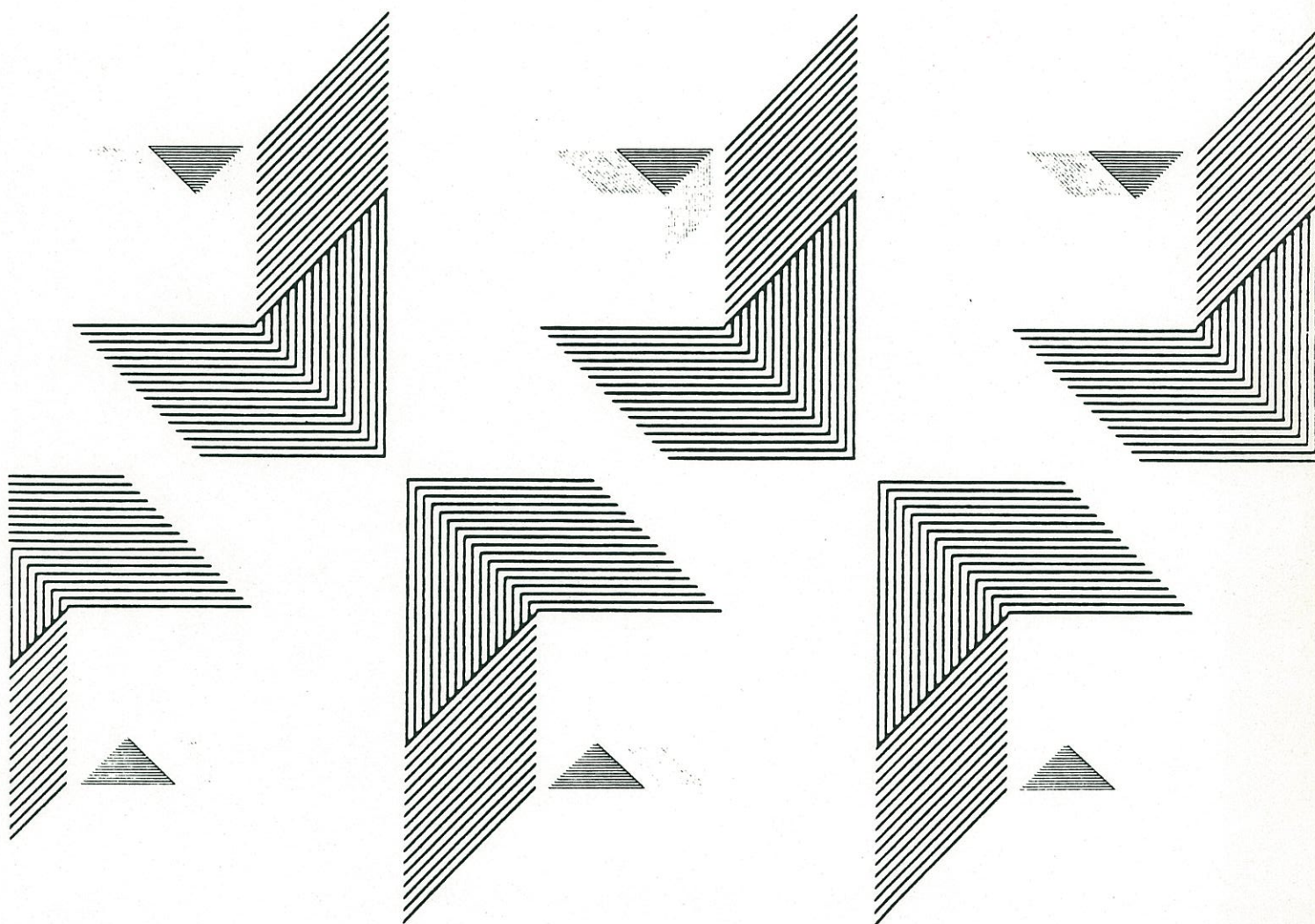


REPORT NO. 87-9

FEBRUARY 1987

# FINANCIAL AUDIT OF THE JUDICIARY

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



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

**FINANCIAL AUDIT OF THE JUDICIARY**

**Conducted by the  
Office of the Legislative Auditor  
State of Hawaii  
and  
Peat, Marwick, Mitchell & Co.  
Certified Public Accountants**

**A Report to the Governor and the Legislature of the State of Hawaii**

**Submitted by the  
Legislative Auditor of the State of Hawaii  
Honolulu, Hawaii**

**Report No. 87-9**

**February 1987**





## FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the Judiciary for the fiscal year ended June 30, 1986. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Peat, Marwick, Mitchell & Co.

This report is divided into three parts. Part I contains an introduction and some background information on the Judiciary. Part II presents our findings and recommendations on the Judiciary's financial accounting, internal control, and electronic data processing systems. It also includes the Judiciary's financial statements and the audit opinion of the fairness and accuracy of the statements. We have followed our customary practice of requesting the agency affected by the audit to comment on the findings and recommendations. Part III contains the response of the Judiciary to this report and our comments on its response.

We wish to express our sincere appreciation for the cooperation and assistance extended by the staff of the Judiciary.

Clinton T. Tanimura  
Legislative Auditor  
State of Hawaii

February 1987





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## **PART I**

### **INTRODUCTION AND BACKGROUND**

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## Chapter 1

### INTRODUCTION

This is a report of our financial audit of the State Judiciary.

The audit was performed pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivision. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Peat, Marwick, Mitchell & Co. (Peat Marwick).

#### **Objectives of the Audit**

The objectives of the audit were:

1. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the State Judiciary; to recommend improvements to such systems, procedures, and reports; and to render an opinion on the reasonable accuracy of the financial statements of the Judiciary.
2. To ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
3. To determine the extent to which the Judiciary has resolved certain personnel issues which have come to public attention.

4. To assess how effectively and efficiently the Judiciary's electronic data processing systems support and facilitate its operations.

### **Scope of the Audit**

The audit's scope included an examination of the financial statements, internal accounting controls, and legal compliance of the Judiciary for the period July 1, 1985 to June 30, 1986. The accountants' opinion as to the fairness of the financial statements presented is that of Peat Marwick.

### **Organization of the Report**

This report is organized as follows:

Part I (Chapters 1 and 2) presents this introduction and background information on the Judiciary.

Part II (Chapters 3, 4, and 5) presents our audit findings and recommendations on the financial accounting, internal control, and electronic data processing systems of the Judiciary. It also includes the Judiciary's financial statements and the accountants' opinion on the statements.

Part III contains the response of the Judiciary to our recommendations, together with our comments on the Judiciary's response.



## Chapter 2

### BACKGROUND

This chapter describes the Judiciary's organization and programs.<sup>1</sup>

The State Constitution vests the judicial power of the State in the Supreme Court, an intermediate appellate court, circuit courts, district courts, and in such other courts as the Legislature may establish. The Chief Justice of the Supreme Court is the administrative head of the Judiciary. As such, the Chief Justice is responsible for the efficient operation of all of the courts and for the expeditious dispatch of judicial business.

#### Major Programs and Organization

The major programs of the Judiciary are court operations and support services. The objective of court operations is to safeguard the rights and interests of persons by assuring an equitable and expeditious judicial process. The objective of support services is to enhance the effectiveness and efficiency of the judicial system by providing the various courts with administrative services.

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1. Descriptions were drawn from the *Annual Report of the Judiciary*, July 1, 1984 to June 30, 1985; and relevant portions of the Hawaii Revised Statutes, the Judiciary's *Financial Administration Manual*, and the Legislative Reference Bureau's *Guide to Government in Hawaii*, August 1984.

In addition to the organizational units related directly to court operations and support services, the Judiciary includes the Judicial Council, Board of Examiners, and Disciplinary Board of the Hawaii Supreme Court. The Judicial Selection Commission and Commission on Judicial Discipline are assigned to the Judiciary for administrative purposes. They function autonomously but receive administrative support from the Judiciary.

### **Court Operations**

The Judiciary is a statewide system of courts consisting of four integrated levels of appellate and trial courts. The Supreme Court is the highest court in the State with appellate jurisdiction. The intermediate appellate court is the second highest court in the State with concurrent and limited appellate jurisdiction. The circuit courts are trial courts of general jurisdiction. The district courts are trial courts of limited jurisdiction. In addition, there are three specialized courts of limited jurisdiction: the Land Court, the Tax Appeal Court, and the family courts.

