of problems since late 2021.
5. The Department of Management letter of October 11, 2024, explicitly states that "the executive branch was not notified by the Judicial Branch nor asked to help correct this pervasive and widespread misallocation of funds."

The Judicial Branch and the State Auditor have asserted that all misallocated funds remained in state accounts. Auditor Sand testified that his office has "traceability" and that "all of this money is accounted for."⁴ Yet when asked at the same hearing whether the Committee had received confirmation that funds are in the General Fund, the Chairman confirmed it had not⁵. The Committee still has not received documentation sufficient to verify this claim. No forensic audit has traced the funds. No witness with personal knowledge has testified under oath that all funds are accounted for. The same officials who cannot identify when the errors began or ended now ask the Committee to accept on faith that nothing is missing. The Committee declines to do so.

B. Systemic Technical Failures Remain Unresolved

The NCSC report and subsequent Zirous analysis identified severe deficiencies in the Judicial Branch's financial management systems. The Judicial Branch's own auditor found that the attorney in *Cross* "*completely lost control and accountability for client funds*" and "*generally treated all the funds in the accounts as his funds to do with as he chose.*" *Cross*, 861 N.W.2d at 227. The same description applies to the Judicial Branch's management of court debt:

⁴ Transcript of Proceedings at 14, Hearing Before the H. Gov't Oversight Comm., 91st Gen. Assemb. (Iowa Apr. 30, 2025) (transcript prepared May 2, 2025) (on file with the Iowa House of Representatives) (statement of State Auditor Rob Sand) ("[W]e do have that traceability. We can verify where those funds went, and we can see that they did go into the general fund. So, again, when we sit here and we say all of this money is accounted for, it's accountable, we know we're correct.").

⁵ Transcript of Proceedings at 17, Hearing Before the H. Gov't Oversight Comm., 91st Gen. Assemb. (Iowa Apr. 30, 2025) (transcript prepared May 2, 2025) (on file with the Iowa House of Representatives) (Rep. Collins: "Mr. Chair, has this committee received any confirmation that the funds we're talking about actually are in the General Fund?... Have we received the evidence that that happened?" Chairman Thomson: "Not to my knowledge.").

- a. The 2020 programming changes were implemented by "JBIT staff, clerks, and finance staff" with "little to no legal assistance."
- b. No outsider audited⁶ the programming since the changes in 2020.
- c. The case management system used a "large nested IF statement containing hundreds of hard-coded FIN codes" that is "unwieldy, difficult to maintain" and creates "high risk for overlooking conditions during changes."
- d. There were 100 separate county FIN code tables with no master FIN code table, and initial comparisons revealed discrepancies across counties.
- e. Concerningly, the Zirous examination found that "case management system distributions DO NOT REPRESENT ACTUALS submitted to State Treasurer."
- f. The Finance team executes manual business processes, and there is "no verification that distributions meet requirements."

The NCSC report identifies programming problems dating back 30 years. The current crisis reflects decades of inadequate attention to financial system integrity.

C. The State Auditor Failed Iowa

State Auditor Rob Sand's office was notified of this issue on October 7, 2022. His Chief of Staff responded that they would "take it from here." They did nothing of the sort. Instead, they effectively deferred to the Judicial Branch to resolve the matter on its own. After being notified in October 2022 that tens of millions of dollars may have been misallocated, the State Auditor's Office took no independent action, issued no public warning, and released multiple audit reports (specifically, the audit reports for years 2020, 2021, and 2022, released in October 2024) that omitted the problem entirely.

In testimony before this Committee, Auditor Sand stated that he did not believe it "inappropriate" that the Judicial Branch and Executive Branch addressed the issue before informing his office because "fundamentally, this was not an audit issue."⁷

The Committee firmly rejects this characterization. When a state entity has misallocated more than \$25 million in public funds, when that entity's own staff admits they do not know if their programming "accurately reflects what is in the Iowa Code," and when that entity solicits help from the State Auditor's Office, and when the State Auditor's Office replies that it will "take it from here" -- that is precisely an audit issue. The Auditor's office had the opportunity, the resources, and the moral obligation to investigate. It chose not to.

History shows that the greatest audit failures do not arise from ignorance, but from professionals who see warning signs and decide that acting is "not required." There is a long and ugly record of auditors who noticed obvious danger, hid behind the absence of a technical

⁶ For purposes of this Report, 'audit' refers to an independent examination conducted in accordance with generally accepted auditing standards (GAAS or GAGAS).

