

AUDIT REPORT NO. 69-2  
JANUARY 1969

OFFICE COPY



# FINANCIAL AUDIT OF THE JUDICIAL BRANCH STATE OF HAWAII

FOR THE FISCAL YEAR ENDED  
JUNE 30, 1968

A REPORT TO THE GOVERNOR AND THE  
LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

## **THE OFFICE OF THE LEGISLATIVE AUDITOR**

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.



LEGISLATIVE AUDITOR  
IOLANI PALACE  
HONOLULU, HAWAII 96813

## Foreword

This financial audit report is the result of the examination of the financial statements and records of the judicial branch of the State of Hawaii for the fiscal year ended June 30, 1968. The audit was conducted by the firm of Peat, Marwick, Mitchell & Co., certified public accountants.

The audit was conducted in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants. In addition, the audit was governed by the *Instructions to Independent Certified Public Accountants on Audit Engagements of Agencies of the State of Hawaii*, issued by our office.

It is our practice to request each of the agencies affected by our examination to submit in writing its comments on our findings and recommendations and to indicate what action it has taken or intends to take therefor. Agency response resulting from this audit is shown in Section VI of this report as *Memorandum on the Comments Made by Affected Agency*.

We wish to express our sincere appreciation for the excellent cooperation and assistance rendered by the management and staff of the judicial branch of the State of Hawaii.

Clinton T. Tanimura  
Legislative Auditor

STATE OF HAWAII

Judicial Branch

June 30, 1968

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STATE OF HAWAII

Judicial Branch

SECTION I

ORGANIZATION OF REPORT

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 3556

HONOLULU, HAWAII 96811

Legislative Auditor, State of Hawaii  
Honolulu, Hawaii

Dear Sir:

The primary purpose of our examination of the financial statements of the Judicial Branch of the State of Hawaii for the year ended June 30, 1968 was to enable us to form an opinion as to the financial position of the Judicial Branch and the results of its operations for the period under examination. The nature of the operations of a governmental agency, however, suggest that the objectives of such an examination be more comprehensive as public funds and trust are involved. The "Instructions to the Certified Public Accountant" prepared by the office of the legislative auditor state that the objectives of an examination of a governmental agency are:

- "1. To provide a basis for an opinion by the Contract Auditor of the reasonable accuracy of the financial statements;
2. To ascertain whether or not expenditures have been made in accordance with the laws of the State of Hawaii and the applicable rules and regulations and to reasonably ascertain whether or not all revenues and other receipts to which the State is entitled have been collected and properly accounted for;
3. To ascertain the adequacy of the financial reports in providing responsible public employees and officials at the different levels of the organization with the proper information to plan, evaluate, and control program activities; and
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting and internal control, and to recommend improvements to such systems and procedures."

We have been mindful of the objectives in performing our audit of the financial statements of the Judicial Branch of the State of Hawaii for the year ended June 30, 1968.

## ORGANIZATION

Our report is organized into five broad sections. Section I contains the introductory material regarding the objectives of our examination.

Section II consists of the financial statements of the Judicial Branch of the State of Hawaii as of June 30, 1968 and for the year then ended and the related comments and notes.

Section III contains our comments and recommendations regarding internal control. This section is segregated by court and by appropriate subheadings under each court in order to provide a logical framework within which to present our findings. Comments which are applicable to all courts are presented under the caption, "General".

Section IV contains our findings and recommendations regarding the data processing operations of the courts.

Section V summarizes our findings and recommendations.

Very truly yours,

*Rest, Maxwell, Mitchell & Co.*

STATE OF HAWAII

Judicial Branch

SECTION II

FINANCIAL STATEMENTS

STATE OF HAWAII  
Judicial Branch  
Section II  
Financial Statements  
June 30, 1968

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STATE OF HAWAII

Judicial Branch

Section II

Financial Statements

Introduction

Organization

Article V of "The Constitution of the State of Hawaii" provides that, "the judicial power of the State shall be vested in one supreme court, circuit courts and in such inferior courts as the Legislature may from time to time establish". The judicial structure consists of three classes of courts: a supreme court with primarily appellate jurisdiction; circuit courts, which function as trial courts; and district courts, which are generally responsible for criminal misdemeanors, certain civil cases and initial criminal procedures in felony cases originating in their districts. The Chief Justice is the administrative head of the courts and responsible for the operations of all of the courts.

Description of Operations

In the performance of their duties, the courts receive monies which they hold until disposition of the applicable cases. Bails, bonds, deposits (relating to eminent domain proceedings) and garnishee fee deposits are examples of funds held by the courts. Upon disposition of the cases, the funds are distributed to the injured parties, depositors, etc. The balances of these types of transactions awaiting disposition at June 30, 1968 are shown on the balance sheet of trust and agency funds. These transactions, which are of a fiduciary nature, are reflected only on the accounting records of the courts.

In addition, the courts, in the administration of justice and performance of their duties, levy fines and collect various fees which are revenue to the State. The revenue and the operating costs of the courts are recorded in the accounts of the General Fund of the State of Hawaii and are shown on the statements of general fund revenues and general fund appropriations and expenditures.

Methods of Accounting

The accounts of the Judicial Branch of the State of Hawaii, as reflected on the balance sheet of trust and agency funds, are maintained on a cash basis of accounting. Under this method of accounting only cash receipts and disbursements are recorded in the accounts. Because of the nature of the operations of the courts there is no difference between the cash basis and modified accrual basis of accounting which is generally accepted for governmental agencies. The revenue and expenditures of the Judicial Branch of the State of Hawaii are recorded in the accounts of the General Fund of the State of Hawaii. The principles of accounting utilized by the State of Hawaii General Fund are set forth in the following paragraph.

Accounting practices of the State of Hawaii in recording transactions relating to the General Fund are summarized as follows:

- a. In general, revenues of the General Fund are recorded on the cash basis of accounting, whereas expenditures are accounted for on the accrual basis. Accordingly traffic citations due are not recorded in the accounts.
- b. Fixed assets purchased or constructed by the State are recorded as expenditures of the General Fund. Therefore there is no depreciation expense recorded in the financial statements.

#### Accountants' Report

As stated previously, the primary purpose of our examination was to enable us to form an opinion as to the financial position of the Judicial Branch at June 30, 1968 and the results of its operations for the year then ended. The accountants' report represents the conclusions of the independent auditors regarding the propriety of the representations set forth in the financial statements prepared by the agency, and is the vehicle by which such conclusions are made known to interested parties.

#### Financial Statements

The balance sheet of trust and agency funds and related notes, balance sheets of trust and agency funds by court (Schedules 1 - 9), statement of general fund revenues and related notes, and statement of general fund appropriations and expenditures and related notes follow the accountants' report. The basic financial statements consist of the following:

- a. Balance sheet of trust and agency funds which reflects monies being held by the courts until disposition of the related cases;
- b. Statement of general fund revenues which reflects revenue received by each court by category;
- c. Statement of general fund appropriations and expenditures which reflects amounts authorized for expenditure by the Legislature for the operations of the Judicial Branch, receipts for specified purposes received from other sources, and the expenditures of such funds during the year by court.

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL PLAZA OF THE PACIFIC

P. O. BOX 3556

HONOLULU, HAWAII 96811

ACCOUNTANTS' REPORT

We have examined the balance sheet of Trust and Agency Funds of the Judicial Branch of the State of Hawaii as of June 30, 1968 and the statements of general fund revenues and appropriations and expenditures of the Judicial Branch for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination, by the terms of the contract, did not extend to transactions relating to small estates and guardianship accounts. Because such amounts materially affect the financial position of Trust and Agency Funds of the Judicial Branch, we do not express an opinion on the overall representations of the accompanying balance sheet.

In our opinion, with the exception of the small estates and guardianship accounts included in the balance sheet of Trust and Agency Funds, the accompanying financial statements present fairly the information presented therein at June 30, 1968 and for the year then ended in conformity with accounting principles and procedures set forth in note 1 to the financial statements. The data presented in Schedules 1 - 9, with the exception previously noted, are stated fairly, in our opinion, in all material respects when considered in conjunction with the balance sheet of Trust and Agency Funds.

*Peat, Marwick, Mitchell & Co.*

October 10, 1968

STATE OF HAWAII  
 Judicial Branch  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

Assets

Cash on hand		\$ 17,072
Cash in bank:		
Commercial accounts	\$ 1,336,209	
Savings accounts	4,079,467	5,415,676
Imprest and change funds		9,225
Small estates and guardianships:		
Cash in bank:		
Commercial accounts	87,880	
Savings accounts	1,632,336	
Stocks and bonds, at cost	123,207	
		1,843,423
		\$ 7,285,396

Liabilities

Due to General Fund:		
Imprest and change funds		9,225
Unremitted government realizations		12,979
		22,204
Trust funds		163,057
Case costs:		
Civil	5,109,584	
Criminal	27,451	
Mechanics lien	29,613	
Probate	48,312	
Other	29,187	5,244,147
Small estates and guardianships		1,843,423
Other liabilities		12,565
		\$ 7,285,396

See accompanying notes to balance sheet of Trust and Agency Funds.

STATE OF HAWAII

Judicial Branch

Notes to Balance Sheet of Trust and Agency Funds

June 30, 1968

(1) Method of Accounting

The accounts of the Judicial Branch of the State of Hawaii as reflected on the accompanying balance sheet of Trust and Agency Funds are maintained on a cash basis of accounting. Under this method of accounting only cash receipts and disbursements are recorded in the accounts. Because of the nature of the operations of the courts there is no difference between the cash basis and modified accrual basis of accounting which is generally accepted for governmental agencies. In accordance with the modified accrual basis of accounting, traffic citations due are not recorded in the accounts because the disposition of cases cannot be determined in advance of the courts' decisions.

(2) Description of Liabilities

a. Imprest and Change Funds

This balance represents the amount of money which has been allocated to the courts from the General Fund of the State for use by the courts in their day-to-day operations. The funds are to be returned to the General Fund upon request.

b. Unremitted Government Realizations

This balance consists of bail and bond forfeitures, court costs, and fines which are to be remitted to the State Treasury.

c. Trust Funds

Trust funds consist primarily of bails and bonds posted at District Courts and miscellaneous allowances such as alimony and child support paid to the Circuit Courts.

d. Case Costs

Civil

This balance represents money received by the Circuit Courts for deposits on eminent domain proceedings and mortgage foreclosures. Upon court orders or dispositions of the cases, the funds are distributed to the depositors or defendants.

Criminal

This balance represents receipts for criminal actions and includes such items as appeal costs, bails and bonds.

STATE OF HAWAII

Judicial Branch

Notes to Balance Sheet of Trust and Agency Funds, Continued

Mechanics Lien

Money received by the courts for court costs and filing fees regarding liens on disputed property is recorded in this account.

Probate

The balance in this account consists of cash received by the Circuit Courts for court costs arising from probate of testate and intestate estates.

Other

Other case costs represent cash received for court costs resulting from court cases such as divorce, adoption, habeas corpus, paternity, etc.