Each of Hawaii's four counties constitutes a separate judicial circuit, and each circuit is served by at least one circuit court, a district court, and a family court. The Land Court and Tax Appeal Court are statewide courts of record in Honolulu.

**Supreme Court.** The Supreme Court is the highest judicial body in Hawaii's court system. The Supreme Court retains both appellate and original jurisdiction in determining questions of law or of mixed law and fact. Other responsibilities of the court include the formulation of court rules, the licensing and disciplining of attorneys, and the determination of judicial fitness.

The court consists of a chief justice and four associate justices. From lists of nominees submitted by the Judicial Selection Commission, the justices are appointed



by the Governor with the advice and consent of the State Senate for ten-year terms. As the head of the Judiciary, the Chief Justice is responsible for the supervision of its operations and appoints an administrative director of the courts to assist in the supervision of the courts.

**Intermediate Court of Appeals.** The Intermediate Court of Appeals is the second highest court in the State. The Court of Appeals shares concurrent jurisdiction with the Supreme Court in reviewing matters brought before the Court of Appeals. Any party may request the Supreme Court to review a decision of the Intermediate Court of Appeals, but the Supreme Court exercises discretionary power in assessing the merits of each request.

The intermediate appellate court is composed of a chief judge and two associate judges, who are appointed in the same manner as the Supreme Court justices.

**Circuit courts.** Circuit courts hold all jury trials and have general jurisdiction in criminal and civil cases. They have exclusive jurisdiction in probate, guardianship, and criminal felony cases, as well as civil cases where the contested amounts exceed \$10,000. Additionally, they exercise concurrent jurisdiction with the district courts in civil non-jury cases when disputed amounts are between \$5,000 and \$10,000.

Like Supreme Court justices and judges of the Intermediate Court of Appeals, circuit court judges are appointed by the Governor from nominees submitted by the Judicial Selection Commission.

**District courts.** District courts are non-jury trial courts. They have jurisdiction over civil matters where the disputed amount does not exceed \$5,000, cases involving traffic violations, and petty and criminal misdemeanor cases unless a



jury trial is demanded. In addition, they have concurrent jurisdiction with circuit courts in civil disputes where the contested amount is between \$5,000 and \$10,000. District court judges are appointed by the Chief Justice for terms of six years from nominees submitted by the Judicial Selection Commission.

Other components of the district courts are the Traffic Violations Bureau, the Counseling and Probation Services Division, and the Office of the Sheriff. The Traffic Violations Bureau processes citations for traffic violations on Oahu and keeps records of traffic violations statewide. Counselors in the Counseling and Probation Services Division prepare presentence reports, supervise probationers and offenders given conditional discharges or deferred guilty pleas, and find suitable alternative rehabilitation programs for court clients. The Office of the Sheriff is responsible for process serving and for the security of the courts.

**Family courts.** Family courts have jurisdiction over cases involving youths younger than 18 in situations defined by statute, and their authority extends to cases under the Uniform Child Custody Jurisdiction Act and the Interstate Compact on Juveniles. The family courts also have jurisdiction over adults involved in family law cases.

In the First Judicial Circuit, certain judges are designated to act as family court judges. In other judicial circuits, circuit and district judges preside over family court cases in addition to their normal workload.

**Land Court and Tax Appeal Court.** The Land Court exercises jurisdiction over applications for the original registration of land. The Tax Appeal Court has jurisdiction in all tax disputes, including excise, liquor, income, property, and insurance taxes.

## **Support Services**

**Office of the Administrative Director of the Courts.** The Office of the Administrative Director of the Courts is responsible for ensuring effective and efficient operations of all courts of the Judiciary and has the authority to review all aspects of Judiciary operations except court decisions. Activities of the office include formulating administrative policies, monitoring and evaluating operations, preparing budgets, maintaining fiscal controls and systems of purchasing, and property management. The office is headed by the Administrative Director of the Courts who is appointed by the Chief Justice with the approval of the Supreme Court.

**Supreme Court Law Library.** The library is composed of the Supreme Court Library in Honolulu and satellite collections in circuit buildings throughout the State. The library provides judges and the staffs of the courts with information and materials. It also serves other government agencies, attorneys, students, and the public.

## **Other Organizational Units**

**Judicial Council.** The Judicial Council consists of members appointed by the Supreme Court to serve in an advisory capacity on court-related matters. By statute, the Chief Justice serves as chairman of the Judicial Council.

**Board of Examiners.** The Board of Examiners consists of Supreme Court-appointed members of the Hawaii bar. Its function is to examine the legal and educational qualifications of applicants to the Hawaii bar.

**Disciplinary Board of the Hawaii Supreme Court.** The Disciplinary Board investigates complaints against lawyers and invokes necessary disciplinary action. It



also adopts and publishes advisory opinions interpreting the Code of Professional Responsibility. The Office of Disciplinary Counsel functions as the board's staff and operational arm.

**Judicial Selection Commission.** Article VI, Section 4, of the State Constitution provides for a Judicial Selection Commission. The function of the commission is to submit nominees to fill vacancies in the courts. In the case of the Supreme Court, Intermediate Court of Appeals, and circuit courts, nominees are submitted to the Governor who makes the appointment with the consent of the Senate. In the case of the district courts, the commission submits its nominees to the Chief Justice, who is solely authorized by the Constitution to make the appointment.

The commission consists of nine members, three appointed by the Governor, one each by the President of the Senate and the Speaker of the House of Representatives, two by the Chief Justice, and two elected by members in good standing of the state bar.

**Commission on Judicial Discipline.** The Commission on Judicial Discipline is created by the Supreme Court to receive and evaluate complaints against justices and judges. It has the authority to recommend disciplinary action if a determination of misconduct or disability is made. The Supreme Court may then reprimand, censure, retire, or remove the particular justice or judge. The commission is composed of seven members appointed by the Supreme Court.

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## **PART II**

### **FINDINGS AND RECOMMENDATIONS**

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## Chapter 3

### FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter contains our findings and recommendations on the Judiciary's financial accounting and internal control practices and procedures. In addition, this chapter includes our findings and recommendations on selected personnel issues affecting the Judiciary.

#### Summary of Findings

Our findings on financial accounting and internal control practices and procedures are as follows:

1. The exercise of necessary centralized fiscal controls in the Judiciary is hampered by the absence of an accounting manual which covers *all* court operations, instances of laxity in preaudit procedures, and the lack of an effective internal audit program.

2. Controls over cash receipts and disbursements are deficient. Cash receipt duties and disbursement and bank reconciliation functions are not separated among different employees, neighbor island circuit courts are not in compliance with check approval procedures, and some courts are not exercising proper controls over check signing machines and unused checks.

3. There is a lack of safeguard controls over cash and other valuables under the control of the Judiciary, and there are no uniform procedures to safeguard court evidence.



4. The realization of revenues is affected adversely by several practices. These include the delay in depositing receipts into the State Treasury, the untimely disposition of unclaimed bail and old outstanding and returned checks, and the lack of follow up for the collection of delinquent fines and restitutions. Consequently, the State has not been realizing the full potential of revenues from the Judiciary.

5. Trust fund subsidiary ledger accounts at the Honolulu district court are not reconciled to the general ledger account, and the accounts were out of balance at August 7, 1986.

6. Personnel action forms which affect payroll changes and pay rates of Judiciary employees are not all properly approved with authorized signatures.

7. The purchasing activities of the Judiciary are not in compliance with law and established policies and procedures of the Judiciary. There have been cases of noncompliance with competitive bid requirements, noncompliance with purchase requisition requirements, and lack of documentation for price quotations.

8. Judiciary employees are incurring excessive overtime hours. There has been no thorough review by management of the overtime experience and no identification and resolution of the underlying causes for excessive overtime.

9. There are numerous problems related to process serving as performed by personnel of the Office of the Sheriff and others in the Judiciary. These problems include lack of control and accounting for process serving fees, noncompliance with filing requirements for tax information returns, and what appear to be an inherent conflict in duties and inequities in process serving assignment.

10. The use of deputy sheriffs to provide after-hours security for the Judiciary's facilities is not cost effective. Other less costly alternatives to provide security are available and need to be considered.