⁷ Query: Why, if this was not an "audit issue," did the Auditor's Chief of Staff assure a concerned state official on October 7, 2022, that the Auditor's Office would "take it from here"?

duty to act, and later watched catastrophe unfold. Auditors at Enron⁸ understood the economic reality of off-balance-sheet schemes yet deferred to formal compliance. *Accounting Issues Relating to Enron Corp.: Hearing Before the S. Comm. on Commerce, Sci. & Transp.*, 107th Cong. 10–14 (2002) (statement of Joseph Berardino, CEO, Arthur Andersen LLP) (acknowledging reliance on technical rule compliance in approving Enron SPEs despite concerns about substance). Auditors at Lehman Brothers knew Repo 105 distorted the balance sheet but accepted management's timing games. *Report of Anton R. Valukas, Examiner, In re Lehman Bros. Holdings Inc.*, No. 08-13555 (JMP), at 948–50 (Bankr. S.D.N.Y. Mar. 11, 2010). At WorldCom, warning signs were visible but not pursued. *First Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, In re WorldCom, Inc.*, No. 02-13533 (AJG), at 22–25 (Bankr. S.D.N.Y. Nov. 4, 2002). At MF Global, auditors and regulators saw liquidity stress and customer-fund anomalies yet declined to intervene. *House Financial Services Committee, Subcommittee on Oversight and Investigations, The Collapse of MF Global: Decisions by Corzine, Lack of Communication Between Regulators Led to MF Global Bankruptcy and Loss of Customer Funds* (Nov. 15, 2012) (majority staff report) (finding that the SEC and CFTC “failed to share critical information . . . leaving each regulator with an incomplete understanding of the company’s financial health” and that regulatory coordination failures contributed to customer losses). Banking supervisors documented grave weaknesses at Washington Mutual without triggering action. Off. of Inspector Gen., U.S. Dep’t of the Treasury, *OIG-10-003, Safety and Soundness: OTS Failed to Adequately Supervise Washington Mutual Bank* 2–6, 25–30 (2009). FAA-delegated auditors accepted Boeing's self-serving safety classifications before the 737 MAX disasters. Staff of H. Comm. on Transp. & Infrastructure, 116th Cong., *Final Committee Report on the Design, Development, & Certification of the Boeing 737 MAX* 11–13, 48–52 (2020) (finding that Boeing’s internal safety classifications were often accepted under FAA delegation programs and that FAA oversight failed to independently challenge those classifications).

In every instance, the failure was not ignorance but *incuriosity and insouciance* — professionals saw enough to know better, decided it was "not required," and allowed preventable harm to occur.

Iowa's Judicial Branch is no Enron, but Auditor Sand’s comments to the Committee leave him in no danger of being confused with some fearless crusader for the general welfare of Iowans.⁹

⁸ The Committee acknowledges that the monetary losses described below exceed those implicated in Iowa’s court-debt accounting failures, and that their inclusion may be criticized. They are included because they illustrate two recurring features of audit failure:

(a) In the context of Iowa’s public finances, a loss of \$25 million is substantial. On a proportional basis, it is comparable to a federal loss exceeding \$18 billion. For crime victims who received no restitution, the consequence is total.

(b) Across jurisdictions and at widely differing scales, major financial failures repeatedly involve the same circumstance: a discernible warning sign was present, was visible to the auditor or auditing office, and was not pursued. In hindsight, that omission is frequently identified as the final opportunity to mitigate or prevent the resulting harm.

⁹ During the April 30, 2025, hearing, Auditor Sand quite plainly indicated that his office’s inertia with respect to the court debt situation was very much business as usual. For example:

A. Claiming lack of capacity and resources: “Can we repeat the work that they did? We don't have the expertise for that. If our budget had kept pace with what it was in the 1990s it would have to be three or four times what it is right now... We never had staff on board to do computer coding on us. It's just simply something that we don't have the capacity to do.” Transcript of Proceedings at 21–22, Hearing Before the H. Gov’t Oversight Comm., 91st Gen. Assemb. (Iowa Apr. 30, 2025) (statement of Rob Sand, State Auditor) (transcript prepared May 2, 2025) (on file with the Iowa House of Representatives).