STATE OF HAWAII  
 Judicial Branch  
 First Circuit Court  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

Assets

Cash on hand		\$ 16,940
Cash in bank:		
Commercial accounts	\$ 1,142,348	
Savings accounts	3,972,610	5,114,958
	<u>                    </u>	
Imprest and change funds		3,600
Small estates and guardianships:		
Cash in bank:		
Commercial accounts	21,941	
Savings accounts	1,463,448	
Stocks and bonds, at cost	15,040	
	<u>                    </u>	
		<u>1,500,429</u>
		\$ <u>6,635,927</u>

Liabilities

Due to General Fund		3,600
Trust funds		59,201
Case costs:		
Civil	4,943,523	
Criminal	21,336	
Mechanics lien	29,613	
Probate	45,232	
Other	24,085	5,063,789
	<u>                    </u>	
Small estates and guardianships		1,500,429
Other liabilities		<u>8,908</u>
		\$ <u>6,635,927</u>

STATE OF HAWAII  
 Judicial Branch  
 Second Circuit Court  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

Assets

Cash in bank - commercial accounts		\$ 32,903
Imprest and change funds		1,000
Small estates and guardianships:		
Cash in bank:		
Commercial accounts	\$ 35,007	
Savings accounts	46,443	
Stocks and bonds, at cost	47,830	
	<u>129,280</u>	
		<u>\$ 163,183</u>

Liabilities

Due to General Fund		1,000
Case costs:		
Civil	23,964	
Criminal	4,837	
Probate	798	
Other	509	30,108
	<u>129,280</u>	
Small estates and guardianships		129,280
Other liabilities		<u>2,795</u>
		<u>\$ 163,183</u>

STATE OF HAWAII  
 Judicial Branch  
 Third Circuit Court  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

Assets

Cash in bank:		
Commercial accounts		\$ 22,764
Savings accounts		<u>106,857</u>
		129,621
Imprest and change funds		750
Small estates and guardianships:		
Cash in bank:		
Commercial accounts	\$ 23,206	
Savings accounts	78,856	
Stocks and bonds, at cost	<u>60,337</u>	
		<u>162,399</u>
		<u>\$ 292,770</u>

Liabilities

Due to General Fund		750
Case costs:		
Civil	125,691	
Criminal	453	
Probate	1,140	
Other	<u>1,475</u>	128,759
Small estates and guardianships		162,399
Other liabilities		<u>862</u>
		<u>\$ 292,770</u>

STATE OF HAWAII  
 Judicial Branch  
 Fifth Circuit Court  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

Assets

Cash in bank - commercial account		\$ 21,491
Imprest and change funds		100
Small estates and guardianships:		
Cash in bank:		
Commercial accounts	\$ 7,726	
Savings accounts	43,589	
	<u>51,315</u>	
		<u>\$ 72,906</u>

Liabilities

Due to General Fund		100
Case costs:		
Civil	16,406	
Criminal	825	
Probate	1,142	
Other	3,118	21,491
	<u>51,315</u>	
Small estates and guardianships		<u>\$ 72,906</u>

STATE OF HAWAII  
 Judicial Branch  
 Other Courts  
 Balance Sheet  
 Trust and Agency Funds  
 June 30, 1968

<u>Assets</u>	Supreme <u>Court</u>	Land <u>Court</u>	<u>Total</u>
Cash in bank - commercial account	\$ -	3,025	3,025
Imprest and change funds	<u>125</u>	<u>-</u>	<u>125</u>
	<u>\$ 125</u>	<u>3,025</u>	<u>3,150</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>
<u>Liabilities</u>			
Due to General Fund	125	-	125
Trust funds	<u>-</u>	<u>3,025</u>	<u>3,025</u>
	<u>\$ 125</u>	<u>3,025</u>	<u>3,150</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>

## STATE OF HAWAII

## Judicial Branch

## District Courts of First Circuit - Oahu

## Balance Sheet

## Trust and Agency Funds

June 30, 1968

<u>Assets</u>	Civil Division of								<u>Total</u>
	<u>Honolulu</u>	<u>Ewa</u>	<u>Waianae</u>	<u>Waialua</u>	<u>Wahiawa</u>	<u>Koolaupoko</u>	<u>Koolauloa</u>	<u>rural courts</u>	
Cash on hand	\$ -	-	-	-	30	102	-	-	132
Cash in bank - commercial accounts	67,365	15,224	10,329	2,624	4,884	6,417	889	193	107,925
Imprest and change funds	<u>1,050</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>25</u>	<u>-</u>	<u>1,500</u>	<u>2,625</u>
	<u>\$ 68,415</u>	<u>15,249</u>	<u>10,329</u>	<u>2,624</u>	<u>4,939</u>	<u>6,544</u>	<u>889</u>	<u>1,693</u>	<u>110,682</u>
 <u>Liabilities</u>									
Due to General Fund:									
Imprest and change funds	1,050	25	-	-	25	25	-	1,500	2,625
Unremitted government realizations	2,578	4,377	315	239	2,200	2,963	292	15	12,979
Trust funds	<u>64,787</u>	<u>10,847</u>	<u>10,014</u>	<u>2,385</u>	<u>2,714</u>	<u>3,556</u>	<u>597</u>	<u>178</u>	<u>95,078</u>
	<u>\$ 68,415</u>	<u>15,249</u>	<u>10,329</u>	<u>2,624</u>	<u>4,939</u>	<u>6,544</u>	<u>889</u>	<u>1,693</u>	<u>110,682</u>

## STATE OF HAWAII

## Judicial Branch

District Courts of Second Circuit - Maui, Lanai, Molokai

## Balance Sheet

## Trust and Agency Funds

June 30, 1968

<u>Assets</u>	<u>Wailuku</u>	<u>Lahaina</u>	<u>Hana</u>	<u>Makawao</u>	<u>Lanai</u>	<u>Molokai</u>	<u>Total</u>
Cash in bank - commercial accounts	\$ 2,227	168	26	353	19	69	2,862
Imprest and change funds	<u>300</u>	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>25</u>	<u>525</u>
	\$ 2,527	268	26	453	19	94	3,387
	=====	=====	=====	=====	=====	=====	=====
<u>Liabilities</u>							
Due to General Fund	300	100	-	100	-	25	525
Trust funds	<u>2,227</u>	<u>168</u>	<u>26</u>	<u>353</u>	<u>19</u>	<u>69</u>	<u>2,862</u>
	\$ 2,527	268	26	453	19	94	3,387
	=====	=====	=====	=====	=====	=====	=====

## STATE OF HAWAII

## Judicial Branch

## District Courts of Third Circuit - Hawaii

## Balance Sheet

## Trust and Agency Funds

June 30, 1968

<u>Assets</u>	<u>Hilo, Puna, Kona and Kau</u>	<u>Hamakua and Kohala</u>	<u>Total</u>
Cash in bank - commercial accounts	\$ 1,034	107	1,141
Imprest and change funds	<u>500</u>	<u>-</u>	<u>500</u>
	<u>\$ 1,534</u>	<u>107</u>	<u>1,641</u>
	<u>          </u>	<u>          </u>	<u>          </u>
 <u>Liabilities</u> 			
Due to General Fund	500	-	500
Trust funds	<u>1,034</u>	<u>107</u>	<u>1,141</u>
	<u>\$ 1,534</u>	<u>107</u>	<u>1,641</u>
	<u>          </u>	<u>          </u>	<u>          </u>



## STATE OF HAWAII

## Judicial Branch

## Statement of General Fund Revenues

For the year ended June 30, 1968

	<u>Estimated</u>	<u>Actual</u>	<u>Actual over (under) estimate</u>
Revenue receipts:			
Supreme Court:			
Court costs	\$ 3,200	4,202	1,002
Bar admission fees	300	480	180
Fees for issuance of certificates	50	8	(42)
Sale of Supreme Court reports	6,450	6,760	310
Sale of publications	-	230	230
First Circuit Court:			
Bail and bond forfeitures	1,485	3,216	1,731
Court costs	144,500	156,344	11,844
Court fees	11,465	9,857	(1,608)
Court fines	12,326	27,485	15,159
Escheat of unclaimed monies and cash overages	3,677	2,644	(1,033)
Fees, administering small estates	11,642	13,911	2,269
Interest on current deposits by department accountants	43,311	74,905	31,594
Unclaimed bails, exhibits and charges	-	917	917
Refunds and reimbursements	-	1,071	1,071
Second Circuit Court:			
Court costs	6,000	8,627	2,627
Court fees	1,750	1,763	13
Court fines	1,100	2,661	1,561
Escheat of unclaimed estates	150	-	(150)
Escheat of unclaimed monies and cash overages	-	603	603
Fees, administering small estates	900	1,373	473
Third Circuit Court:			
Court costs	8,000	11,821	3,821
Court fees	2,500	2,348	(152)
Court fines	500	925	425
Escheat of unclaimed estates	-	1,095	1,095
Escheat of unclaimed monies and cash overages	1,500	3,937	2,437
Fees, administering small estates	500	1,013	513
Carried forward	\$ 261,306	338,196	76,890

(Continued)

## STATE OF HAWAII

## Judicial Branch

Statement of General Fund Revenues, Continued

	<u>Estimated</u>	<u>Actual</u>	Actual over (under) <u>estimate</u>
Brought forward	\$ 261,306	338,196	76,890
Revenue receipts, continued:			
Fifth Circuit Court:			
Court costs	4,000	3,865	(135)
Court fees	1,200	771	(429)
Court fines	200	15	(185)
Escheat of unclaimed estates	100	-	(100)
Fees, administering small estates	600	431	(169)
Refunds and reimbursements	-	914	914
District Courts (undistributed):			
Fines	392,775	526,640	133,865
Traffic waivers	732,083	855,929	123,846
Marriage waivers	3,011	9,657	6,646
Dog leash waivers	4,000	4,730	730
Bail forfeitures	300,551	255,749	(44,802)
Bond forfeitures	9,650	10,624	974
Court costs	68,340	71,363	3,023
Fees, copies of certificates and extracts of records	42,005	49,386	7,381
Confiscated evidence funds	49	59	10
Escheat of unclaimed monies	-	15	15
Land Court:			
Fees, registration of Land Court titles	<u>15,000</u>	<u>3,928</u>	<u>(11,072)</u>
Total revenue	<u>\$ 1,834,870</u>	<u>2,132,272</u>	<u>297,402</u>

See accompanying notes to statement of general fund revenues.

STATE OF HAWAII

Judicial Branch

Notes to Statement of General Fund Revenues

June 30, 1968

(1) Method of Accounting

The operations of the Judicial Branch of the State of Hawaii are recorded in the accounts of the General Fund of the State of Hawaii. The principles of accounting utilized by the State of Hawaii General Fund are set forth in the following paragraph.

Accounting practices of the State of Hawaii in recording transactions relating to the General Fund are summarized as follows:

- a. In general, revenues of the General Fund are recorded on the cash basis of accounting, whereas expenditures are accounted for on the accrual basis.
- b. Fixed assets purchased or constructed by the State are recorded as expenditures of the General Fund. Therefore, there is no depreciation reflected in the financial statements.

(2) Differences Between Estimated and Actual Revenues

The Judicial Branch uses the prior year's actual revenue as the estimate for the following year in order that undue pressure is not placed upon the courts to meet a revenue projection. There is no accurate method to determine the dollar amount of fines judges will levy and therefore significant variances between actual and estimated revenue result.