In addition, the following are our findings related to the personnel issues which we reviewed:

1. While the Judiciary's use of emergency hires has been significantly reduced, there is still a need for further improvements.
2. Provisional and temporary appointments are being improperly used to bypass civil service recruitment procedures.
3. Reallocations of positions are being improperly used on a regular basis as a means of granting promotions.

### **Centralized Fiscal Controls**

The Judiciary has a decentralized accounting system whereby each court division has its own accounting staff responsible for maintaining accounting records and reporting financial information. Under such a decentralized system, there is a need for certain centralized fiscal controls to be exercised in order to provide some assurance that financial transactions at each court division are properly reported and made in compliance with statutes and established policies and procedures. For the Judiciary, the responsibility for exercising centralized fiscal controls rests with the Office of the Administrative Director.

Centralized fiscal controls consist of three major components. The first is the provision of an accounting manual. The purpose of an accounting manual is to provide uniform guidelines on accounting and operational procedures for each accounting center. Without an accounting manual, there is no guide for personnel to follow in performing their fiscal duties. The accounting manual also permits an organization to implement procedures on a consistent basis especially in a decentralized environment. The second major component of centralized fiscal



controls is the preaudit of centrally processed data. Whenever financial transactions initiated by each accounting center are processed through a centralized data center, such transactions should be scrutinized for propriety and compliance with statutes and policies prior to further processing by the centralized data center. The final major element to centralized fiscal control is an internal audit function. The objectives of internal audit are to ensure the propriety of information, compliance with statutes and policies, safeguarding of assets, and the efficient use of resources in attaining management's goals. Internal audit provides management with information about the adequacy and effectiveness of the organization's system of internal controls and the quality of operations. Such information is obtained through examinations and reviews conducted by internal auditors throughout the year. The scope of their audits may be broad, encompassing the internal controls of an accounting center, or limited, such as an unannounced inspection of cash accounts maintained at a particular location.

Based on our examination, we conclude that the Judiciary is lacking assertiveness in exercising centralized fiscal controls. Our specific findings in this area are discussed in the following section.

**Revisions to the accounting manual.** The Judiciary began to revise their accounting manual approximately six years ago. This manual is referred to by the Judiciary as the *Financial Administration Manual*. Currently, the revised manual details the procedures and forms to be used for transactions which are common to each court division. It also includes procedures unique to the operations of the specific courts. However, the manual has not been revised for the Honolulu circuit court and all the district courts. We were informed that the revision of the manual for the Honolulu circuit court and all the district courts is not expected to be



completed until 1991. Such a timetable is too remote. We believe sufficient priority should be given to this project to effect a more timely completion. The continuing absence of a revised manual which covers all of the courts could lead to greater inconsistencies and irregularities in financial practices. During the course of our examination, we noted numerous inconsistencies in the procedures and forms utilized by the district courts, and several of our findings on internal control deficiencies at these courts are due, in part, to the absence of a revised manual.

**Preaudit process.** Payments of expenditures are processed through the use of a summary warrant voucher. Attached to each summary warrant voucher are supporting documentation such as the vendor's invoice, the purchase order, contract, and receiving document. The division's fiscal officer and head are responsible for reviewing, preparing, and authorizing summary warrant vouchers. Upon completion, the summary warrant vouchers and supporting documentation are forwarded to the Budget and Fiscal Office of the Office of the Administrative Director for preaudit. The Judiciary's preaudit process includes procedures to ensure that all appropriate supporting forms are attached to the summary warrant voucher, any equipment purchase is included in the budget, and purchases are in compliance with the statutory bid requirements. After the preaudit process, the summary warrant vouchers are processed for payment and recordation.

We believe that closer scrutiny should be exercised during the preaudit process. In our examination, we noted that several purchases were made that were not in compliance with the statutory bid requirements and the Judiciary's policies on purchasing. There was no indication that all of these purchases were questioned during the preaudit process. These circumstances of irregular purchases indicate that there is a general weakness or laxity in the preaudit procedures. Otherwise, an



effective preaudit process would have forestalled the irregular purchases. (Our specific findings on the Judiciary's purchasing practices are described later in this chapter.)

**Internal audit.** The Judiciary's internal audit program was established in 1980. This program currently operates with three auditors under the Budget and Fiscal Office. It appears that the actual time spent performing internal audit functions has been limited as evidenced by the fact that there were only two reports issued by the internal auditors during the past two years. We were informed that for the past several years, a significant amount of the internal auditors' time has been spent on assisting outside consultants in the revision of the accounting manual due to the lack of other qualified personnel. While we recognize that the revisions to the accounting manual is essential, we do not believe that such divergence of resources should be made at the expense of preventing internal audit functions from being performed on a regular basis. The need for an effective internal audit function is amplified by the existence of the numerous deficiencies in fiscal and operational controls which are discussed later in this report.

*Recommendation.* We recommend that the Office of the Administrative Director employ assertive efforts to exercise centralized fiscal controls over all court divisions. Such efforts should include timely completion of the revision to the accounting manual so that it can be applied to all court operations, closer scrutiny of summary warrant vouchers and supporting documentation during the preaudit process, and the conduct of internal audits on a regular basis.



## Controls Over Cash

### Receipts and Disbursements

During our examination, we noted several deficiencies in the Judiciary's controls over cash receipts and disbursements which are discussed in this section.

#### **Lack of segregation of duties over cash receipt and disbursement.**

1. *Handling of cash receipts.* Cash is collected by all courts of the Judiciary. Cash collections include fees, bail, fines, restitutions, and other miscellaneous items.

One of the basic principles of internal control is that duties should be appropriately segregated and assigned in a manner that no one individual controls all phases of a transaction without the interrelated function of a cross-check by some other individual. Ideally, the function of receiving cash, depositing the cash, and recording the cash receipts in the accounting records should be separated and performed by different individuals.

Although there is sufficient staff to permit the segregation of duties at the Honolulu circuit and district courts, such separation of duties does not exist. For example, at the Honolulu circuit court, the head cashier is responsible for handling the cash, compiling the cash receipts of all cashiers, and preparing the deposit slip. At the Honolulu district court, the same cashier opens bail-by-mail receipts, batches these receipts, and validates and records the receipts.

This separation of functions over cash receipts also does not exist at the courts of appeal; Land Court; Tax Appeal Court; Kauai circuit court; Honolulu family court; and the Maui, Kona, and Kauai district courts. We understand, however, that due to the limited number of personnel at these courts, such separation of duties is not practical. Under such circumstances, some alternate



controls should be instituted such as having periodic, unannounced reviews of collection records by the Judiciary's internal auditors.

*Recommendation.* We recommend that cash receipt duties be separated and performed by different clerks for the Honolulu circuit and district courts. For the other courts, where separation of duties is not practical, the Judiciary's internal auditors should conduct periodic, unannounced reviews of collection records.

2. *Control over cash disbursements.* The district courts maintain a bank account as a depository for bail, bail forfeitures, fines, and miscellaneous fees. Disbursements from this bank account are made to transfer bail forfeitures and fines to the State Treasury and as refunds for bails and bonds. At the Honolulu district court, an account clerk prepares the checks, has access to the check writing machine and check signature nameplate, records the disbursement in the accounting records, and reconciles the bank account. Similar situations exist at the Land Court and Tax Appeal Court, where disbursements and the bank reconciliation functions are not performed by separate individuals.

This practice does not afford a "cross-check." Under the existing practice, it is possible for errors in recording disbursements to go undetected and for irregularities to be concealed. For example, a disbursement check could be made out but the recording of it could be omitted, either intentionally or unintentionally. Since the person who prepares the check also reconciles the bank account, the failure to record the check could be concealed through an improper reconciliation. A sound system of internal control requires that the disbursement function and the reconciliation of the bank account be performed by separate individuals. In addition, internal controls would be further strengthened by unannounced reviews of the bank reconciliations by the Judiciary's internal auditors.



*Recommendation.* We recommend that the cash disbursement functions and reconciliation of bank accounts be performed by separate individuals. We also recommend that the Judiciary's internal auditors conduct periodic, unannounced reviews of bank reconciliations.

**Noncompliance with approval procedures for checks.** Check approval procedures for circuit courts on the neighbor islands are stated in the Judiciary's *Financial Administration Manual*. The manual states that checks greater than \$1,000 shall be approved by the clerk of the court, checks up to \$1,000 shall be approved by the fiscal officer, and checks up to \$500 shall be approved by the account clerk. The manual requires that this approval be evidenced by the approver's initials next to the facsimile signature on the check. The purpose of having the approval of designated individuals is to fix responsibility for the disbursement to the appropriate level of authority.