Had the Auditor's office investigated in late 2022, rather than deferring to the Judicial Branch, the problem could have been identified and corrected years earlier. The funds that should have gone to victim compensation, juvenile detention, and other critical programs might have reached their intended recipients. Instead, these programs continued to be shortchanged for two more years while the Judicial Branch attempted its own quiet remediation.

Years after they were due and without explanation, the Auditor's office dumped audit reports for FY2020, FY2021, and FY2022 on a single day, September 3, 2024. The Auditor released these overdue reports without any mention of the misallocation. While the Auditor testified that the issue was "learned in FY23" and therefore included in the FY23 report released December 17, 2024, his office *knew* of the problem while finalizing the earlier reports and chose not to mention it.

The Auditor has suggested that Senate File 478, enacted in June 2023, limited his office's ability to investigate the Judicial Branch's financial practices. This explanation is unavailing for two reasons. First, SF 478 was not law when the Auditor's office was notified of the misallocation problem on October 7, 2022. The Auditor's office had more than seven months—from October 2022 until June 2023—during which no such limitation existed, yet took no action. Second, even after SF 478's enactment, the statute's restrictions apply to categories such as criminal identification files, student records, medical records, attorney work product, and "information and records concerning physical infrastructure, cybersecurity, [or] critical infrastructure... for the protection of life or property." Iowa Code § 11.41(4)(a). No reasonable reading of this language bars investigation of court debt distribution coding.

As Sydney J. Harris once wrote, "Regret for the things we did can be tempered by time; it is regret for the things we did not do that is inconsolable." Sydney J. Harris, *Syd Cannot Stand Christmas Neckties*, *Akron Beacon J.*, Jan. 5, 1951, at 6. The Auditor's inaction cannot be undone. The victims who waited years for compensation that never came cannot recover that time. The juvenile detention facilities that went without resources cannot recapture what was lost.

B. Deflecting to other agencies: "The DOT and DOM was [sic] also aware of the issue. They also could have informed the legislature. Those would be good questions to ask the directors of the Department of Transportation or the director of DOM..." Transcript of Proceedings at 28.

C. Normalizing repeated audit findings going unaddressed: "The vast majority of public entities in the state of Iowa, including state departments, including cities, counties, and school districts, will have repeated findings on a year to year basis. We do not have the authority to force people to fix the issues that they identify." Transcript of Proceedings at 40.

D. Concerning whether he had concerns with other agencies attempting to solve the problems before his office became aware of the situation: "I'm not going to sit here and tell you that it was wrong of them to go through all that work and recheck it before they informed our office, because it was really not an issue, and the folks who were closest to the issue understood that." Transcript of Proceedings at 10.

E. Explicitly stating it was "not inappropriate" to exclude his office: "I don't think that it was inappropriate for the Reynold's Administration and the Judicial Branch, both of which knew about this issue before the Auditor's Office. I don't think it was inappropriate that [th]ey took steps to address the issue together before informing the Auditor's Office." Transcript of Proceedings at 38.

F. Characterizing the problem as too small to address: "We're talking about a 0.13% variance in the amount of money that went through that account in that time frame... even if you realize that you had an issue there, you probably have bigger fish to fry." Transcript of Proceedings at 11.

G. Passing the buck to the General Assembly: "I would say the closest thing to the source of the problem here, again, is the legislature. We're asking a complete overhaul requirement of the state's coding system for these transfers. The judicial branch had three weeks to implement the overhaul." Transcript of Proceedings at 26.

While it may not be completely clear in statute that the Auditor had a legal duty to investigate, the Committee observes that legal duties represent the floor of acceptable conduct, not the ceiling.

D. Deflection Is Not Sound Public Policy.

Both the Judicial Branch and the State Auditor have suggested that the Legislature bears responsibility for this crisis by enacting complex legislation with compressed implementation timelines. This criticism, while superficially appealing, is a classic example of bureaucratic self-defense: hide the failure, then blame a party that had no ability to mitigate the problem. The Legislature did not misallocate \$25 million. The Legislature did not conceal the misallocation for three years. The Legislature did not hire consultants who could not conduct an audit. The Legislature did not release audit reports omitting a known problem. The Legislature was, in fact, the last to know. More fundamentally, the compressed timeline does not explain what happened here. Programming errors in 2020 might be understandable; the response to those errors is not. The problem was not that mistakes were made—mistakes are inevitable in complex systems. The problem was allowing the mistakes to fester undisclosed, pursuing quiet half-measures rather than transparent remediation, and then producing chaotic streams of disorganized information when the matter finally came to light. This pattern—concealment, deflection, blame-shifting—is precisely why the remedy must involve a trusted third party with the independence and expertise to determine what actually happened, what must be done to repair the broken systems, and how to restore confidence that court debt is being distributed as the law requires. On court debt, the Judicial Branch has forfeited the privilege of grading its own homework.