## STATE OF HAWAII

## Judicial Branch

## Statement of General Fund Appropriations and Expenditures

For the year ended June 30, 1968

<u>Appropriations for regular operations</u>	<u>Balances, July 1, 1967</u>	<u>Appropriations</u>	<u>Appropriated receipts</u>	<u>Transfers and other credits</u>	<u>Expenditures</u>	<u>Lapses</u>	<u>Balances, June 30, 1968</u>
Administration:							
Supreme Court - Administrative Director	\$ 144,917	186,400	-	1,200	269,808	57,951	4,758
Supreme Court:							
Supreme Court proper	2,730	275,146	-	22,222	298,305	321	1,472
State Law Library system	10,254	91,729	-	6,000	106,300	810	873
Publication of Hawaii Reports	31,808	12,750	-	-	9,422	9,556	25,580
Revisor of the statutes	-	311,843	-	(246,000)	57,785	2,034	6,024
	<u>44,792</u>	<u>691,468</u>	<u>-</u>	<u>(217,778)</u>	<u>471,812</u>	<u>12,721</u>	<u>33,949</u>
First Circuit Court:							
First Circuit proper	2,449	966,509	3	(60,873)	843,752	62,369	1,967
Family Court proper	1,145	973,776	3,020	(17,000)	845,073	113,777	2,091
Juvenile Detention Home	1,906	237,010	-	17,000	250,294	4,405	1,217
Jury trial expenses	1,127	320,798	-	-	223,739	97,436	750
Adult probation	-	156,466	-	-	152,495	3,168	803
	<u>6,627</u>	<u>2,654,559</u>	<u>3,023</u>	<u>(60,873)</u>	<u>2,315,353</u>	<u>281,155</u>	<u>6,828</u>
Second Circuit Court:							
Second Circuit proper	-	119,510	3,404	5,074	124,526	3,449	13
Jury trial expenses	-	13,900	-	14,000	17,061	10,839	-
Probation operations	383	159,357	-	-	158,191	1,509	40
	<u>383</u>	<u>292,767</u>	<u>3,404</u>	<u>19,074</u>	<u>299,778</u>	<u>15,797</u>	<u>53</u>
Third Circuit Court:							
Third Circuit proper	-	193,011	22,266	-	187,964	27,313	-
Jury trial expenses	38	25,000	91	-	22,151	2,978	-
Probation operations	170	156,080	346	-	143,689	12,907	-
	<u>208</u>	<u>374,091</u>	<u>22,703</u>	<u>-</u>	<u>353,804</u>	<u>43,198</u>	<u>-</u>
Fifth Circuit Court:							
Fifth Circuit proper	-	104,384	20	(1,500)	101,471	1,230	203
Jury trial expenses	-	9,001	-	3,000	6,964	5,037	-
Probation operations	36	61,087	-	(1,500)	53,864	5,127	632
	<u>36</u>	<u>174,472</u>	<u>20</u>	<u>-</u>	<u>162,299</u>	<u>11,394</u>	<u>835</u>
Other courts:							
District Court of Kalawao	-	250	-	-	16	234	-
Honolulu District Court	714	353,105	-	8,900	357,821	2,512	2,386
Honolulu District Court - Traffic Violations Bureau	1,200	436,887	-	(10,132)	410,161	2,495	15,299
Rural District Courts	224	201,359	-	-	166,451	34,456	676
District Courts of Maui	5,151	82,776	-	4,600	89,187	1,316	2,024
District Courts of Hawaii	1,027	100,542	-	9,009	110,515	63	-
District Courts of Kauai	-	31,419	-	-	30,258	1,142	19
Land Court	-	38,039	-	-	34,328	3,711	-
	<u>8,316</u>	<u>1,244,377</u>	<u>-</u>	<u>12,377</u>	<u>1,198,737</u>	<u>45,929</u>	<u>20,404</u>
Carried forward	\$ <u>205,279</u>	<u>5,618,134</u>	<u>29,150</u>	<u>(246,000)</u>	<u>5,071,591</u>	<u>468,145</u>	<u>66,827</u>

(Continued)

## STATE OF HAWAII

## Judicial Branch

## Statement of General Fund Appropriations and Expenditures, Continued

<u>Special appropriations</u>	<u>Balances, July 1, 1967</u>	<u>Appropriations</u>	<u>Appropriated receipts</u>	<u>Transfers and other credits</u>	<u>Expenditures</u>	<u>Lapses</u>	<u>Balances, June 30, 1968</u>
Brought forward	\$ <u>205,279</u>	<u>5,618,134</u>	<u>29,150</u>	<u>(246,000)</u>	<u>5,071,591</u>	<u>468,145</u>	<u>66,827</u>
Study, review and revision of the criminal, correctional and juvenile laws	40,000	70,000	-	-	28,543	-	81,457
Expenses of District Courts, State of Hawaii	47,983	-	-	-	25,155	22,828	-
Revision of the statutes of Hawaii	84,672	-	-	246,000	64,889	-	265,783
Relating to First Circuit Court judges	<u>76,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,013</u>	<u>-</u>	<u>75,053</u>
	248,721	70,000	-	246,000	119,600	22,828	422,293
	\$ <u>454,000</u>	<u>5,688,134</u>	<u>29,150</u>	<u>-</u>	<u>5,191,191</u>	<u>490,973</u>	<u>489,120</u>

See accompanying notes to statement of General Fund appropriations and expenditures.

STATE OF HAWAII

Judicial Branch

Notes to Statement of General Fund Appropriations and Expenditures

June 30, 1968

(1) Beginning and Ending Balances of Appropriations

The balances at July 1, 1967 and June 30, 1968 represent unallotted appropriations and unliquidated encumbrances at the respective dates. Unallotted appropriations are the balances of special appropriations which do not lapse until the specific purpose for the appropriation has been accomplished, and unliquidated encumbrances are expenditure commitments incurred as the result of purchase orders and contracts. The breakdown of the balance at June 30, 1968 is shown as follows:

Unallotted appropriations	\$ 256,799
Unliquidated encumbrances	<u>232,321</u>
Balance, June 30, 1968	<u>\$ 489,120</u>

(2) Appropriations

Operating appropriations are sums of money appropriated out of the treasury from general revenues to accomplish the purpose or programs of the various departments of the State of Hawaii; special appropriations are monies appropriated to accomplish a specific purpose as opposed to the normal operating functions of the various departments.

(3) Appropriated Receipts

Appropriated receipts of \$29,150 for the year ended June 30, 1968 consisted primarily of the deposit of vacation credit monies of individuals who transferred to the Judicial Branch from other State or County agencies.

(4) Transfers and Other Credits

Transfers and other credits represent transfers of appropriations among various appropriation divisions within the Judicial Branch. Chapter 35-26 of The Revised Laws of Hawaii 1955 states that ". . . the funds allotted for each classification of expenditure shall be used for no other classification of expenditure". The appropriations for the courts were specifically exempted from this provision by Chapter 35-21 of the revised laws. However, according to Act 54 of the Session Laws of Hawaii the monies appropriated for jury trial expenses may not be used for any other purpose.

(5) Expenditures

Expenditures are actual payments made during the year from appropriations for the fiscal years June 30, 1968 and prior.

## STATE OF HAWAII

## Judicial Branch

Notes to Statement of General Fund Appropriations  
and Expenditures, Continued(6) Lapses

Lapses represent the balances of the regular operating appropriations which were not expended or encumbered. Additionally, any unexpended balances of special appropriations lapse upon completion of the project. Unencumbered appropriations lapse to the fund balance of the General Fund.

STATE OF HAWAII

Judicial Branch

SECTION III

COMMENTS AND RECOMMENDATIONS ON INTERNAL CONTROL

AND ACCOUNTING PROCEDURES

STATE OF HAWAII

Judicial Branch

Section III

Comments and Recommendations on Internal Control  
and Accounting Procedures

June 30, 1968

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STATE OF HAWAII

Judicial Branch

Section III

Comments and Recommendations on Internal Control  
and Accounting Procedures

IMPORTANCE OF INTERNAL CONTROL

Throughout this report frequent references are made to the term "good internal control". A good system of internal control is the principal means by which the assets of an entity are safeguarded and the reliability of accounting data is assured. Under an adequate system of internal control the work is segregated in such a manner that no one individual has control over all phases of a transaction but rather the work of one individual is under the constant scrutiny and surveillance of another. In effect the purpose of internal control is to provide an entity with a system of checks and balances. Since our examination is based upon tests of the accounting records, it will not necessarily reveal irregularities which may occur. Therefore reliance must be placed on an adequate system of internal control to safeguard assets and provide reliable accounting data.

We wish to take this opportunity to point out that this report is not intended to provide a complete survey of all areas of internal control but merely directs attention to those significant areas which we feel most warrant immediate attention. We also wish to mention that although the recommendations contained herein should appreciably strengthen internal control, they are not necessarily the only methods by which desired objectives may be attained. We suggest, therefore, that further investigation of all relevant circumstances be made prior to the implementation of our recommendations.

GENERAL

Financial Reports

Each court is required to furnish the Administrative Director's office with monthly financial statements which consist of a balance sheet, statement of cash receipts and disbursements and bank reconciliations. Such financial statements are necessary in order that the Administrative Director's office may make informed decisions regarding the management of cash (i.e., decisions regarding the amount of money to be deposited in savings accounts). In addition they encourage the courts to maintain their accounts on a current basis. We have reviewed the format and contents of the reports and it appears to us that they are suitable for the purpose for which they are intended.

### Accounting Records

Our review of the accounting records and procedures employed by the various courts indicated that standardized accounting records and procedures are not being utilized by the courts. Standardization would provide the means by which the training of personnel could be more readily effected and the transferability of employees among the courts more easily accomplished. The Administrative Director's office is currently in the process of preparing an accounting manual, one of the purposes of which is to standardize accounting procedures and records.

### Duplication of Work

At present, each court maintains detailed accounting records of revenues, expenditures and appropriations. The data processing department prepares monthly reports for the Administrative Director's office containing the necessary information for all courts. We believe that these procedures create an unwarranted duplication of effort. In the interest of efficiency, we suggest that the courts discontinue maintaining their records relating to revenues, expenditures and appropriations. Sufficient copies of the data processing reports should be made for distribution to the various courts in order to provide them with the necessary operating information. In lieu of the detailed records maintained by the courts, control over input to the data processing equipment should be established in order to ascertain that the reports prepared by the computer are accurate. At present such controls are lacking and the reports, though prepared on a timely basis, contained incorrect amounts. We believe that such problems could be surmounted by the initiation of the proper controls.

## ADMINISTRATIVE DIRECTOR'S OFFICE

### Inadequate Segregation of Duties - Payroll

The personnel clerk for the Judicial Branch is responsible for two related activities which does not provide adequate control over personnel functions. The personnel clerk submits the "notification of personnel action forms" to the Department of Personnel Services of the State of Hawaii and also receives payroll checks directly from the Department of Accounting and General Services where the checks are prepared. The "notification of personnel action form" is the basis for the addition of an individual to the payroll. The control over individuals in "classified" positions is adequate because of the examination and review procedures performed by the Department of Personnel Services. The same procedures are not applied, however, to "exempt" or "temporary" positions. In this instance the hiring is done at the court level and the Department of Personnel Services merely checks that there is a position open for the new hire. It appears to us, therefore, that a name could be added to the payroll without proper authorization.

In order to adequately segregate duties and to assist in the detection of any fictitious employees which may be added to the payroll, we recommend that payroll checks be routed to an individual other than the personnel clerk for further distribution to the respective departments.