Our examination revealed that cash disbursements at the neighbor island circuit courts are not being made in compliance with the approval procedures required by the *Financial Administration Manual*. At the Maui and Hilo circuit courts, fiscal officers rather than the clerk of the court were authorizing checks with amounts in excess of \$1,000. At the Kauai circuit court, the fiscal officer, small estates and guardianship clerk, and an account clerk were authorizing checks for any amount.

*Recommendation.* We recommend that the neighbor island circuit courts adhere to the check approval procedures set forth in the Judiciary's *Financial Administration Manual*.

**Lack of controls over the check signing machine and unused checks.** The Honolulu circuit and district courts do not maintain proper controls over the check



signing machine and unused checks. Two keys are required to operate the check signing machine. The use of two keys are required to ensure that the machine is used only as authorized. The keys should be assigned to two different individuals, making it difficult for a person on his own, or an unauthorized person, to operate the machine. However, during working hours, we observed that both keys are left in the machine, thus allowing anyone to operate the machine. The practice negates the control intended by requiring two keys. In addition, we noted that unused checks are not secured. Any unauthorized person could obtain a check and process it through the check signing machine.

*Recommendation. We recommend that one of the keys to the check signing machine be under the control of the fiscal officer or a designee to control the use of the machine. Both keys should not be left in the check signing machine when not in use. In addition, we recommend that access to the supply of blank checks should be physically controlled in a locked storage area under the control of the fiscal officer or a designee.*

### **Safeguard Controls**

Safeguard controls are internal controls which are designed to provide assurance that items of value are not lost or stolen and quantities and values on hand are consistent with those on record. The following section discusses two weaknesses relating to safeguard controls.

**Lack of security over cash and other valuables.** Cash is collected by the courts of appeal from the sale of Supreme Court reports, fees for issuance of certificates, charges for court costs, bar admission fees, and other miscellaneous items. These cash collections are kept in a safe located in the fiscal office until it



is deposited at the end of the week. The average weekly collections amount to approximately \$1,000. We noted, however, that the safe remains unlocked during office hours and is accessible to all office employees. To provide proper safeguards against theft, the safe should be locked at all times and access to the safe should be restricted to authorized personnel only.

We also noted that at the Kauai circuit court, noncash valuables which are held for bail in lieu of cash are stored in a vault which remains open during office hours and to which access is not restricted.

*Recommendation. We recommend that the safe at the courts of appeal and the vault at the Kauai circuit court be locked at all times and access be restricted to authorized personnel only.*

**Lack of uniform procedures to safeguard court evidence.** The circuit and district courts have custody over evidence which is used in court cases. While court evidence is essential to the trial, it is also, at times, of economic value and susceptible to theft (e.g., narcotics). During our examination, we noted that there are no uniform procedures governing the security of court evidence. As a result, each court has its own procedures to handle and store evidence, some of which are deficient. For example, at the Honolulu circuit court, evidence is stored in a locked room when not in court and the items are accounted for by the use of a perpetual inventory card system. However, a periodic physical count of the inventory is not taken. Thus, there is no assurance that items listed on the inventory cards are actually in the evidence room. At the Maui circuit court, there is no record of what is maintained in the evidence inventory. The Hilo district and the Kauai circuit courts do not have a secured area to store evidence. Court clerks in Hilo store the



evidence near their desks. There are no records to account for the evidence in their possession.

*Recommendation.* We recommend that the Judiciary develop and implement uniform procedures to safeguard court evidence. The procedures should provide for the maintenance of perpetual inventory records, performance of a periodic physical count by an individual other than the custodian of the evidence, and storage of evidence in a secured area with proper controls over its receipt and release.

### **Realization of Revenues**

The Judiciary, like other governmental agencies, has the responsibility to maximize the realization of revenues whenever possible. The following section discusses several deficiencies which were noted during our examination that relate to the realization of revenues.

**Unnecessary processing of general fund revenues.** The district courts receive general fund revenues such as bail forfeitures, traffic violation fines, and other miscellaneous fines. These receipts are initially deposited into a noninterest-bearing checking account maintained by each district court. After about an average of seven days, the general fund revenues are transferred into a bank account in the name of the State Treasury. We were informed that the Honolulu district court utilizes the checking account to clear checks with insufficient funds prior to depositing general fund revenues into the State Treasury's bank account. We believe that this reason is without merit. There is no valid reason why general fund revenues cannot be deposited directly into the State Treasury's bank account instead of being processed initially through the Judiciary's bank



account. Besides, there is no requirement that checks with insufficient funds be screened out prior to being deposited into the State Treasury. In this connection, we note that the Department of Taxation, which handles a great number of checks and also receives "bad" checks, deposits all of its general fund revenues directly with the State Treasury.

Since the current practice of processing general fund revenues unnecessarily delays the availability of such funds to the State Treasury, the State is losing the opportunity to earn thousands of dollars annually in interest. For the fiscal year 1986, approximately \$11,258,000 of general fund revenues were collected by the district courts. Based on the State Treasury's effective interest rate for fiscal year 1986 of 7.2 percent, we estimate that the State lost approximately \$16,000 in interest earnings in fiscal year 1986.

*Recommendation. We recommend that the district courts deposit general fund revenues directly into the State Treasury.*

**Untimely disposition of unclaimed bail and old outstanding and returned checks.** The statutory provision governing the disposition of unclaimed bail is Section 804-2, Hawaii Revised Statutes, which states: "All money deposited by way of bail or bond, in any proceeding before any court, which has not been declared forfeited, and not claimed within two years after the final disposition of the cause of action in which the money was deposited, shall, after due notice to the person who has deposited the same, by the then custodian of the money and upon order of court, be paid over to the director of finance of the State as a state government realization." Our examination revealed that the Judiciary is not disposing of unclaimed bails held over two years on a timely basis. We noted that at June 30,



1986, unclaimed bail amounts held in excess of two years totaled approximately \$167,000, some of which date back to the 1970s.

With regard to disposition of old outstanding and returned checks, Section 523A-13, HRS, states that "intangible property held for the owner by a court . . . which remains unclaimed by the owner for more than one year after becoming payable or distributable is presumed abandoned." By law, abandoned items are turned over to the Director of Finance and become government realizations. As is the case with the untimely disposition of unclaimed bails, we noted that the Judiciary is not disposing of old outstanding and returned checks on a timely basis. At June 30, 1986, the total amount of outstanding and returned checks with dates in excess of a year was approximately \$33,000, some of which date back several years.

Since unclaimed bail and old outstanding and returned checks cannot be recognized as government realizations until dispositions are made in accordance with law, the Judiciary's failure to make timely dispositions is costing the State the opportunity to earn interest. For example, for each month that the disposable amounts at June 30, 1986, are not turned over to the Director of Finance, the State is losing approximately \$900, based on the State Treasury's effective interest rate for the first six months of fiscal year 1987 of approximately 5.5 percent. In addition to the revenue consideration, timely dispositions will relieve the Judiciary from the burden of recordkeeping associated with the maintenance of unclaimed bails and checks.

*Recommendation. We recommend that the Judiciary ensure the timely dispositions of all unclaimed bail and old outstanding and returned checks that are eligible to become government realizations as provided by law.*



**Lack of follow-up procedures for the collection of delinquent fines and restitutions.** For the family court, the Judiciary's *Financial Administration Manual* states that the family court director shall be responsible for the collection of fines and restitutions in accordance with the court orders. Accordingly, the family court probation officers are assigned the duty of following up on the collection of delinquent fines and restitutions. We noted, however, that the fiscal office of the family court, which maintains the accounting records for the fines and restitution receivables, does not inform the probation officers when amounts become delinquent. Thus, there is no assurance that proper follow-up efforts are being made for the collection of delinquent amounts. At August 20, 1986, the balance of delinquent fines and restitutions amounted to \$16,672.