IV. THE ATTORNEY TRUST ACCOUNT STANDARD

The Iowa Supreme Court, which oversees Judicial Branch administration, imposes strict rules on Iowa attorneys who handle client funds. The Court has repeatedly emphasized that "there is no place in our profession for attorneys who convert funds entrusted to them" (*Iowa Sup. Ct. Att'y Disciplinary Bd. v. Guthrie*, 901 N.W.2d 493, 500 (Iowa 2017) (quoting *Comm. on Prof'l Ethics & Conduct v. Ottesen*, 525 N.W.2d 865, 866 (Iowa 1994))) and that "our professional standards regarding the protection of client funds are well known ... and long-standing." *Guthrie*, 901 N.W.2d at 499 (Iowa 2017) (quoting *Iowa Sup. Ct. Att'y Disciplinary Bd. v. Carter*, 847 N.W.2d 228, 232 (Iowa 2014)). These standards include:

- Maintaining client funds in separate trust accounts (Iowa Ct. R. 45.1)
- Maintaining complete records of all funds (Iowa Ct. R. 45.2)
- Performing monthly reconciliations (Iowa Ct. R. 45.2)
- Promptly delivering funds and providing full accountings (Iowa Ct. R. 32:1.15)
- Depositing fees into trust accounts until earned (Rule 45.7)

Attorneys who violate these rules face severe discipline. As attorneys—and as particularly vigilant enforcers of these rules—the residents of 1111 East Court Avenue are not strangers to the ethical strictures governing the handling of others' funds. Consider the following cases decided by the Iowa Supreme Court:

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Guthrie, 901 N.W.2d at 499. An attorney's license was revoked for misappropriating client funds. The Court held that an attorney's theft of client funds is grounds for revocation of the attorney's license to practice law and that "the amount of money converted does not lessen the sanction imposed. Even the fact that the attorney made full restitution did not prevent revocation.

Cross, 861 N.W.2d at 214, where an attorney received a one-year suspension after an auditor concluded he "committed nearly every wrong possible in handling client funds and managing an attorney's trust account." The auditor found that the attorney "completely lost control and accountability for client funds" and "generally treated all the funds in the accounts as his funds to do with as he chose."

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Morris, 847 N.W.2d 428 (Iowa 2014): An attorney received a six-month suspension for trust account violations. The Court emphasized that "dishonesty, deceit, and misrepresentation by a lawyer are abhorrent concepts to the legal profession, and can give rise to the full spectrum of sanctions, including revocation." *Morris*, 847 N.W.2d at 437 (Iowa 2014) (quoting *Iowa Sup. Ct. Att'y Disciplinary Bd. v. Hall*, 728 N.W.2d 383, 387 (Iowa 2007)). *Morris* was also found to have "falsely represented in his online answers that he had performed monthly reconciliations of the trust account"—the same failure of candor exhibited by the Judicial Branch when it chose to not disclose the misallocation.

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Lubinus, 869 N.W.2d 546, 550 (Iowa 2015): An attorney received a 30-day suspension for trust account violations. The Court noted that sanctions serve to protect "*the integrity of the profession in the eyes of the public*" and to deter similar misconduct. *Lubinus*, 869 N.W.2d at 553 (considering "the nature of the violations, protection of the public, deterrence of similar misconduct by others, the lawyer's fitness to practice, and [the court's] duty to uphold the integrity of the profession in the eyes of the public.") The attorney's violations included "failing to notify any of his clients when he made transfers"¹⁰ — precisely what the Judicial Branch did when it transferred funds to the wrong accounts without notifying the Legislature or affected programs.

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Nelissen, 871 N.W.2d 694 (Iowa 2015): An attorney received a 30-day suspension for trust account violations. The Court found it significant that the attorney "misrepresented on her client security report that she was performing monthly reconciliations of her trust account balances with bank statements" when she knew she was not. *Nelissen*, 871 N.W.2d at 699. The Court also considered it an aggravating factor that the attorney had been reminded by an auditor of her obligations but "this problem remained at the time of the [next] audit"—just as the Judicial Branch's problems persisted for years despite being identified.