#### Maintenance of Payroll Deduction Forms

During the course of our payroll work we observed that there is no central location where authorizations for payroll deductions are filed. The Judicial Branch was under the impression that the Department of Accounting and General Services maintains a comprehensive file of authorization forms. We learned, however, that they destroy the forms after one year. In order to obtain information regarding authorized deductions one must contact the appropriate agency which in some instances is not even an agency of the State, for example, medical plan and Federal credit union deductions. In our opinion authorizations for all payroll deductions should be maintained by the State. In this regard it may be more efficient to centralize this function. We suggest that the Department of Personnel Services, Comptroller or other appropriate officials consider centralization of such records.

#### Incomplete Payroll Records

The Judicial Branch maintains W-4 forms which state the number of exemptions each individual claims for the purpose of withholding Federal income taxes. We noted several instances in which W-4 forms were missing, unsigned or exemptions reported thereon differed from those recorded on the payroll register. In order to comply with Federal regulations we recommend that such forms be updated and reviewed periodically thereafter to keep them current.

#### Lack of Communication

The Judicial Branch's records of revenue, expenditures and appropriations differed from those maintained by the Department of Accounting and General Services by approximately \$3,000, \$100 and \$29,000, respectively. The differences in appropriations resulted from the fact that the Department of Accounting and General Services did not inform the Judicial Branch of entries regarding appropriated receipts. The reasons for the other differences were not readily ascertainable. The Administrative Director's office should be furnished with all of the relevant information regarding the operations of the courts in order to effectively plan their expenditures. Therefore the Department of Accounting and General Services should notify the Administrative Director's office of any financial information which does not ordinarily flow through the courts' records. In addition, we recommend that the accounting clerk in the administrative office be assigned the task of reconciling on a monthly or quarterly basis the records of the Judicial Branch to those of the Department of Accounting and General Services

in order to ascertain the reason for any differences which may exist between the two sets of records and take appropriate measures to prevent any such occurrences in the future.

## FIRST CIRCUIT COURT

### Timeliness of Bank Deposits

Our test work included a surprise count of all cash on hand, including fiduciary and State funds, on July 5, 1968. The purpose of the surprise examination was twofold:

1. To ascertain that the petty cash and change funds allocated to the court were, in fact, being maintained at the proper amounts.
2. To determine that receipts are being deposited in accordance with the laws of the State of Hawaii.

At the time of our count we discovered that there were a number of checks and money orders on hand, amounting to about \$14,000, which had been received prior to the date of our count. The majority of the items were dated June and July of the current year but there were ten checks amounting to approximately \$500 which were two or more years old. Such checks and money orders, though segregated from the routine receipts for the day, are kept in the cashiers' section during normal working hours, after which they are placed in the safe.

The Revised Laws of Hawaii 1955, Chapter 34-21 states that all monies received in Honolulu on account of the State must be paid into the treasury weekly. The items in question were not State funds, but rather funds of a fiduciary nature which are not deposited in the treasury. Regardless of whether the items are State funds or not, prudent business practice suggests that all receipts be deposited daily, primarily because checks may be lost, be misappropriated, or payment stopped by the payor if held for extended periods of time. If it is deemed advisable, a separate bank account can be opened for the deposit of such checks.

### Reasons for Failure to Deposit Checks

The reasons given us for holding the above-mentioned checks can be categorized as follows:

1. The name of the payee is not placed on the check or money order and thus the account to be credited is not ascertainable.
2. The payee is an individual who has not yet claimed the check.
3. The payee is the First Circuit Court but there is insufficient information regarding the account to be credited.

### Deficiencies in Internal Control Regarding Undeposited Checks

Under present circumstances there is no control over undeposited checks and money orders. In those instances in which the name of the payee is omitted from a check the danger is readily apparent. Anyone having access to the item can easily insert their own name as payee and cash it. Where the court is the payee a problem in control exists only if the check has been held for a long period of time. Considering the nature of the payments received by the court, i.e., alimony, child support, etc., the fact that a claimant has not picked up a check which is due indicates that the individual is either unaware of the check or unable to claim it. A cashier in this case can substitute one of the checks for currency received over the counter without fear of detection.

### Recommendations for Control of Checks

One method by which control over checks received through the mail can be attained is as follows:

1. Upon receipt of a check containing a blank payee, the mail opener should insert the name of the First Circuit Court in the space designated for the payee.
2. Checks made out to the court which pose identification problems should be deposited daily along with those mentioned above.
  - a. The related credits should be recorded in an account which we suggest be opened for the express purpose of controlling such transactions.
  - b. The details comprising the balance in the account should be maintained and periodically balanced to the account balance.
3. In those instances in which the payee is an individual, the mail opener should make a listing of the items and turn it over to an individual who does not have access to the checks.
  - a. The individual so designated should periodically investigate the disposition made of the items

### Control of the Daily Deposit

Under current procedures, the posting clerk receives cash and "cashiers' tally sheets" from cashiers and makes the deposit. Since the posting clerk has access to cash as well as the supporting records, she could manipulate the cash and records to her advantage, especially where government revenues are involved. We recommend that the duties be segregated in order to provide effective control.

### Control of Cash Received Over the Counter

Generally, receipt slips should be prenumbered and the numerical sequence checked in order to provide effective control over cash which is received over the counter. The purpose of checking the numerical sequence of receipt slips is to ascertain that all cash which has been received has been reported. Without a numerical sequence check it is possible for cashiers to "lap" funds without being detected. By the term "lap" we refer to the procedure whereby the cash received by a cashier is kept and replaced with the cash received at a later date from another individual. Without the proper control, this procedure can continue indefinitely. In the First Circuit Court, prenumbered receipt slips are utilized and the sequence of slips used in a particular day recorded on the "cashiers' tally sheets". Although there is space provided on the form for the signature of the individual who is supposed to check the numerical sequence, this procedure is not being followed. We suggest that the account clerk check the numerical sequence of receipt forms daily and balance them to the validated deposit slip returned by the bank.

### Interest on Savings Accounts

A substantial amount of the funds (\$4,944,000) held on deposit by the First Circuit Court at June 30, 1968 were for civil case costs which consist primarily of deposits on eminent domain proceedings. In these cases the State of Hawaii or the City and County of Honolulu are the plaintiffs and make the deposits upon initiating the condemnation procedures. Under its cash management program the First Circuit Court deposits a substantial amount of its cash in savings accounts and time certificates of deposit upon which interest is earned. The interest on these deposits, amounting to approximately \$75,000 for the year ended June 30, 1968, has been considered revenue of the State and is shown on the statement of general fund revenues. We inquired of the Administrative Director's office as to the legality of this, since all of the cash itself does not belong to the State and were informed that there is no ruling or law which has any bearing on the matter.

The Third Circuit Court, on the other hand, has not remitted the interest earned to the State for several years because of the uncertainty regarding the matter. Upon receiving the interest the court credits a liability account, namely civil case costs. Accordingly, \$27,000 of interest earned on deposits is included in the amount of civil case costs on the balance sheet of trust and agency funds and on Schedule 3.

The Second and Fifth Circuit Courts have not yet been faced with this problem as none of the cash relating to civil actions has been deposited in savings accounts.

We suggest that the office of the Attorney General be consulted in order to determine the proper disposition of these funds.

### Unrecorded Savings Accounts

During the course of our examination, we discovered that a savings account held under the name of the Chief Clerk, First Circuit Court was not recorded in the accounts. The account, amounting to approximately \$28,000, was for garnishee funds being held in trust by the Court and can be withdrawn by the Chief Clerk. It was explained to us that this type of account differs from those which are normally entered on the books as to the type of case and nature of the court order. From an accounting standpoint, we fail to ascertain any basic difference between this type of transaction and any other account which is of a fiduciary nature. In our opinion, all accounts for which the Court has responsibility should be recorded in the books and controlled in the same manner as any other bank account.

### Format of the "Daily Cash Sheet"

The present form ("daily cash sheet") used to reconcile all cash transactions for the day dates back to the 1950's and in our opinion is unduly complicated because it does not distinguish noncash transactions, such as transfers between accounts, from cash receipts and disbursements.

We recommend that the format for the "daily cash sheet" be revised to show in a more readily understandable manner the information presented thereon. A suggested format is presented as the last page of this section.

### Absence of Segregation of Duties Regarding Disbursements

The present system provides for the rotation among the three clerks every two weeks of the functions of:

1. Receiving cash,
2. Disbursing cash, and
3. Posting to the subsidiary records.

Each clerk, therefore, performs each one of the functions over a six-week period. It would appear on the surface that the work is adequately segregated in this situation because of the time lag involved before the same individual performs two of the functions, namely the posting and disbursing functions. Regardless of the time lag the same individual does perform the two functions. When the fact that the disbursement clerk prepares and signs checks via a facsimile signature plate is considered, the lack of control becomes even more evident. Under these circumstances the posting clerk can open a new account via a "transfer slip" and write a check on the account when she performs the disbursements function.

All monies received by the court with the exception of State revenues are refundable to the depositor, injured party, etc., upon disposition of the

cases. This factor provides some protection against the misappropriation of such funds because the designated recipients will inquire as to their status if not received. State revenues, on the other hand, do not have such a protective feature and therefore could be more readily misappropriated.

We recommend that the rotation of clerks among the various functions be discontinued in order to provide the proper segregation of duties so essential to good internal control.

#### Use of the Facsimile Signature Plate to Sign Checks

Only checks over \$10,000 require, as a matter of policy, the initials of the Chief Clerk in addition to the facsimile signature. As a result no one is checking on the propriety of checks of \$10,000 and under which have been issued. On the basis of our testing, it appears that the majority of the checks written are under \$1,000.

We recommend that the Administrative Director's office study the matter to ascertain the reasonableness of the dollar amount of checks which require the Chief Clerk's scrutiny and approval. In this connection some consideration should be given to the requirement that dual signatures be placed on checks in excess of a predetermined amount.

#### Control Features of Check Signer

The check signing machine currently used by the First Circuit Court has a built-in numerical control which in effect counts the number of checks which have been run through it. This feature is not being utilized at present. We suggest that the number of checks issued during the day be balanced to the number of checks which have been signed via the check signer. This will enable the individual assigned this responsibility to detect any checks which have not been processed in the regular manner.

#### Old Outstanding Accounts

The First Circuit Court has in its accounts balances which date back several years, some as far back as 1949. Inactive cases, that is cases in which there has been no activity for long periods of time, which we examined and upon which final judgments were rendered amounted to approximately \$44,000 and generally relate to property condemnation and criminal cases. In those instances in which criminal cases are involved, it appears that the cases had been adjudged and the amounts, therefore, should have been considered revenue to the State. In another instance, the case folder for a condemnation award indicated that the case was closed, but an amount was still shown as outstanding. Further investigation revealed that the case was in fact closed but the balance never claimed by the party involved. The cash disbursements clerk has access to the ledger cards and thus is aware of the situation regarding balances which have been outstanding for a long period of time. Under these circumstances, it would be possible for the disbursements clerk to write a check against the old account for her benefit. Although the Chief Clerk investigates

old balances over \$25,000 as time permits, there are a number of accounts of \$25,000 and under which we believe require research. In order to improve control over the accounts described above, we recommend that criteria be established by a responsible court employee as to what constitutes an inactive case, that all ledger cards relating to cases determined to be inactive be removed from the control of the cash disbursements clerk and that the cases be investigated and proper disposition be made. The inactive accounts could be physically controlled by the supervisor or account clerk and any posting made thereto checked.