*Recommendation. We recommend that the fiscal office periodically inform the probation officers of delinquent amounts due so that proper follow-up collection efforts can be assured.*

#### **Failure to Reconcile Trust Fund Accounts**

The Judiciary receives bail and appeal deposits from individuals who are awaiting court appearances. These deposits are accounted for in a trust fund. When deposits are received in the form of cash or other assets (e.g., investment securities, equipment, etc.), they are recorded in the appropriate asset and liability accounts of the trust fund's general ledger. Since only totals are recorded in the general ledger account, the details of amounts applicable to each depositor are maintained in subsidiary ledgers. Accordingly, the sum of the deposits in the subsidiary ledgers should equal the account balance in the general ledger. To ensure the accuracy of these records since recording errors do occur, prudent accounting practices dictate



that reconciliations of the subsidiary ledgers to the general ledger account balance be made on a regular basis and differences, if any, should be immediately investigated and corrections made as necessary.

We noted, however, that the Honolulu district court does not reconcile its trust fund accounts. Consequently, we noted that the balance in the general ledger account for bail deposits at August 7, 1986, amounted to \$337,517 while the balances in the subsidiary ledgers totaled \$344,382, a difference of \$6,865. We believe that as part of its fiduciary responsibility, the Honolulu district court is obligated to maintain accurate records to properly account for bail and appeal deposits.

*Recommendation. We recommend that the Honolulu district court reconcile its trust fund subsidiary ledgers to the respective general ledger account on a regular basis and that any differences be immediately investigated and corrected.*

#### **Lack of Authorized Signature on Personnel Action Forms**

The Judiciary's payroll is processed through the central payroll section of the Budget and Fiscal Office. This section is responsible for preauditing payroll documents received from the various divisions. One such document is a "Notification of Personnel Action" form which is the official authorization to inform the central payroll section of changes in personnel or pay rates. This form requires two certifications by signature. One signature is required of the appointing authority who certifies that to the best of his knowledge the personnel actions have been taken in compliance with the applicable personnel laws. The other signature is



required of the administrative director or designee who certifies that the personnel actions have been audited and found to be in compliance with the applicable personnel laws.

In connection with our examination of payroll, a sample of the personnel action forms was reviewed. We found that on several forms the certification was not evidenced by the appointing authority's signature. Instead, the name of the appointing authority was typed in the signature block provided on the form. A typed name should not be acceptable as evidence that the form was properly certified since any unauthorized person could effect changes in personnel or alter pay rates by simply typing the appointing authority's name on the form. Accordingly, no payroll changes in personnel or pay rates should be processed by the central payroll section without properly signed certification on the personnel action form.

*Recommendation. We recommend that proper signatures be required for all certifications on the personnel action form before any changes in payroll are processed through the central payroll section.*

#### **Purchases of Goods and Services**

During our examination of the Judiciary's purchasing practices, we noted several deficiencies which are discussed in the following section.

**Noncompliance with competitive bid requirements.** Competitive bid requirements are governed by Section 103-22, HRS, which states that a public advertisement for sealed bids is required for expenditures of \$8,000 or more and a published call for informal bids is required for expenditures of less than \$8,000 but greater than \$4,000. Section 103-22 also states that expenditures should not be



divided or parceled so as to defeat or evade bid requirements. The purposes of competitive bid requirements are to prevent favoritism and to obtain favorable prices from the lowest responsible bidder.

We noted that on several occasions the Judiciary did not comply with the competitive bid requirements for expenditures which were subject to such requirements. For example, the Judiciary has numerous maintenance and rental contracts for equipment such as copier machines and typewriters with annual amounts exceeding \$4,000 that were not let under competitive bids. Certain of these vendors were awarded contracts several years ago under the bid process. Upon subsequent renewals of the contract, however, bids were not solicited. The expenditure of \$15,294 for personal computers is another instance where bids were not solicited.

With regard to the parceling of expenditures to evade bid requirements, we noted that several individual purchases for amounts less than \$4,000 were made for similar services or goods from the same vendor. For example, the district court of the first circuit purchased penal summons forms for the Honolulu courts and for the rural courts on Oahu for \$3,542.61 and \$3,361.06, respectively. The two forms are identical except for the respective court's address. The forms were purchased from the same vendor and ordered on the same day.

*Recommendation. We recommend that the Judiciary take the steps necessary to ensure compliance with the competitive bid requirements of Section 103-22, Hawaii Revised Statutes.*

**Noncompliance with purchase requisition requirements.** Part 7, Section 2.3, of the Judiciary's *Financial Administration Manual* requires the preparation of an approved purchase requisition form whenever goods or services are requisitioned for



purchase, unless the requisitioner already has the authority to approve the purchase. The purpose of this procedure is to have the proper authority ensure that purchases are properly budgeted for and in compliance with the statutes and the Judiciary's policies. During our examination, we noted several purchases by the Honolulu circuit court and the Maui family court were not supported by an approved purchase requisition.

Section 2.2 of the manual requires purchases to be approved by the division fiscal officer for amounts under \$1,000; by the division head for amounts between \$1,000 and \$4,000; by the budget and fiscal director for purchases within budgetary limits; and by the administrative director for amounts in excess of budgetary limits or for contracts. At the Honolulu circuit and district courts, we noted numerous instances where the individual signing the purchase requisition did not have the authority to approve the purchase.

*Recommendation. We recommend that the Judiciary take the steps necessary to ensure that the Honolulu circuit court, Maui family court, and Honolulu district court properly prepare and approve purchase requisitions for purchases as required in Sections 2.2 and 2.3 of the Judiciary's Financial Administration Manual.*

**Lack of documentation for price quotations.** Part 7, Section 3.2, of the Judiciary's *Financial Administration Manual* requires that price quotations solicited from three vendors be documented on the purchase requisition form for purchases amounting to \$4,000 or less. The manual also states that if the State's price list is used, such notation should be on the purchase requisition form. During our testing of purchases, we noted numerous instances where there was no documentation of price quotations or the use of price list items on the purchase



requisition form. Thus, there is no evidence that an attempt was made to obtain favorable prices for these purchases.

*Recommendation. We recommend that the Judiciary take the steps necessary to enforce its requirements to document price quotations or the price from the State's price list on the purchase requisition form as stated in Section 3.2 of the Judiciary's Financial Administration Manual.*

### Excessive Overtime Hours

During our examination, we noted that the Judiciary has been incurring an excessive amount of overtime hours. Such excessiveness is shown on Table 3.1 which indicates the number of instances where employees of each division have incurred 20 hours or more of actual overtime hours per pay period and the total overtime hours incurred for such instances during the fiscal year 1986.

Table 3.1

Employees With 20 Hours or More  
of Overtime Per Pay Period  
Fiscal Year 1986

Court/Division	Number of Instances	Total Overtime Hours
District courts:		
Administrative services	5	162
Honolulu courts	142	3,655
Maui courts	41	1,127
Kauai courts	7	268
Circuit courts:		
Administrative services	16	412
Volunteer services	3	73
Judiciary computer systems	1	22
Honolulu court	179	5,014
Hilo court	3	71
Family courts--Honolulu	153	5,131



The total payroll cost incurred by the Judiciary for overtime purposes amounted to \$663,500 for the fiscal year 1986. We understand that overtime payroll cost has been significant for several years. In specific instances, we noted that certain employees have regularly incurred a significant amount of overtime. For example, an employee of the Honolulu circuit court averaged 48 hours of overtime for 22 of the 24 pay periods during the year. A deputy sheriff had five pay periods in which he averaged 45 hours of overtime.

On the Judiciary's "Request for Overtime" form which authorizes overtime, common reasons provided by employees for overtime were position vacancies and work backlog. While these are justifications for overtime, what is lacking is a thorough review of the overtime experience by management. Such review should be conducted to identify and to solve, where possible, the underlying causes which give rise to the pressures for overtime.

An in-depth analysis of the Judiciary's overtime experience can lead to the identification of any number and kinds of organizational and procedural problems, the resolution of which may prevent pressures for overtime from building up in the future. Some such underlying causes which may exist in the Judiciary are: unequal distribution of work among employees; inadequate scheduling of work hours where the nature of the work requires labor at times other than the normal work week and work hours; lack of advance planning or inadequate planning to meet anticipated work loads; duplicating work already performed by others or performing nonessential tasks; failing to fill vacancies for long periods of time; excessive sick leaves; absence of production standards to ensure maximum outputs by employees during regular working hours; failure to institute retraining programs to train employees to



be shifted from time to time, as the need arises, to those tasks which require more immediate attention; and failure to mechanize operations.