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Sharpe, 12 N.W.3d 338 (Iowa 2024): An attorney was disciplined for multiple violations including "misrepresenting the

¹⁰ *Lubinus*, 869 N.W.2d at 550.

withdrawals to an account auditor" and "avoiding a direct question about the funds."¹¹ This description is not inapposite to the present matter.

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Ricklefs, 844 N.W.2d 689 (Iowa 2014). An attorney received a three-month suspension after an audit revealed he had failed to maintain trust account records—and, critically, "many of the same deficiencies had been uncovered in an audit four years earlier and had been pointed out to Ricklefs, but Ricklefs had not corrected them." *Ricklefs*, 844 N.W.2d at 691. The Court noted as an aggravating factor that "Ricklefs knew what he needed to do after the 2008 audit but failed to do it." *Ricklefs*, 844 N.W.2d at 700. The case also documented the attorney's repeated "delay tactics"—claiming records were not ready, proposing later meetings, offering excuses—to postpone the auditor's review. *Ricklefs*, 844 N.W.2d at 692–93. The parallels to the Judicial Branch's conduct in this matter are unmistakable.

Iowa Sup. Ct. Att'y Disciplinary Bd. v. Santiago, 869 N.W.2d 172 (Iowa 2015). An attorney received a 30-day suspension for trust account violations. The Court agreed with the Grievance Commission that his experience was an aggravating factor: "based upon the amount of time that he had be[en] serving as an attorney he should understand the rules regarding the Trust Accounts and the necessity of keeping good records in order to adequately protect the interest of his clients." *Santiago*, 869 N.W.2d at 183. The Judicial Branch has been managing court funds for decades. Its experience makes its failures worse, not more excusable.

The irony is inescapable. The Iowa Supreme Court holds attorneys to exacting standards because, as the Court has said, trust account rules "protect the public and maintain confidence in our legal system." *Nelissen*, 871 N.W.2d at 701 (quoting *Santiago*, 869 N.W.2d at 184). Yet the Court's own administrative arm—the Judicial Branch—cannot meet the standards it imposes on others.

In *Cross*, the Court rejected an attorney's excuses about "financial, personnel, or technological" difficulties, holding that "it is a practitioner's duty to maintain the records required regardless of the specific media on which the records are kept." *Cross*, 861 N.W.2d at 217. The Judicial Branch has offered similar excuses—compressed timelines, complex legislation, legacy systems—and they are equally unavailing. The obligation to properly account for public funds does not yield to administrative inconvenience.

No attorney in their right mind would dare handle other people's money, or respond to inquiries about that money, with the casual and sloppy attitude exhibited by Judicial Branch administration. No private company could function with these sorts of non-systems in place, or with these sorts of responses when asked to account for missing money.

The standard the Judicial Branch demands of others is the standard the Judicial Branch must meet. It has failed conclusively.

V. CONCLUSIONS

Based on the evidence reviewed, the Committee reaches the following conclusions:

¹¹ *Sharpe*, 12 N.W.3d at 347.

1. The Iowa Judicial Branch misallocated approximately \$25 million in court debt funds between FY2021 and FY2024, shortchanging critical programs including victim compensation, juvenile detention, and road infrastructure.
2. The Judicial Branch concealed this problem from the Legislature and the public for approximately three years, attempting to quietly fix it through internal efforts and by hiring consultants who were not qualified to conduct a proper audit.
3. The National Center for State Courts review, while identifying some issues, was inadequate as a substitute for a forensic audit by qualified accountants.
4. State Auditor Rob Sand's office, upon being notified in October 2022, stated it would handle the matter, but instead failed to investigate. It elected to defer to the Judicial Branch. This abdication of responsibility—whether or not it violated a technical legal duty—was a failure of leadership that prolonged the harm to Iowa citizens and programs.
5. The Judicial Branch's financial management systems are fundamentally inadequate, relying on legacy technology, hard-coded programming, and manual processes that cannot ensure accurate distribution of court debt.
6. The Committee has not received the cooperation and documentation to which it is entitled, and fundamental questions remain unanswered about the precise scope of the problem, whether it has ended, and whether any funds were improperly diverted.
7. The Judicial Branch has demonstrated it cannot be trusted to manage public funds with the same level of care and accountability it demands of Iowa attorneys. As the Court itself has said in attorney discipline cases, "a mere reprimand on this record would weaken the deterrence so important to motivating compliance with our rules that protect the public and maintain confidence in our legal system."