#### Purchasing

The Fiscal Officer prepares purchase orders, approves invoices and receives the items purchased. In order to segregate the above functions we recommend that the receiving function be delegated to an individual other than the Fiscal Officer. The individual so designated should route the receiving copy of the invoice to the account clerk for matching with the purchase order and applicable invoice.

#### Collection of Fines

Our investigation of the Court's procedures disclosed that control over the collection of fines is lacking because there is no procedure established to enforce payment. Basically the problem can be broken down into two major components:

1. A lack of communication between the courts in which case the Fiscal Office is not informed that a fine is to be paid, and
2. A lack of delineation of responsibilities in which instance the Fiscal Office is informed that a fine has been levied but doesn't feel that its responsibilities extend to the enforcement area.

In the first instance it is our understanding that the Chief Clerk does not always receive documents relating to the disposition of cases appealed to the Supreme Court. As a result, the court will not be informed regarding the levy of a fine or the ultimate disposition of the related appeal bond. This situation can be remedied simply by arranging the flow of documents to include the Chief Clerk. With regard to the second situation we learned that there is no procedure established to ascertain that all fines levied by the Court have been paid by the defendant. The employees of the Fiscal Office believe that their responsibility extends only to the accounting for cash receipts and disbursements. Accordingly, it is their opinion that the Prosecuting Attorney's office is responsible for enforcing the payment of fines. We were informed that the Prosecuting Attorney's office holds the opposite viewpoint. We recommend that the Administrative Director's office review the matter and take the necessary corrective action.

### Inadequacy of Posting Machine

The posting machine currently being used by the Fiscal Office is an old model which does not have the capacity to provide a breakdown into the classifications required by the Court. As a result, an adding machine tape of ledger cards must be prepared daily in order to allocate the day's transactions to the proper classifications. In addition, during the course of our examination we noted that the machine wasn't printing all of the figures which had been punched. The omitted figures had to be written in manually. Because of these situations unnecessary work must be performed. We have been informed that the Administrative Director's office has taken these factors under consideration and is investigating the possibility of purchasing a new posting machine which would eliminate the unnecessary work.

## DISTRICT COURT OF HONOLULU

### Inadequate Segregation of Duties Regarding Cash Receipts

A review of the internal control of the District Court of Honolulu disclosed that the system currently employed does not provide effective control of cash receipts because the work is not adequately segregated. The account clerk in the Fiscal Division checks all cash receipts to supporting data, prepares the deposit, posts to the general ledger and compares the deposit slip returned by the bank to the copy. Any individual who receives cash and supporting documents has the opportunity to manipulate funds. It is especially important to rectify this situation because traffic violations are often paid in currency. We have been informed that a new procedure has been initiated whereby the cashiers rather than the account clerk make the daily bank deposits. This procedure if consistently followed will improve control as the account clerk will no longer have access to the cash receipts.

### Timeliness of Deposits

At the time of our examination the cash register receipts of the traffic violations bureau were not being deposited on the day following receipt because they were being utilized as a change fund for the Fiscal Division cashier. This procedure is in direct violation of the Comptroller's Regulation 4 which requires that State revenues be deposited on the following day of business. The Fiscal Officer informed us that this practice would be discontinued because a change fund had been allocated to their office.

### Lack of Control of Garnishee Fees

Under present procedures cash, primarily in the form of currency, received for garnishee fees is attached to slips of paper containing the names of the individuals to whom payments are due. The account clerk keeps the cash and slips for subsequent disposition. Since the account clerk has the currency and the related records there is no separation of responsibilities. In addition, it is not good practice to keep sums of cash

on hand because it may get lost, stolen, or destroyed. We recommend that the individual receiving the cash deposit it in a bank account and the appropriate liability be recorded on the books.

#### Accounting for Citations Requiring Administrative Action

The secretary to the Director of the Traffic Violations Bureau receives checks and currency from the bail-by-mail clerk relating to the following circumstances:

1. The citation has been paid under protest.
2. Correspondence is required regarding the citation.
3. Cash has been received without the related citation.

When currency is turned over to the secretary and no listing thereof maintained, the control over such currency is lost. Our recommendations for the First Circuit Court regarding the control of checks which pose identification problems are applicable in this situation as well, i.e., the money should be deposited and an account established to control such items.

#### Control of Currency Received by Mail

The bail-by-mail clerk receives citations and related checks and currency for payments received by mail. Under these circumstances the clerk can "lap" funds. The explanation of how lapping can be accomplished was detailed previously under the topic "Control of Cash Received Over the Counter". On the date of our surprise cash count \$294 in currency had been received and the remaining citations were paid by check or money order. However, this may not have been typical of the amount of currency generally received in a day. We suggest that further investigation be made and if it is determined that the amount of currency received daily warrants control, the following approach should be considered. All bail-by-mail should be opened by two individuals and the currency and applicable citations segregated from checks and money orders. One individual could then count the currency and the other prepare an adding machine tape of the applicable citations. The currency could then be balanced with the tape and processed in the normal manner. It appears to us that the suggested procedure would provide effective control with a minimal effort.

#### Over- and Underpayments of Citations

The bail-by-mail clerk prepares a list of overpayments of citations, prepares the refund checks and routes the listing and checks to the Fiscal Division for signature. Since the listing is not checked to the appropriate citations by another individual, there is no assurance that the checks have been made out to the proper individuals. We recommend that another individual, preferably the supervising cashier, check the listing to the citations on a test basis and approve it prior to submittal to the Fiscal Division.

Underpayments are mailed back to the violators with a letter explaining the reason therefor. Good business practice suggests that such items be deposited in the bank and only a letter requesting additional payment be sent to the violator. On the other hand, acceptance of the payment by the Court may be considered payment in full from a legal standpoint. We suggest, therefore, that the office of the Attorney General be consulted regarding the matter.

#### Control of Cash Received Over the Counter

The keys to cash registers are left in the registers and as a result the control feature of the keys is defeated. The opportunity exists for a cashier to clear a machine at any time and remove the register tape and applicable cash. We recommend that the following procedures be adopted:

1. Someone other than the cashiers should control the register keys at all times.
2. The individual so designated should clear the machines and remove the register tapes.
3. The register tapes should be checked for numerical continuity and balanced to the cashiers' tally sheets.

### RURAL DISTRICT COURTS

#### Civil Court Transactions

The accounting records for civil court transactions of the rural district courts have been centralized and maintained in one set of books. There is no separation of work regarding such transactions. The same person receives cash, prepares bank deposits, prepares and cosigns checks, reconciles the bank account and maintains the ledger. We recommend that the duties be segregated in such a manner that no individual has control over all phases of a transaction. This can be accomplished by having one clerk assume the cash receipts function, another the responsibility for bank reconciliations and a third the recording function.

#### Civil Courts - Control of Checks

We observed that some checks for the bank account, having the designation "special fund" bank account, were presigned and left on one of the desks. The disbursements from this bank account are for the payment of witness and mileage fees. The practice of presigning checks coupled with the fact that such checks are not prenumbered constitutes a major deficiency in internal control. Because checks are not prenumbered there is no method by which all checks which have been written can be accounted for on a daily basis. In order to provide effective control we recommend that prenumbered checks be obtained and the numerical sequence controlled. In addition, if practicable, checks should be signed only after they have been prepared and any supporting documents examined.

DISTRICT COURT OF WAHIAWA AND WAIALUA

Control of Checks

It came to our attention that checks, which are not prenumbered, were signed in advance of preparation. Our recommendations cited in the previous paragraph are applicable to this court.

DISTRICT COURTS OF KOOLAUPOKO AND KOOLAULO

We investigated the system of internal control and accounting procedures of the District Courts of Koolaupoko and Koolauloa. Our investigation revealed no significant deficiencies in control or accounting procedures.

DISTRICT COURT OF EWA

Control of Cash

The cashier receives cash, clears the register, prepares the cash receipt listing by source and prepares the bank deposit. In addition, the key to the cash register is left in the machine. This situation is similar to that which exists for the District Court of Honolulu and our recommendations relating thereto should be referred to for the corrective action to be taken.

Signatures on Checks

Although dual signatures, those of the supervising clerk and cashier, are required on all checks, we noted that three checks containing only one signature were paid by the bank in the months of June and July of 1968. In order to prevent such occurrences in the future, employees of the court should scrutinize checks prior to their distribution and the bank should be notified regarding such matters. We also observed that an employee who transferred to another department of the State of Hawaii is still authorized to sign checks. We recommend that the Administrative Office adopt procedures which will prevent such occurrences in the future and rectify the present situation.

DISTRICT COURT OF WAIANAE

Control of Disbursements

Since there is only one individual employed at this location, the segregation of functions necessary to provide effective control is not possible. However, there are certain procedures which can be instituted to minimize the risks involved. The supervising clerk of the District Court of Ewa functions as the supervisor for the clerk of the District Court of Waianae. In this capacity he is authorized to cosign checks all of which require dual signatures. In practice, however, he signs a batch of blank checks for use by the clerk. In effect, therefore, only one signature is necessary for a check to be processed

and paid. We believe that the measures detailed below will provide some control. Checks for distribution should be signed by the clerk and sent to the supervisor along with the supporting documents. The supervisor should sign the check only after scrutinizing the supporting documents, and then mail them out. In addition, we suggest that the bank be instructed to send the bank account directly to the supervisor for reconciliation. In performing this function, precaution should be taken, i.e., checks scrutinized for signatures of payees, etc., in order to ascertain that all checks paid by the bank have been authorized. In this connection, prenumbered checks should be obtained and the sequence controlled by the supervisor.

#### Control of Receipts

In order to control cash receipts we suggest that the supervisor visit the Waianae Court periodically and test-check the listing of receipts to supporting data such as court calendars, receipt slips, deposit slips, etc.

#### Old Outstanding Balances

Prior to July 1, 1965, the District Courts were under City and County jurisdiction. At the time of our examination, we discovered that there were remaining on the books bails and rescinded impositions amounting to about \$500 which dated back prior to the date that the District Courts came under State jurisdiction. We suggest that the Administrative Director's office obtain a ruling regarding the proper disposition of such balances.

### MAUI COURTS

#### SECOND CIRCUIT COURT

##### Lack of Segregation of Duties

The Fiscal Officer prepares and makes deposits, records transactions in the subsidiary records, and prepares the bank reconciliations. As mentioned previously in this letter, control is lacking when one individual controls all phases of a transaction. We suggest that one of the other clerks prepare and make the deposit. The Fiscal Officer can continue to post to the subsidiary records from the receipt slips and compare the total of the receipt slips to the duplicate deposit slip.

##### Lack of Adequate Accounting Records

The Second Circuit Court maintains cash receipts and disbursements records but does not utilize a general ledger. The utilization of a general ledger provides self-balancing features which enable an accountant to discover and isolate any recording errors in a relatively short time. It is our understanding that steps have been taken to remedy this situation via the installation of a "peg board" system. A "peg board" system is feasible only when there are relatively few transactions to

record. The advantage of a peg board system is that the source document, subsidiary records and journal are recorded simultaneously through the use of carbonized paper or some other media. In this situation, the subsidiary records and journals should always be in agreement, since they are recorded at the same time. Although the "peg board" system should provide adequate accounting records, we feel that it would be preferable to standardize procedures throughout the courts and use a general ledger and supporting journals as the basic accounting records.

