

OVERVIEW

Financial Audit of the Judiciary

Report No. 00-12, April 2000

Summary

The Office of the Auditor and the certified public accounting firm of Grant Thornton LLP conducted a financial audit of the Judiciary for the fiscal year July 1, 1998 to June 30, 1999. The audit examined the financial records and transactions of the Judiciary; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the Judiciary. These deficiencies included the Judiciary's lack of adequate internal controls over cash and the collection of cash, which amounted to \$55 million in FY1998-99. We also found that the Judiciary did not adequately separate cash handling duties, deposit cash in a timely manner, and prevent unauthorized access to documents and data files. Specifically, bail receipts were missing, cash was not deposited as many as 20 business days after receipt, and cashiers had easy access to critical data.

The Judiciary did not implement adequate controls and procedures over the \$30 million in restitution reported. We found approximately \$500,000 in restitution were not properly recorded.

The Judiciary's computer systems used for accountability and tracking of fines due and collected remain inadequate. More than \$23 million of fines were collected in FY1998-99. However, the Judiciary determined that \$6 million in outstanding fines were uncollectible and written-off from the accounting records.

We also found that the Judiciary's decentralized operations result in inefficiencies. Practices and procedures for the transfer of government realizations varied among the courts. Moreover, treasury deposit receipts, bail receipts and refunds, balancing of cash, and check approving procedures were all handled differently among the courts.

The Judiciary did not comply with the State Procurement Code requirement of providing a contract extension letter within 60 days prior to the end of the contract. In addition, a contract was executed subsequent to commencement of the contract period. The Judiciary also did not escheat unclaimed property of approximately \$18,000 and government realizations were not transferred to the State Treasury on a weekly basis.

Finally, the Judiciary's financial reporting system is deficient. Departures from generally accepted accounting principles resulted in a qualified opinion on the Judiciary's FY1998-99 financial statements. Such departures included an



unrecorded workers' compensation liability of approximately \$1 million, an unrecorded receivable for salaries and wages, and failure to disclose the outstanding restitution receivable of approximately \$30 million.

Recommendations and Response

We recommend that the Judiciary appropriately segregate cash receipt duties, adhere to its policy of depositing cash daily, comply with its policy of refunding bail moneys, and restrict access to documents and files.

The Judiciary should also develop and implement control procedures over the recording of restitution, ensure that probation officers enforce collection of restitution, evaluate the feasibility of replacing the trust accounting system, and perform an analysis of restitution balances to determine whether accounts should be closed.

The Judiciary should also improve its computer systems to provide such reports as needed to effectively monitor unpaid balances. The Judiciary should evaluate the feasibility of having the fiscal office of each court under the authority of the administrative director of the courts. We also recommend that the Judiciary comply with the State Procurement Code, ensure that contracts are executed prior to the rendering of services, escheat unclaimed property, and timely transfer government realizations. The Judiciary should also comply with proper accounting and reporting standards.

The Judiciary generally agrees with most of our findings and recommendations. For some of the findings the Judiciary did not respond but instead provided explanations and reasons for the problems. The Judiciary also indicated that it has or is in the process of implementing many of our recommendations.

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