*Recommendation. We recommend that the Judiciary review its overtime experience and seek to identify and resolve, where possible, the underlying causes which give rise to pressures of overtime.*

### **Process Serving System**

Under Section 601-33, HRS, the serving of criminal or civil process (e.g., summons, warrants, attachments, subpoenas, etc.) and executing orders of the courts are to be performed by the sheriff and the sheriff's deputies. Sections 607-4 and 607-8, HRS, specify the various fees payable to the process server. Deficiencies noted during our review of the process serving system are discussed in the following section.

**Lack of control and accounting for process serving fees.** The fiscal office of any organization has the responsibility to control and account for all financial transactions. We noted, however, that some of the process serving fees are not controlled and accounted for by the Judiciary's fiscal offices. For example, in June 1985, a system to account for process serving fees was initiated by the Honolulu district court's fiscal office. Prior to that time, the process serving fees were accounted for by one of the deputy sheriffs and were never reported to the fiscal office. Despite efforts by the fiscal office to control and account for process serving fees, we were informed that approximately 30 percent of the process serving fees paid to process servers are still being accounted for by the deputy sheriff in a separate bank account. There are no valid reasons for this continuing practice. We believe that the funds and the accounting records for process serving fees



maintained by the Office of the Sheriff should be transferred to the fiscal office and the bank account closed.

In other instances, we noted that fees for serving processes as well as writs of execution on Oahu are not always paid to the Judiciary. Attorneys frequently pay the process server directly. This is also the case on the neighbor islands, where process serving fees are paid directly by the attorney to the process server. Thus, there are no controls and accounting for these direct payments.

*Recommendation.* We recommend that all fees for the serving of process including fees for the execution of court orders be controlled and accounted for by the fiscal offices. We also recommend that the funds and the accounting records for process serving fees maintained by the Office of the Sheriff be transferred to the fiscal office and the bank account closed.

**Noncompliance with filing requirements for tax information returns.** Under federal and state tax laws, governmental agencies, as well as private entities, are required to file annual tax information returns for payments made to individuals as reportable income. The purpose of this requirement is to ensure that taxpayers are complying with tax laws and to allow the taxing authorities to calculate and collect the right amount of tax. We noted that the Judiciary has not filed annual tax information returns for process serving fees which represent income to the process servers. It should be noted that there are severe penalties for the failure to file the required tax information returns.

*Recommendation.* We recommend that the Judiciary take the steps necessary to ensure that annual tax information returns for process serving fees, as well as for all other reportable fees, be filed in accordance with federal and state tax laws.



**The existing system breeds conflict in duties and inequities in process serving assignments.** Under the current law, the salaried sheriff and deputy sheriffs, as well as nonsalaried deputy sheriffs who are paid on a fee basis, are able to receive fees for the serving of process. This situation could result in a conflict in the duties of the salaried sheriff and deputy sheriffs. This is because the persons involved could be inclined to give their personal priority to serving process rather than performing their assigned duties for which a salary is being received. Although it is said that these salaried employees are serving process after their regular working hours, this is difficult to monitor and enforce. This situation is not limited to the salaried sheriff and deputy sheriffs. Several other Judiciary employees "moonlighting" as deputy sheriffs are receiving fees for process serving. This practice of salaried Judiciary personnel receiving fees for the serving of process is not consistent with Section 606-14, HRS, which prohibits the court bailiff, a salaried position in the Judiciary, from receiving fees for the serving of process. The statute provides that whenever fees are collected for processes served by a bailiff, such fees become government realizations.

In addition to the problem of conflicting duties, we noted that process serving assignments are not distributed equitably. This is evidenced by Table 3.2 which indicates the varied amounts received for the serving of process by various process servers. The amounts shown in Table 3.2 include only reported fees for the serving of process since all fees are not fully accountable as discussed earlier in this section. In addition to the amounts shown in Table 3.2, there were 50 process servers who received total fees of less than \$2,500.

Table 3.2

Distribution of Process Serving Fees  
in Excess of \$2,500  
for the Year Ended June 30, 1986

Process Server	Total Fees
1	\$ 2,894
2	2,690
3	2,563
4	3,636
5	11,742
6	10,664
7	3,956
8	2,511
9	7,836
10	2,804
11	4,484
12	7,300
13	6,293
14	8,240
15	19,134
16	6,137
17	3,696
18	20,108
19	10,039
20	5,932
21	10,068
22	8,152
23	17,042
24	15,505
25	5,559
26	8,629

This problem results from the lack of a systematic method and conscious effort on the part of the Judiciary to ensure equitable assignments for the serving of process. Such a task is made even more difficult because attorneys are permitted to ask for a particular sheriff or deputy sheriff to serve a process, a practice which we believe is unusual and may be ethically questionable.



Within the existing process serving structure, we recognize that there are possible solutions to the problems of conflicting duties and inequitable assignments. Some solutions would be to prohibit salaried employees of the Judiciary from serving process except when serving process is part of their normal duties and the fees become government realizations, prohibit attorneys from selecting a particular process server, and devise a systematic method to ensure equitable assignments. We conclude, however, that changes outside of the existing structure may be more desirable to effectively resolve these problems. In this regard, we note that the Citizens' panel<sup>1</sup> recommended that the serving of criminal process might well go to the Police Department and the serving of civil process be either the responsibility of court bailiffs, done by independent contractors, or, as in many other states, be assigned to attorneys involved in the litigation process. It should be noted that the panel's recommendations were not made in reference to the problems of conflicting duties and inequitable assignments but was the result of its review of the desirability and practicality of changing the functions of the Sheriff's office. Nevertheless, we believe that the panel's recommendations are relevant to the problems of conflicting duties and inequitable assignments under the present system and thus deserve serious consideration.

*Recommendation. We recommend that the Judiciary consider alternatives to the existing process serving system which would resolve the problems of conflicting responsibilities and inequitable assignments and, if necessary, propose legislation to effect needed changes.*

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1. In August of 1985, the Chief Justice appointed a Citizens' panel to examine allegations about the Judiciary. The panel submitted its finding and recommendations on March 20, 1986, in a document entitled "Report of the Citizens' Panel on Judicial Administration in the State of Hawaii."



## Use of Deputy Sheriffs

Among other functions, deputy sheriffs provide security for the court buildings both during and after normal court operating hours. For after-hours security, Table 3.3 indicates the number of deputy sheriffs used for security at the Oahu circuit court and Honolulu district court buildings and a description of their activities. It should be noted that there are few normal court operating hours that overlap into the swing shift.

Table 3.3

### Deputy Sheriffs Utilized for After-Hours Security

Court Building/ Work Shift	No. of Deputy Sheriffs	Activity
Oahu circuit court building:		
Weekdays		
Swing	4	Patrol premises, issue building passes, and, at times, provide court security at family court cases.
Morning	2	Patrol premises and issue building passes.
Weekend--All shifts	2	Patrol premises and issue building passes.
Honolulu district court building:		
Weekdays--Swing and Morning;		
Weekend--All shifts	4	Patrol premises, issue building passes, process prisoners, provide cell block security, and process bail for prisoners held at Oahu Community Correctional Center.



Except for those activities associated with prisoners, the majority of after-hours activities in Table 3.3 deal with the protection of property such as patrolling premises and issuing building passes. We believe that the use of deputy sheriffs for the protection of property especially after hours is not cost effective. This is because deputy sheriffs are generally paid to perform a higher level of security functions since they are armed and undergo specialized training for the protection of life. As a comparison, the after-hours security of all state buildings under the control of the executive branch and located within the Honolulu civic center complex is provided by roving, unarmed security attendants under the control of the Attorney General's office. These security attendants make periodic checks to make sure that all doors are locked, check for fire, and notify armed capitol security personnel if any suspicious persons are observed. The pay grade of security attendants is pegged at SR-5 which pays a minimum annual salary of \$11,532. On the other hand, deputy sheriffs have a pay grade of SR-15 or SR-17 which pays a minimum annual salary of \$15,672 and \$16,932, respectively.

In order to arrive at the most cost-effective means for providing after-hours security, we believe that an analysis of all reasonable alternatives should be explored. Besides the use of less costly security attendants to patrol court buildings and to issue building passes, other alternatives to reduce the number of personnel required for each shift should be considered such as providing a roving security patrol rather than having security personnel stationed at each building. This could be complemented by the use of security devices such as alarms, card actuated entrances, or entrances with a call button to summon patrolling security which would eliminate the need for the physical presence of security personnel at each building site.