## DISTRICT COURT OF LAHAINA

### Inadequacy of Records and Procedures

The situation existing at this location poses some rather difficult problems as there is only one individual employed. The employee has not maintained a general ledger or subsidiary records for a long period of time. A general ledger usually contains, among other accounts, control accounts of assets and liabilities. A control account shows, for example, the total dollar amount of bails collected for which the cases are still pending. On the other hand subsidiary records contain the detailed information comprising the total dollar amount in the particular control account. Without these records it is not possible to determine to whom or for what money is owed. As a result of the general lack of accounting records the financial statements for June 1968 and prior months had not been prepared as of the date of our examination. In addition, the bank account had not been reconciled since 1965. Our examination also disclosed that the clerk had paid a personal expense with the Court's funds. We were informed that the Court has since been reimbursed for the amount. At the time of our examination the Administrative Director was in the process of reviewing the situation which exists at this location and the financial statements and bank reconciliation were prepared subsequent to that time. It appears to us that administrative controls were previously lacking in order for the situation to have existed as long as it did.

### Recommendations

In our opinion, two approaches can be taken to this problem. One approach would entail the supervision of the clerk of the court by a clerk of the Wailuku District Court. This arrangement can be similar to that already discussed with regard to the District Court of Waianae. Another solution would involve the centralization of the recordkeeping function in Wailuku and the use of traveling court clerks as is being done on Hawaii.

## HAWAII COURTS

### THIRD CIRCUIT COURT

#### Duplication of Work

The Third Circuit Court utilizes a modified single entry bookkeeping system to account for transactions. Under this system postings are made to the

cash receipts journal, a check register and subsidiary records (cash dockets). The cash receipts journal does not contain all of the captions necessary to identify cash receipts. As a result, worksheets are utilized to record the breakdown of cash receipts into the various categories. Thus information regarding receipts must be transcribed twice. In order to eliminate the duplication of effort and provide accounting records with self-balancing features we recommend the following:

1. The cash receipts journal should be revised to include all of the captions necessary to identify receipts.
2. A general ledger should be set up. The advantages of a general ledger have been set forth in a previous paragraph relating to the District Court of Lahaina.

#### Segregation of Duties

The Fiscal Officer records cash, maintains the subsidiary records, makes deposits and reconciles the bank statement. Our recommendations regarding this type of deficiency have been reported upon in previous paragraphs and are applicable in this case.

#### Control of Fines

A clerk maintains a cardex file system to keep a record of all fines which have been levied. No one, however, utilizes the files to ascertain that all fines have been paid according to the judgment rendered by the court. A similar situation exists at the First Circuit Court and our comments regarding collection of fines should be referred to for further details regarding this matter.

### DISTRICT COURTS OF HAWAII

#### Inadequate Records

We noted that subsidiary records are not maintained for bails posted and appeal and garnishee fee deposits. The purpose of maintaining such records has been previously discussed in connection with our comments on the District Court of Lahaina. We recommend that subsidiary records for all accounts be maintained and balanced periodically to the control accounts.

#### Control of Cash

Under the present system there is a lack of control over cash receipts. The cashier receives cash, summarizes the receipts for posting to the journal and receives the validated deposit slip from the bank. This situation presents the cashier with opportunities to manipulate receipts, especially where government realizations are involved. In order to establish internal control we recommend that the following procedures be adopted:

1. Someone other than the cashier should account for the numerical sequence of cash receipt slips, daily.
2. The same individual should compare the total of the receipt slips to the validated deposit slip and cash receipts journal.

#### Check Signing Procedures - Garnishment Checking Account

During the course of our examination we noted that the person authorized to sign checks on the garnishment checking account has been signing in advance. We were informed that garnishment checks are presigned because the authorized signer is not always available to sign checks. This problem can be solved very easily by granting the authority to sign checks to another clerk as well as the one currently authorized.

#### Check Signing Procedures - "Special Fund" Checking Account

"Special fund" checks are for the purpose of giving refunds for bails, bonds, rescinded impositions, etc. The District Court clerks on Hawaii are centrally located in Hilo and travel on a rotation basis to the outlying areas when the related courts are in session. Since only one clerk is present during the court session and dual signatures are required on checks, one of the signatures has been affixed to the checks prior to their preparation in order to enable the clerk attending the session to give refunds for bails, etc. In these circumstances the dual signatures serve no purpose. We believe that the risks involved in this type of situation can be materially reduced by initiating the procedure described below. We suggest that an imprest bank account be established to replace the "special fund" checking account. An imprest bank account is one which is maintained at an established amount, for example \$1,000. The amount of the account should be set after a review of the courts' requirements. Only one signature, those of the traveling court clerks, should be necessary to sign checks. Thus, the traveling court clerks could bring the check book with them to the court sessions and complete any necessary transactions. In this manner the risk is limited to the amount of the imprest account.

### KAUAI COURTS

#### FIFTH CIRCUIT COURT

##### Collection of Fines

Our investigation of internal control disclosed that no record of fines which are due is being maintained. Reliance is placed upon a probation officer to insure the payment of fines. A similar situation exists in the First Circuit Court and should be referred to for our comments.

#### DISTRICT COURT OF LIHUE

A court clerk is the only employee of this court. Reference should be made to our comments relating to the District Court of Waianae for the corrective action

which may be taken. In this situation a clerk at the Fifth Circuit Court could perform the supervisory function.

#### OTHER COURTS

We noted a lack of control over cash receipts of the Supreme Court and the Family Court of the First Circuit Court. In both instances, one individual has control of cash and certain supporting records. Our previous recommendations regarding control of cash receipts are applicable in these situations.

#### GENERAL COMMENTS

At this point we wish to reiterate our comments of the opening paragraph regarding our findings and recommendation. Our report on internal control is not necessarily all inclusive, but merely calls attention to those areas of the accounting system which in our opinion most warrant corrective action. We do not mean to imply that the recommendations detailed in this report should be implemented without further investigation of all relevant circumstances. In our report we have attempted to present practical solutions, from an accounting viewpoint, to problems of internal controls of the courts. The Administrative Director's office should investigate the feasibility of our recommendations within the organizational structure of the courts.

CHIEF CLERK, CIRCUIT COURT

First Circuit Court

Daily Cash Sheet

Date \_\_\_\_\_

Opening balance - cash on hand including checks		<u>xxx</u>	
Cash and checks received for the day	<u>xxx</u>		
Noncash credit postings:			
Transfers	<u>xxx</u>		
Personal checks	<u>xxx</u>		
Small estate exchange receipts	<u>xxx</u>		
Total credits posted for the day		<u>xxx</u>	
Opening balance plus total credits posted			<u>xxx</u>
Checks issued for the day	<u>xxx</u>		
Noncash debit postings:			
Transfers	<u>xxx</u>		
Personal checks	<u>xxx</u>		
Small estate exchange receipts	<u>xxx</u>		
Bank deposits	<u>xxx</u>		
Bank deposits plus noncash debit postings			<u>xxx</u>
Ending balance - cash on hand including checks			<u>xxx</u>
Total cash per tally sheets		<u>xxx</u>	
Checks per tally sheets		<u>xxx</u>	
Small estate receipts		<u>xxx</u>	
Total cash and checks			<u>xxx</u>

STATE OF HAWAII

Judicial Branch

SECTION IV

DATA PROCESSING PROCEDURES

STATE OF HAWAII

Judicial Branch

Section IV

Data Processing Procedures

June 30, 1968

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STATE OF HAWAII

Judicial Branch

Section IV

Data Processing Procedures

INTRODUCTION

We visited the Data Processing Section of the Honolulu District Court in order to evaluate the present system and its performance. We received willing assistance in this project from the Fiscal Officer, and the Data Processing Section Supervisor.

Since the purpose of this section of this report is to identify problem areas and point out opportunities for improvement, we have restricted our comments to these areas. In general, the Data Processing Section seems to be reasonably efficient in its internal operation. The work was apparently up-to-date during the time of our review.

OUR FINDINGS - PROBLEM AREAS

The following problem areas may in the future disrupt the operation of the Data Processing Section or decrease its effectiveness. For these reasons they should be corrected.

Inadequate Systems Documentation

The lack of complete systems documentation makes the work of an outside analyst or internal auditor more time consuming than is necessary. While certain procedural flow charts are in existence, they are not up-to-date in all details and are not summarized in an understandable manner. Form samples should be filed with the related procedures.

The punched-card data processing flow chart is too detailed for general systems and auditing use. A simplified flow chart with related narrative would be better.

No Machine Operator's Manuals

There is no detailed machine operation manual for either key punch operators or tabulating machine operators. This deficiency forces operators to depend on memory for all technical procedures. This deficiency will make the training of new operators more difficult and time consuming than is necessary. Should an operator leave suddenly, this training problem would have a negative effect on processing schedules.

### Too Dependent on One Tabulator Operator

A second person should be trained to perform the most crucial tabulating runs to protect the work schedules from delay should the present single operator become unable to work.

### No Balancing and Control Procedures

At present there are no written procedures detailing the methods and steps taken in balancing tabulator runs and in controlling the flow of work in the machine room.

### Inadequate Security

Since the thousands of citations and their related punched-cards represent substantial monthly income to the Judicial system, it is imperative that written security procedures be developed and followed. At present there seems to be little to prevent manipulation of certain citations by equipment operators. There are only nebulous procedures for attempting to locate or restore missing data cards or citations.

### Questionable Cost Justification of Application

Since the cost of tabulating equipment and operators is somewhat above \$2,000 per month, we feel that there may be alternative methods of data processing that would substantially reduce these costs.

## RECOMMENDATIONS FOR IMPROVEMENTS

The recommendations discussed in the following paragraphs relate to the problem areas noted in the previous section.

### Documentation

More complete documentation of the system should be developed based on accepted documentation standards used in more fully computerized operations. These areas of documentation should include but not be limited to:

1. A narrative of the entire system.
2. A general system flow chart.
3. Forms and report samples.
4. Detailed machine operator instructions.
5. Detailed balancing and control procedures.
6. Technical instructions and board wiring diagrams.
7. Samples of all card files with card fields defined.

The above documentation should be in one volume of which several copies are made. A master copy should be kept in a safe. Working copies should be in the hands of the Data Processing Supervisor and the Fiscal Officer. Periodic review and updating should be performed on all copies of the documentation.

Sections of the documentation such as operator instructions should be in the hands of those who will use them. Changes to procedures should only be made by the Data Processing Supervisor with appropriate approvals.

#### Cost of Tabulating Operation

We recommend that a study be made to determine the cost effectiveness of retaining a tabulating installation that is nearly 90% dedicated to traffic citation work. Our preliminary evaluations are that this work could better be done on a magnetic tape computer located elsewhere. Even if no time was available on computer equipment now leased by the State, it appears that the present work could be done by a commercial service bureau at a substantial savings to the organization.

We would not recommend that the key punch operation be contracted out, due to security requirements. But these functions may be improved as indicated in the following paragraph.

#### Use of Improved Data Capturing Equipment

The present high volume keypunching of a limited variety of card formats appears to lend itself in the use of more efficient data capturing equipment. Such equipment records the data directly onto magnetic tape instead of punching holes into cards. This equipment, which is in common use today, is manufactured by several companies including NCR, Honeywell, and Remington Rand. This equipment would very likely reduce keypunching costs, increase accuracy of work and reduce operator fatigue.