VI. RECOMMENDATIONS

The Committee makes the following recommendations:

A. Immediate Actions

1. **Independent Forensic Audit:** The Department of Administrative Services shall hire an independent, qualified accounting firm to conduct a comprehensive forensic audit of all court debt collections and distributions for Fiscal Years 2016 through 2025. This audit shall determine: (a) the precise dates when distribution errors began and ended; (b) the exact amounts misallocated to each fund; (c) whether any funds were improperly diverted to private hands; and (d) whether any funds can be recovered and reallocated to their intended recipients.
2. **Transfer of Financial Management:** The Department of Administrative Services shall identify and contract with an independent, qualified firm to assume responsibility for court debt collection and distribution going forward. The Judicial Branch has conclusively demonstrated it is currently unable to perform this function with the accuracy, transparency, and accountability required.
3. **Attorney Trust Account Standard:** The systems used to manage court debt funds shall be required to meet or exceed the standards imposed on Iowa attorneys handling

client trust accounts under Chapter 45 of the Iowa Court Rules. This includes complete recordkeeping, monthly reconciliations, prompt and full accountings, and immediate notification of any irregularities.

B. Legislative Actions

4. **Statutory Notification Requirements:** The Legislature should enact legislation requiring immediate notification to the State Auditor, the Governor, and Legislative leadership whenever a state entity discovers a potential misallocation of funds exceeding \$100,000.
5. **Enhanced Oversight:** The Legislature should consider whether additional oversight mechanisms are needed for Judicial Branch financial operations, including regular independent audits and mandatory reporting to the Legislative branch.
6. **Adequate Implementation Time:** When enacting legislation affecting court debt distribution or other complex financial systems, the Legislature should ensure adequate implementation time and require the affected agency to certify its readiness before the effective date.
7. **Replacement Funds:** If no avenue for “clawback” or indemnification for the misallocated funds is found or imposed, the Legislature should consider a one-time appropriation of funds to replace the money that disappeared while in the Judicial Branch’s custody.

C. Accountability

8. **Full Document Production:** The Judicial Branch shall produce all documents requested and answer all questions posed by the Committee pursuant to the March 3, 2025, directive and related communications without further delay or evasion.
9. **Traceability Documentation:** The Judicial Branch shall provide complete documentation tracing all misallocated funds to determine whether they remain in state accounts and have not been improperly diverted.
10. **Remediation Plan:** The Judicial Branch shall submit a detailed plan for how the misallocated funds will be recovered and reallocated to their intended recipients.

VII. CONCLUSION

The misallocation of \$25 million in court debt funds is a serious failure of public trust. The funds that should have gone to help crime victims, support juvenile detention facilities, fund law enforcement programs, and maintain Iowa's roads instead sat in the wrong accounts while the Judicial Branch attempted to quietly fix its mistakes.

The three-year delay in notifying the Legislature is inexcusable. The decision to hire consultants who explicitly could not conduct an audit, rather than seeking a proper forensic review, suggests a priority on managing the problem in the dark rather than fixing it in the sunlight. The State Auditor's decision to defer rather than investigate prolonged the harm to Iowa citizens and the programs that serve them. The ongoing failure to provide basic information to this Committee is unacceptable.

Yes, hiring independent auditors and independent fund managers will cost money. But that cost will undoubtedly be less than the \$25 million already misallocated, and far less than the reputational cost the Iowa Judicial Branch must now bear. At best, the Judicial Branch appears incompetent in managing other people's money and hypocritical in its treatment of attorneys who commit similar mistakes. At worst, the pattern of concealment raises questions about what else may remain hidden.

The citizens of Iowa deserve better. The victims who were supposed to receive compensation deserve better. The children in juvenile detention facilities deserve better. The programs that protect Iowans deserve better.

This Committee will continue its oversight until every dollar is accounted for, every question is answered, and systems are in place to ensure this never happens again.

Respectfully submitted,

**Representative Charles M. Thomson,
Chairman**

House Government Oversight Committee

Date: _____