*Recommendation. We recommend that the Judiciary analyze its use of deputy sheriffs to provide building security coverage after normal operating hours and seriously consider alternatives which would provide such security coverage on a cost-effective basis.*

### **Selected Personnel Issues**

As part of our examination, we reviewed personnel issues relating to the Judiciary's use of emergency and other temporary appointments and reallocations for promotions. Most of these personnel issues were the subject of concern by the Citizens' panel which found that the Judiciary was using emergency hires and reallocations for promotions "to excess and without justification," to ensure the employment or advancement of certain employees while precluding others from the same opportunities, and to insulate certain individuals from the more rigorous and fair methods of the civil service system of hiring and promoting employees.<sup>2</sup>

Our findings and recommendations on emergency appointments, other temporary appointments, and reallocations for promotions are discussed in the following section.

**Emergency appointments.** The civil service law allows state agencies to bypass regular merit system policies and procedures for immediate hiring of personnel in times of emergency. It authorizes emergency appointments "to prevent the stoppage of essential public business," and to fill positions "temporarily in any

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2. The normal civil service method for hiring and promoting employees is to establish a list of eligibles by conducting open solicitation of applicants for a vacant position, an assessment of applicants' qualifications for performing the duties of a job, a ranking of the relative fitness of candidates based on their qualifications, and making a selection of an employee from the highest ranking candidates.



serious emergency," when it is not practicable to use an eligible list. Emergency appointments should not exceed 10 working days, but they may be extended for up to 30 days, "for good and sufficient cause." This means that an agency may hire anyone it chooses without regard to their qualifications, without competition, and without delay, when there is a bonafide short-term emergency need.

In this regard, the Citizens' panel found that the Judiciary was improperly using its authority to make emergency appointments. The panel also reported that the Chief Justice had taken steps to cut back on the use of emergency hires. This was done in August of 1985, when the Chief Justice issued a memorandum directing court administrators to conform to the provisions regarding emergency appointments and to phase out those emergency hires already on the payroll in "an orderly fashion, without disruption of normal services." The memorandum also states that no new personnel were to be hired on emergency appointments without the Personnel Administrator and the Administrative Director of the Courts both certifying that an "extraordinary situation" required immediate hiring on an emergency basis.

Prior to issuance of the directive, division administrators arranged to employ individuals as emergency hires for extended and indefinite periods of time, and simply informed the personnel office of their intentions. The personnel office automatically approved the emergency hiring and processed the appropriate papers. Since issuance of the directive, we were informed that the division administrators submit considerably less requests for emergency appointments to the personnel office, and that the personnel office is carefully screening requests and assessing the need and proposed length of the emergency appointments.



As compared to 113 emergency hires on the payroll in August 1985, the Judiciary had only 28 emergency hires by the end of October 1986. Eighteen employees were carryovers from the original 1985 list, and ten were newly appointed in 1986. Although this was a sizable reduction, a review of the remaining emergency hires indicated a need for greater efforts to conform to the civil service requirements on the part of the Judiciary. This is because all of the emergency hires on the October 1986 payroll had been employed for longer than 30 days, some apparently without good cause. Many were on jobs that were not emergencies or "extraordinary situations." For example, 20 juvenile detention workers, several janitors, and a cook were engaged in intermittent or regular part-time work as substitute workers whenever there were unscheduled absences of regular staff. Many had been employed as emergency hires in this type of capacity for well beyond a year. The use of emergency appointments is clearly inappropriate for this regular, ongoing substitute work, especially since there are other types of civil service appointments and arrangements available for such situations. One such arrangement would be to establish a pool of substitutes from among regular workers in appropriate job classes who would work on-call, if they are off their regular duty. Another arrangement would be to establish a pool of substitutes from existing eligible lists of workers. A third arrangement would be to establish permanent positions for part-time, intermittent workers, and recruit for these positions following regular civil service hiring procedures.

We noted that the personnel office does not have explicit guidelines on the appropriate and inappropriate uses of emergency appointments other than the general guidelines contained in the memorandum issued by the Chief Justice in



August 1985. We believe that such explicit guidelines are necessary to ensure the proper use of emergency appointments.

*Recommendations.* We recommend that the Judiciary strengthen the functioning of its personnel office to more effectively and critically examine all requests for emergency appointments. The personnel office should develop explicit guidelines describing when emergency appointments are justified and when they are not.

**Other temporary appointments.** The civil service law permits provisional and temporary limited appointments under certain conditions. Provisional appointments are permissible when there is no appropriate eligible list available and the public interest requires the filling of a vacancy while recruitment and screening is in process. These appointments are generally limited to 180 days, and may be extended under certain circumstances.

Temporary limited appointments are made for definite periods of time, and normally should not exceed a year. These appointments are often used to hire substitute workers for employees on extended leave and workers engaged in limited term seasonal work or special projects of limited duration.

Provisional and temporary limited appointments may be made from a regular civil service list or an appropriate eligible list. If there is no list, however, the state agency may select anyone. Provisional and temporary limited appointees must meet the minimum qualification requirements for a position.

In our review of the personnel records, we found that the Judiciary was using provisional and temporary appointments to bypass regular civil service recruitment procedures. These appointments were used improperly by continuing the employment period indefinitely for years; by ignoring regular recruitment

procedures; by appointing unqualified persons and giving them an opportunity, not available to others, to acquire sufficient experience to qualify for regular appointment. Examples of these improper practices are as follows.

1. *Extended temporary appointments.* Temporary appointments generally should not exceed a year. However, as of September 30, 1986, over a fourth of the 72 temporary appointees reported by the Judiciary had been in their positions for over a year. Several had been appointed back in 1982 or 1983.

2. *Delayed recruitment.* Temporary appointments may be made from persons already in the regular civil service, from an eligible list, or, if there is no list, from the public. It is easy to avoid the merit system in making a temporary appointment without using an eligible list by simply not recruiting for a position, and the Judiciary appears to have done so. For example, one employee was appointed to a position four years ago without using regular recruitment procedures, and recruitment notice for this particular position was only recently issued. The delay in issuing the recruitment announcement is unreasonable by any standard. The Department of Personnel Services says it takes them an average of three months to initiate and establish an eligible list. We see no reason why the Judiciary should not have issued the vacancy announcement for this position sooner.

3. *Failure to use existing list.* In another example showing the avoidance of merit procedures, an individual was appointed to a position about two years ago without going through the regular recruitment procedures. The employee had been kept in this position for two years even though there was a certified list of eligibles for his job class in effect during part of his appointment. This example is not an isolated instance. Other appointments of janitors and deputy sheriffs have been made in the recent past without using eligible lists that were available.



4. *Unqualified employees.* Although temporary appointees are required to meet the minimum qualification requirements for their positions, the Judiciary has made appointments of individuals who did not have the proper qualifications. One employee was initially placed in a position as an emergency hire about two years ago. He was not qualified for this position, but as an emergency hire, he was not required to be qualified. Twenty months later the position was downgraded and his appointment was changed to a long-term temporary appointment outside of the list. Prior to his employment at the Judiciary, this employee did not have the work experience or training required for his position at the Judiciary and would not have been eligible for a regular civil service appointment.

5. *Improperly gained experience.* In the employment histories of former emergency hires who recently acquired regular civil service appointments in the Judiciary, we found indications that provisional and temporary appointments were improperly used to help individuals gain sufficient experience to qualify for regular appointments.

The first case involves an individual who was an emergency hire in one position for over a year. Then, he was given a provisional appointment to another position for which he was not properly qualified. After six months in that position, the maximum generally allowed for provisional appointments, this individual was maintained in the same position as an emergency hire for several more months. When recruitment notices for the position were issued about a year ago, his appointment was switched back to a provisional appointment. He submitted an application and was selected for the position which he had improperly filled for a year and a half, and for which he finally qualified on the basis of that work experience.



A similar pattern was found for another former emergency hire who now occupies a regular civil service position. This employee started work for the Judiciary as a temporary, part-time worker several years ago. He was subsequently given an emergency appointment to a professional position although he did not have the necessary qualifications for the position. But again, as an emergency appointee, he did not need to have the qualifications. Last year, although he was still without the proper qualifications and technically ineligible, his appointment was changed to a provisional appointment. Following unsuccessful attempts to hire this employee on a permanent basis for the position because of his failure to meet the minimum qualifications, a vacant position was downgraded and a recruitment notice was issued. The employee applied for the position. His years of work experience acquired through emergency, temporary, and provisional appointments were used to qualify him for the list of eligibles. He was selected for the position.