It is therefore recommended that a study be undertaken to evaluate the potential of this newer equipment.

STATE OF HAWAII

Judicial Branch

SECTION V

SUMMARY

STATE OF HAWAII

Judicial Branch

Section V

Summary

The primary purpose of our examination was to enable us to form an opinion as to the financial position of the courts at June 30, 1968 and the results of their operations for the year then ended. However, the scope of our examination included an investigation of the system of internal control, accounting procedures and forms, and the compliance with the laws of the State of Hawaii and applicable rules and regulations. Our findings are summarized in the following paragraphs.

GENERAL

The formation of the Judicial Branch of the State of Hawaii was provided for by "The Constitution of the State of Hawaii". The function of the Judicial Branch is the interpretation and administration of the laws of the State of Hawaii. For this purpose the Judicial Branch has been organized into three classes of courts: a Supreme Court with primarily appellate jurisdiction; Circuit Courts, which function as trial courts; and District Courts, which are generally responsible for criminal misdemeanors, certain civil cases and initial criminal procedures in felony cases originating in their districts. The Chief Justice is the administrative head of the courts and responsible for the operations of all of the courts.

In the performance of their duties the courts receive monies which they hold until the disposition of the applicable cases. Bails, bonds, deposits relating to eminent domain proceedings and garnishee fee deposits are examples of funds held by the courts. Upon disposition of the cases, the funds are distributed to the injured parties, depositors, etc. The balances of these types of transactions awaiting disposition at June 30, 1968 are shown on the balance sheet of trust and agency funds. These transactions, which are of a fiduciary nature, are reflected only on the accounting records of the courts.

On the other hand, the courts in the administration of justice and performance of their duties levy fines and collect various fees which are revenue to the State. The revenue and the operating costs of the courts are recorded in the accounts of the General Fund of the State of Hawaii and are shown on the statements of general fund revenues and appropriations and expenditures.

METHODS OF ACCOUNTING

The accounts of the Judicial Branch as shown on the balance sheet of trust and agency funds are maintained on a cash basis of accounting. Under this method of accounting only cash received and disbursed is recorded on the books of the courts. Due to the nature of the operations of the courts there is no difference between the cash and modified accrual basis of accounting which is generally accepted accounting for governmental entities.

The operations of the Judicial Branch of the State of Hawaii are recorded in the accounts of the General Fund of the State of Hawaii. The accounts of the State's General Fund are maintained on a modified cash basis. Under this method of accounting, revenues are recorded in the accounts only when collected by the State, but expenditures are accounted for upon incurrence of a liability or commitment.

### LIABILITIES

As explained previously, the balance sheet of trust and agency funds reflects the operations of the Judicial Branch which are of a fiduciary nature. \$5,109,584 out of the total liabilities of \$7,285,396 represent civil case costs consisting primarily of deposits on eminent domain proceedings.

### REVENUES

The revenues of the State collected by the Judicial Branch consisted primarily of fines, traffic waivers, bail forfeitures and court costs. These items accounted for approximately \$1,925,000 of total revenues amounting to \$2,132,272.

### INTERNAL CONTROL

A good system of internal control is the principal means by which the assets of an entity are safeguarded and the reliability of accounting data is assured. Under an adequate system of internal control the work is segregated in such a manner that no one individual has control over all phases of a transaction but rather the work of one individual is under the constant scrutiny and surveillance of another. Our report contains our findings and comments regarding significant weaknesses in internal control and accounting records and procedures. The following paragraphs summarize our findings.

### ALL COURTS

#### Accounting Records and Financial Reports

In general the format and contents of the financial reports appeared to be adequate for the purposes for which they are used. The accounting records and procedures have not been standardized throughout the courts. We believe that standardization would enable the courts to train personnel more efficiently and provide for transferability of employees among the courts.

#### Duplication of Work

Each court maintains detailed records of revenues, expenditures and appropriations. The data processing department maintains essentially the same information for all courts. We see no need for the duplication of effort and suggest that the courts discontinue their record-keeping function regarding such transactions.

## ADMINISTRATIVE DIRECTOR'S OFFICE

### Inadequate Segregation of Payroll Functions

The personnel clerk for the Judicial Branch submits the form which serves as the basis for adding an individual to the payroll to the Department of Personnel Services. In addition, she receives payroll checks for distribution to employees. Under these circumstances, a fictitious name can be added to the payroll for an "exempt" or temporary position without detection. In order to preclude this possibility payroll checks should be routed to another individual for distribution.

### Maintenance of Payroll Deduction Forms

We learned that each agency for which payroll deductions are authorized maintains copies of payroll deduction forms. In certain instances the agencies are not those of the State. We suggest that consideration be given to the centralization of the recordkeeping function.

### Incomplete Payroll Records

We noted several instances in which W-4 forms were missing, unsigned or exemptions reported thereon differed from those recorded on the payroll register. In order to comply with Federal regulations such forms should be updated and reviewed periodically to keep them current.

### Lack of Communication

The Department of Accounting and General Services did not notify the Judicial Branch of entries regarding appropriated receipts amounting to approximately \$29,000. As a result, the records of the courts differed from those of the departments. Minor differences in revenues and expenditures were also disclosed. The Administrative Director's office should be notified of all financial matters affecting its operations in order that effective planning may be accomplished. In addition the records of the Judicial Branch should be reconciled to those of the Department of Accounting and General Services on a monthly or quarterly basis in order that any differences can be investigated and explained.

## FIRST CIRCUIT COURT

### Timeliness of Bank Deposits

We performed a surprise count of all cash on hand, including fiduciary and State funds, on July 5, 1968. At the date of our count there were checks and money orders amounting to approximately \$14,000 which had been received prior to the date of our examination. Ten of the checks amounting to \$500 were two or more years old. The Revised Laws of Hawaii 1955, Chapter 34-21 states that all monies received in Honolulu should be deposited to the treasury weekly. Though the items in question were

not State funds but rather custodial funds which are not deposited in the treasury, prudent business practice suggests that all receipts be deposited daily in order to prevent loss, misappropriation, etc. Generally the checks and money orders in question were not deposited because of problems in identification or the payee was an individual rather than the First Circuit Court. All checks and money orders with the exception of those made out to individuals should be deposited daily. Checks made out to individuals should be controlled by reference to a listing which is maintained by someone who does not have access to the checks.

#### Inadequate Control of Bank Deposits

The posting clerk has access to the daily bank deposit as well as the supporting records. Because the duties are not adequately segregated the opportunity to manipulate the records and the applicable cash exists. We recommend that the duties be segregated in order to provide effective control.

#### Control of Cash Received Over the Counter

The First Circuit Court utilizes prenumbered receipt slips ostensibly for the purpose of controlling cash receipts. However we observed that the numerical sequence is not being checked. Under these conditions the cashiers could misappropriate funds. An individual other than the cashiers should check the numerical sequence of receipt forms daily and balance them to the validated deposit slip returned by the bank.

#### Interest on Savings Accounts

As previously explained the courts provide services of a custodial nature in holding monies until the disposition of the applicable cases. A large percentage of the cash is deposited in savings accounts or invested in time certificates of deposit upon which interest is earned. The interest on the deposits, amounting to approximately \$75,000 for the year ended June 30, 1968, has been considered revenue of the State and is shown on the statement of general fund revenues. Since all of the funds do not belong to the State, we questioned the legality of this and learned that there is no ruling or law regarding the matter.

The Third Circuit Court, on the other hand, has not remitted the interest earned to the State because of the uncertainty regarding the matters. In this instance the interest, amounting to \$27,000, is included in the amount of civil case costs on the balance sheet of trust and agency funds.

We suggest that the Attorney General's office be consulted regarding the legal aspects of the matter.

#### Unrecorded Savings Account

A savings account, amounting to \$28,000, was not recorded on the books of the court because of the nature of the case and type of court order.

From an accounting standpoint we fail to recognize any basic difference between the account and any other account of a fiduciary nature. All accounts for which the court has responsibility should be recorded in the books and controlled in the same manner as any other bank account.

#### Format of the "Daily Cash Sheet"

The form used to reconcile all cash transactions for the day is in our opinion unduly complicated. We recommend that the form be revised to present the information presented thereon in a more understandable manner.

#### Disbursements - Segregation of Duties

The duties relating to cash disbursements are not adequately segregated because the same individual performs the disbursements and recording functions under the present system of rotation of duties among the clerks. We recommend that the rotation of clerks among the various functions be discontinued in order to provide the proper segregation of duties so essential to good internal control.

#### Use of Facsimile Signature to Sign Checks

All checks issued by the court are signed with a facsimile signature affixed by the disbursements clerk. All checks over \$10,000, however, are initialed by the Chief Clerk. The propriety of checks of \$10,000 and under is not checked. As the bulk of the checks written is under \$1,000, we recommend that the Administrative Director's office study the matter to ascertain the reasonableness of the dollar amount of checks which require the Chief Clerk's scrutiny and approval. In this connection some consideration should be given to the requirement that dual signatures be placed on checks in excess of the predetermined amount.

#### Control of the Number of Checks Written

The check signing machine currently used by the First Circuit Court contains a device which counts the number of checks issued. This device should be utilized to control the number of checks written each day.

#### Old Accounts

The First Circuit Court has on its books balances relating to cases which have been closed. Such cases amount to approximately \$44,000 and relate generally to property condemnation and criminal cases. Where criminal cases are involved, it appears to us that the amounts involved should be deposited in the State treasury. In other instances the funds should be remitted to the appropriate parties. We suggest that all old cases be reviewed and proper disposition of the funds made.

The fact that the disbursements clerk has access to the ledger cards presents an opportunity for misappropriation of funds. As a control measure, we suggest that the inactive accounts be physically controlled by the supervisor or account clerk and any posting made thereto checked.

### Purchasing

The Fiscal Officer prepares purchase orders, approves invoices and receives the items purchased. These duties should be segregated in order to provide effective control.

### Collection of Fines

The control over the collection of fines is lacking primarily because no one has been assigned the responsibility for enforcing the payment thereof. Similar circumstances exist for the other Circuit Courts. We recommend that the Administrative Director's office take the necessary corrective action.

### Inadequacy of Posting Machine

The Fiscal Office utilized an old posting machine to record the Court's transactions. This machine does not have the capacity to provide the detailed breakdowns required to account for the transactions of the court and as a result adding machine tapes of the ledger cards must be prepared daily to allocate the day's transactions to the proper classifications. We understand that the purchase of a posting machine, which will eliminate the unnecessary work, is being considered.

## DISTRICT COURT OF HONOLULU

### Inadequate Segregation of Duties - Cash Receipts

The account clerk in the Fiscal Division has access to cash and the supporting records and thus has the opportunity to misappropriate funds which should be remitted to the State. It is especially important to rectify this situation because traffic violations are generally paid in currency. We have been informed that a new procedure has been initiated whereby the cashiers rather than the account clerk make the daily bank deposits. This procedure improves control over cash receipts.

### Timeliness of Deposits

The Comptroller's Regulation 4 provides for the deposit of State revenue on the next business day following the receipt of cash. At the time of our examination the Fiscal Division of the District Court of Honolulu was in violation of this regulation. The Fiscal Officer informed us that cash receipts are now being deposited on the day following their receipt.

