

# **AN OVERVIEW BY THE LEGISLATIVE AUDITOR OF THE FINANCIAL AUDIT OF THE STATE JUDICIARY**

## **INTRODUCTION**

This audit report is the result of an examination of the financial statements and records of the state judiciary. The audit, conducted jointly by the office of the legislative auditor and the firm of Peat, Marwick, Mitchell and Co., certified public accountants, identifies a number of deficiencies in the judiciary's systems of internal and financial controls and makes recommendations to improve and promote the operational efficiency and financial operations of the judiciary.

This overview summarizes our major findings and recommendations, and contains the accountants' opinions regarding the accuracy of the judiciary's financial statements.

## **SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS**

The more significant shortcomings in the judiciary's system of internal and financial control relate to: (1) control over monies received by the traffic violations bureau and (2) enforcement of bail payments and penalties.

### **Control over Bail Forfeiture Payments Received by the Traffic Violations Bureau**

The majority of traffic citations issued are for violations which may be satisfied by bail forfeiture, i.e., payment of a fine without court appearance. Forfeited bail are collected by the cashiering section of the traffic violations bureau and may be paid either in person or by mail and either in cash or by check.

The audit disclosed that there is no accounting control over bail forfeiture payments made by check until the payments are processed by the cashiers. Bail forfeiture payments in the form of checks are placed in boxes in the cashier's room and remain there for several days before being processed. This kind of exposure could result in the loss or defalcation of checks without detection. A sound system of internal control requires that accounting control be established at the point of initial receipt. A sound system also requires that comparisons be made of the amounts recorded as collected by the cashiers and the amounts that should have been collected, to ensure that the amounts receivable are in fact being received and accounted for. At present, no such comparisons are being made.

Our recommendation is that processing of bail forfeiture payments be made more efficient and that accounting control be established immediately upon receipt of payments through two possible alternatives which we suggest. First, the bureau should consider instituting a lock box system for forfeited bail. Under this system, an agreement is entered into between a bank (or banks) and the bureau so as to enable motorists to mail forfeited bail payments directly to a bank instead of to the traffic violations bureau. The bank deposits all payments to the credit of the bureau and transmits copies of the citations to the bureau at a later date. This system would eliminate the volume of unprocessed payments at the bureau and provide for faster deposits of collections.

The second alternative is the "batching process." This process would enable the bureau to establish early control over mailed bail forfeiture payments without going through the time-consuming, although ideal, procedure of preparing a daily listing of all checks received. Under the batching process, cashiers sort the checks and accompanying citations by type of violation or other appropriate grouping. An adding machine tape of the payments for each batch is taken and the total amount for each batch is recorded in a daily logbook and processed and deposited as a unit.

#### **Enforcement of Bail Payments and Penalties**

The audit disclosed that the traffic violations bureau is unable to prepare and issue delinquency notices, penal summonses and bench warrants on a timely basis. This is primarily because the data processing equipment used by the bureau is of an older "generation" and lacks the necessary data storage and retrieval capabilities. Thus, for each different purpose, much of the same data needs to be keypunched repetitiously onto cards. For instance, on parking citations a delinquency notice is supposed to be sent to the violators if the citation is not paid within seven days. In preparing the delinquency notice, much of the data previously keypunched (i.e., name of the driver, driver's license number, citation number, date of violation, etc.) must again be keypunched onto cards. It now takes as long as two months from the date of issuance of the citation for the delinquency notice to be sent. Similar delays occur in the preparation and service of penal summonses and bench warrants. As a result, collections are sometimes delayed for long periods of time.

It appears that the limitations of the present data processing system not only affect the bureau's ability to enforce payment of bail but also its ability to enforce the penalty imposed by law for late payment. The audit revealed that the penalty for late payment of bail is not always assessed. This is particularly true when a late payment is made by mail before the violations bureau has prepared and sent out a delinquency notice. The timely issuance of delinquency notices would eliminate this problem.

Our recommendation is that the violations bureau improve and upgrade its data processing system to enable the bureau to prepare and issue delinquency notices, penal summonses, and bench warrants on a timely basis.

## ACCOUNTANTS' OPINIONS

In the opinion of Peat, Marwick, Mitchell & Co., the statements of general fund revenues and appropriations, expenditures, and encumbrances of the judiciary are reasonably accurate and in conformity with accepted accounting principles. With respect to the financial statements of the trust and agency funds administered by the courts, the firm could render no opinion as to the fairness with which these financial statements represent the financial position of the funds. The omission from the accounting records of securities (i.e., bank pass-books, insurance policies, savings bonds, and other security items) held by the circuit courts in escrow, and of cash receipts and disbursements relating to small estates and small guardianships, caused the accounting firm to refrain from expressing an opinion on the financial statements of the trust and agency funds.

## CONCLUSION

The judiciary, in its response, states that several of the comments contained in the audit report support the position it has held for several years but on which corrective action has been delayed because of limited resources. The judiciary acknowledges that the data processing system of the traffic violations bureau needs to be improved and upgraded, and we are pleased that it has recently initiated action towards designing a data processing system encompassing the traffic violations bureau and all of the courts. We hope that this report will serve to assist the judiciary in improving its operations.

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