### Control of Garnishee Fees

Under present procedures garnishee fees and the related records are kept by one individual rather than deposited in the bank. In this instance proper segregation of duties and timely bank deposits are both lacking. Garnishee fees should be deposited in a bank and the appropriate liability recorded on the books.

### Accounting for Citations Requiring Administrative Action

The secretary to the Director of the Traffic Violations Bureau receives checks and currency relating to citations which require administrative action for various reasons. This situation is similar to that relating to garnishee fees and should be handled in a similar manner.

### Bail-By-Mail

The bail-by-mail clerk receives citations and the applicable checks and currency for payments received by mail. Because of the lack of segregation of duties the bail-by-mail clerk could "lap" funds. We suggest that two employees work on the mail receipts involving currency in order to prevent the misappropriation of State revenues.

### Over- and Underpayments of Citations

When citations are overpaid the bail-by-mail clerk prepares a listing thereof and the refund checks for signature. The work of the bail-by-mail clerk should be checked by another individual in order to ascertain the propriety of the refunds.

Underpayments are mailed back to the violators with an explanation attached. We believe that such items should be deposited in the bank and only a letter requesting additional payment sent to the violator. However, as acceptance of the payment may be construed to be payment in full, the office of the Attorney General should be consulted regarding the legal aspects of the matter.

### Control of Cash Received Over the Counter

The control features of the cash registers are not being utilized to the extent possible because the keys to the registers are left in the machine. The keys to the registers should be controlled by someone other than the cashier. The individual assigned this responsibility should clear the machines and balance the tapes to the day's receipts.

## RURAL DISTRICT COURTS

### Civil Court Transactions

The Civil Court transactions of the rural District Courts are recorded in one set of books. We observed that there is no separation of duties regarding such transactions. We recommend that the duties be segregated in such a manner that no individual has control over all phases of a transaction.

### Control of Checks

It came to our attention that certain checks of the Civil Court and the District Court of Wahiawa and Wailua were signed in advance of preparation. The practice of presigning checks coupled with the fact that such

checks are not prenumbered constitutes a major deficiency in internal control. Checks should be signed only after they have been prepared and the supporting documents examined. In addition we suggest that prenumbered checks be obtained and the sequence checked in order to account for all checks which have been written.

#### DISTRICT COURT OF EWA

##### Control of Cash

The cashier receives cash, performs related functions and has control of the key to the cash register. Our comments regarding the District Court of Honolulu, where a similar situation exists, should be referred to for the corrective action to be taken.

##### Signatures on Checks

Although dual signatures are required on all checks we examined three checks containing only one signature which had been honored by the bank. Employees should examine all checks prior to distribution in order to prevent such occurrences.

An employee who transferred to another department of the State is still authorized to sign checks. The Administrative Director's office should ascertain that the present situation has been rectified and promulgate procedures which will prevent such occurrences in the future.

#### DISTRICT COURT OF WAIANAE

##### Control of Receipts and Disbursements

The supervising clerk of the District Court of Ewa functions as the supervisor of the one employee at this location. In this capacity he is authorized to cosign checks. However in practice only one signature has been required on checks since the supervisor has been presigning a batch of blank checks for use by the clerk. This practice should be discontinued.

In order to control cash receipts we suggest that the supervisor periodically test-check the listing of receipts to the supporting data.

##### Old Outstanding Balances

Prior to July 1, 1965, the District Courts were under City and County jurisdiction. We noted balances amounting to \$500 dating back prior to that date. We suggest that the Administrative Director's office obtain a ruling regarding such balances in order that proper disposition can be made.

## MAUI COURTS

### SECOND CIRCUIT COURT

#### Inadequate Segregation of Duties

The Fiscal Officer controls all phases of transactions relating to cash receipts. We suggest that one of the other clerks prepare and make the bank deposits in order to provide some measure of control.

#### Accounting Records

The Second Circuit Court does not utilize a general ledger with its self-balancing features to maintain the records of the court. The Administrative Director's office has investigated the situation and plans to implement a "peg board" system of accounting to correct the deficiency. Although the "peg board" system should provide adequate accounting records, we feel that it would be preferable to standardize procedures throughout the courts and use a general ledger and supporting journals as the basic accounting records.

### DISTRICT COURT OF LAHAINA

#### Inadequacy of Records and Procedures

The one employee of this court has not maintained any formal accounting records for a long period of time and has not reconciled the bank account since 1965. We also noted that the clerk had paid a personal expense with the Court's funds. We were subsequently informed that the Court has been reimbursed for the amount. It appears to us that close supervision is required under these circumstances. We believe that the Administrative Director should consider either the centralization of the recordkeeping function in Wailuku or an arrangement whereby close supervision would be provided by a clerk of the Wailuku District Court.

## HAWAII COURTS

### THIRD CIRCUIT COURT

#### Duplication of Work

The accounting system presently utilized by the Court requires a duplication of work in recording cash receipts because worksheets as well as journals are used to record the same basic data. The accounting records should be revised to eliminate the unnecessary work and a general ledger system established.

#### Segregation of Duties

The situation in this Court is similar to that of the Second Circuit and reference should be made thereto for our comments.

## DISTRICT COURTS OF HAWAII

### Lack of Detailed Records

Subsidiary records are not maintained for bails posted and appeal and garnishee fee deposits. We recommend that detailed records be maintained for all accounts.

### Segregation of Duties

Duties relating to the collection and recording of cash receipts are not adequately segregated. The work of the cashier should be checked by another individual.

### Check Signing Procedures

It came to our attention that checks on the garnishment and "special fund" checking accounts have been signed in advance of preparation. Checks on the "special fund" account are presigned in order that the court clerks who travel to the outlying areas may give refunds. We suggest that an imprest bank account be utilized to limit the risk involved in these circumstances.

## KAUAI COURTS

### FIFTH CIRCUIT COURT

#### Collection of Fines

The problems regarding the collection of fines have already been cited with regard to the First Circuit Court and should be referred to for our comments.

### DISTRICT COURT OF LIHUE

Because this Court employs only one clerk control must be exercised by supervisory personnel at the Fifth Circuit Court.

### OTHER COURTS

Control over cash receipts of the Supreme Court and the Family Court of the First Circuit is lacking because the work has not been adequately segregated.

### DATA PROCESSING SECTION

Our evaluation of the system and performance disclosed that the operation was reasonably efficient. There were, however, a few areas which in our opinion could be improved. The deficiencies noted are as follows:

1. The flow charts are not up to date and readily understandable.
2. There is no detailed machine operation manual for key punch or tabulating machine operators.

3. Too much dependence has been placed upon one individual.
4. Presently, there are no written procedures regarding the balancing of tabulator runs and controlling the work flow in the machine room.
5. The procedures for the prevention of loss or manipulation of punched cards are inadequate.
6. The cost of the tabulating equipment and operators may be excessive for the application.

In order to rectify the deficiencies cited above, we recommend the development of a complete system of documentation which should be adequately safeguarded to prevent loss. We also recommend that a study be made to determine the cost effectiveness of the data processing operation. In this connection the possibility of utilizing the computer equipment leased by the State or the services of a service bureau should be considered. The present high volume keypunching operation lends itself to the use of more efficient data capturing equipment. An evaluation should be made of the potential of this newer equipment.

STATE OF HAWAII

Judicial Branch

SECTION VI

COMMENTS OF AFFECTED AGENCIES

**A MEMORANDUM ON THE COMMENTS  
MADE BY THE AFFECTED AGENCY**

This financial audit report of the judicial branch of the State of Hawaii was completed in January 1969 by the certified public accounting firm, Peat, Marwick, Mitchell & Co., whose services were contracted by this office. On January 25, 1969, we distributed a copy of the report to the judicial branch via a transmittal letter, a copy of which is attached as Attachment No. 1. The judicial branch was requested to submit its comments on the recommendations contained in the report, including information as to the specific action it has taken or intends to take with respect to the recommendations.

The judicial branch submitted its response on February 3, 1969 (see Attachment No. 2). They were in general agreement with the recommendations made by the contract auditor and have indicated that they are implementing many of the changes recommended and are studying some of them before corrective action is taken.

Since the judicial branch has accepted the recommendations contained in the report, we make no further comments.



CLINTON T. TANIMURA  
AUDITOR

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
IOLANI PALACE  
HONOLULU, HAWAII 96813

January 25, 1969

The Honorable William S. Richardson  
Chief Justice of the Supreme Court  
State of Hawaii  
Judiciary Building  
Honolulu, Hawaii

Dear Chief Justice Richardson:

Under a contract with this office, Peat, Marwick, Mitchell & Co., certified public accountants, examined the accounting records and system of internal control of the Judicial Branch of the State of Hawaii for the fiscal year ended June 30, 1968. The examination was conducted pursuant to the duties and powers vested in our office by Article VI, Section 8, of the Constitution of the State of Hawaii and Chapter 2, Part III, of the Revised Laws of Hawaii 1955, as amended.

Enclosed are ten copies of the preliminary report of the audit. The expression "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor, and the presiding officers of both Houses of the Fifth State Legislature.

I would appreciate receiving your written comments on those recommendations which are directed to your department, including comments as to the specific steps you have taken or intend to take with respect to each of them. In addition, the report contains findings and recommendations that are directed to the State comptroller and the department of personnel services. These recommendations are made on page 3, section III, of the report. Please have your court administrative director's office coordinate the departmental responses and incorporate their comments with your reply. All comments must be in our hands by February 5, 1969. The report will be finalized and released for general distribution shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before January 31, 1969. We await a call from your office to fix the appointment. A "no call" will be assumed to mean that a meeting is not necessary.

We sincerely appreciate the assistance and cooperation extended by your staff to our contract auditors.

Sincerely yours,

Clinton T. Tanimura  
Legislative Auditor

Enclosures

LESTER E. CINGCADE  
DIRECTOR



RECEIVED ATTACHMENT NO. 2

FEB 4 1969

OFFICE OF THE AUDITOR  
TIME \_\_\_\_\_

ROBERT I. UEOKA  
BUSINESS MANAGER

THOMAS T. YOSHIDA  
PERSONNEL MANAGER

THE JUDICIARY  
OFFICE OF THE ADMINISTRATIVE DIRECTOR OF THE COURTS  
JUDICIARY BUILDING

P. O. BOX 2560  
HONOLULU, HAWAII 96804

February 3, 1969

File No. 570

Mr. Clinton Tanimura  
Legislative Auditor  
Schuman Building Annex  
Honolulu, Hawaii

Dear Mr. Tanimura:

This will acknowledge receipt of your letter of January 25, 1969, and the accompanying audit report accomplished by Peat, Marwick, Mitchell & Company.

Copies of the report have been forwarded to the Director of the Department of Accounting and General Services and the Director of Personnel Services as you requested.

A preliminary review of the report indicates that the information contained therein will be most helpful in our attempts to standardize the functions of the Judiciary.

You will be interested to know that several of the recommendations, as presented in this report, have been implemented since the auditors began their work in the Judiciary and a number of others are presently under consideration. However, to comment specifically on each recommendation and to indicate the action to be taken by February 5, 1969 would be premature. I want to have an opportunity to study the report thoroughly and consider the recommendations, in light of the ramifications they have on the various divisions of the Judiciary, before corrective action is taken.

Thank you for making the services of the contract auditors available to us.

Sincerely,

Lester E. Cingcade  
Administrative Director