These cases reflect a lack of adequate controls over the proper use of temporary, provisional, and permanent appointments by the Judiciary.

*Recommendations. We recommend that the Judiciary critically reexamine its use of provisional and temporary limited appointments and to adopt adequate controls to ensure that such appointments are made in compliance with the requirements and intent of civil service laws.*

**Reallocations for promotions.** Reallocation is the reclassification of a position to reflect significant changes in the duties of the position. The use of reallocation for promotion involves reclassifying the work of a particular employee to a higher level job classification and pay rate and moving the employee to the higher level. This practice precludes other employees from competing for promotions on the basis of merit.



It is easy to misuse reallocations for promoting employees. A supervisor may simply assign new duties to an employee that meet the specifications for a higher level job classification before requesting a reallocation and developing a suitable justification. Although other factors, such as need for the higher level position, are considered by the personnel office in its review of requests for reallocations for promotions from program administrators, the personnel office reviews the requests primarily to determine whether the employee is performing the new duties claimed in the upgraded position description.

In its report of March 20, 1986, the Citizens' panel found that the Judiciary had been improperly using reallocations of positions to rapidly advance a limited number of employees, and recommended that corrective action be taken. We find, however, that the Judiciary is continuing to use reallocations improperly and routinely as a regular method for promoting certain employees. During the period from March 20 to September 30, 1986, there were 45 promotions through reallocation. Upon our review of these reallocations, we noted that several of them involved employees with histories of promotions through reallocation. One employee had three such promotions in recent years, and despite Judiciary rules allowing no more than one promotion per year, this employee had two in a year. Another employee similarly had three promotions through reallocation, two of which occurred in a year. A third employee had five such promotions which moved the employee from a clerical position to a high level professional position.

Although various reasons for using reallocations as a promotional device have been offered by the personnel office, continuation of this practice is not supported by the civil service law and should be discontinued.

*Recommendation. We recommend that the Judiciary critically examine all requests for reallocations and to immediately discontinue the use of reallocations as a means of granting promotions.*





## Chapter 4

### ELECTRONIC DATA PROCESSING

This chapter contains our findings on the Judiciary's electronic data processing (EDP) systems.

The Judiciary has two major EDP systems, the DILOG and TRAVIS systems. The two systems function autonomously with its own support staff.

The DILOG system is a financial accounting and reporting system. All financial transactions of the Judiciary are recorded through this system on a minicomputer. The system features reporting at the fund, appropriation, division, and cost center levels.

TRAVIS was developed to assist the Traffic Violations Bureau in the maintenance and retrieval of traffic records and to support traffic case processing within the Judiciary. It was originally designed to operate on the State's mainframe computer maintained by the Electronic Data Processing Division of the Department of Budget and Finance. The Judiciary subsequently purchased its own mainframe computer and has completely assumed the processing operations of TRAVIS since May 1985.

The operations of the DILOG system were administered by the Management Systems Division of the Budget and Fiscal Office within the Office of the Administrative Director. TRAVIS was operated by the Computer Operations Division of the Honolulu district court. In June 1986, the responsibilities and authority for computerization at the Judiciary were centralized and assigned to the Computer Systems Office within the Office of the Administrative Director.



## Summary of Findings

We find that:

1. There is a need to computerize additional areas of the Traffic Violations Bureau's operations for efficiency and to eliminate significant backlogs.
2. There is a duplication of effort to enter purchasing and payroll data into the DILOG system and the State of Hawaii's financial reporting system.
3. The Judiciary lacks a comprehensive electronic data processing plan to ensure that the information systems are developed to effectively and efficiently support the goals and objectives of the Judiciary's programs.
4. The Judiciary does not have a disaster recovery plan to ensure that electronic data processing services are not disrupted in the event of a natural disaster or other disruptive event.

## Additional Areas

### for Computerization

While the Traffic Violations Bureau has been operating under the TRAVIS computer system for several years, we noted that there are additional areas of the bureau's operations which need to be computerized for efficiency and to eliminate significant backlogs. These areas are the preparation and monitoring of penal summonses and bench warrants relating to traffic violations and the recordkeeping of deferred payment agreements for fines.

**Penal summonses and bench warrants.** Penal summonses are issued when an individual fails to appear in court for a contested traffic violation. Bench warrants are issued for a person's arrest when a violator fails to respond to a penal summons. Since the statute of limitations for traffic violations is two years, the timely



issuance of penal summonses and bench warrants is essential to the proper processing and resolution of traffic violations. We noted, however, that the preparation and monitoring of penal summonses and bench warrants are being performed manually and there are significant backlogs for Honolulu and Maui courts in the processing of such notices. Furthermore, we noted that a large number of delinquent traffic violations were over two years old with no penal summons having been issued. Consequently, these violators cannot be summoned to court and penalized due to the expiration of the statute of limitations. In addition to the lost of state revenues, this inaction is unfair to those who make proper disposition of their traffic violation.

The process of identifying and preparing penal summonses and bench warrants is ideal for automation. The computer could be programmed to monitor the citation date entered into the computer and its status. If the citation is not cleared by a court appearance or a bail forfeiture within a certain period of time, the computer can be programmed to automatically prepare the penal summons and eventually a bench warrant, if applicable.

**Deferred payment agreements for fines.** When an individual is not able to pay a fine immediately, he may sign an agreement with the court to provide payment at a later date. If payment is not received in accordance with the agreement, the court issues a bench warrant for the individual's arrest. We noted that the recordkeeping of these deferred payment agreements and the preparation of bench warrants for delinquencies are done manually. We understand that there is about a three-year backlog in issuing bench warrants on delinquent payments. We believe that the Judiciary should automate the deferred payment agreement record system. If the system were automated, the payment dates could be monitored for



each agreement and a bench warrant automatically prepared for delinquent individuals. This would permit the Judiciary to properly enforce and collect fines on a timely basis.

*Recommendation. We recommend that the Judiciary take immediate steps towards computerizing: (1) the preparation and monitoring of penal summonses and bench warrants for traffic violations, and (2) the recordkeeping of deferred payment agreements for fines which should include a feature to automatically prepare bench warrants for delinquencies.*

### **Duplicate Data Entry**

Summary warrant vouchers, the State's form for the processing of payments, are sent from the various court divisions to the Judiciary's Budget and Fiscal Office. After completing the preaudit process, the data on the form is entered into the DILOG system. A copy of the summary warrant voucher is sent to the Department of Accounting and General Services (DAGS). Clerks at DAGS enter the data from the summary warrant voucher into the Financial Accounting and Management Information System (FAMIS), the statewide reporting system. The Judiciary's payroll forms are also sent to DAGS for processing. The data on these forms are entered into FAMIS, and a payroll expenditure distribution report is generated. This report is utilized by the Judiciary to enter payroll expenditures into DILOG.

The entering of purchasing and payroll data in DILOG and FAMIS is a duplication of effort. In addition, the verification of data entry and the performance of control procedures to verify the propriety of information must also be performed for both systems. This duplication of data entry could be eliminated



through the use of electronic transfer of data between the two systems. This may be accomplished by a direct link between the two computers, by computer tape, or by diskette.

*Recommendation. We recommend that the Judiciary implement some form of electronic transfer of data between DILOG and FAMIS so as to eliminate the need for duplicate entry of purchasing and payroll data.*

## **Comprehensive Electronic**

### **Data Processing Plan**

During the past several years, the Judiciary has made significant expenditures to automate and upgrade its financial and operating EDP systems. Despite the large amount of investment, relative complexity, and size of these EDP systems, the Judiciary lacks a comprehensive EDP plan. The purpose of such a plan is to ensure that the information systems are developed to effectively and efficiently support the goals and objectives of the Judiciary's programs. The EDP plan should take into consideration the Judiciary's long-range plans and goals, and should be considered a working document to be periodically reviewed and updated.

The lack of an EDP plan may result in purchases of hardware and software that meet current requirements but may be inadequate in fulfilling future EDP needs. The lack of a plan may also result in inefficient utilization of human and computer resources between the Judiciary's EDP systems. This is because certain functions such as data entry and verification may potentially be shared between the different systems.

Due to the rapid changes in computer technology, an EDP plan would typically cover a three- to five-year period. The plan should encompass the following:



1. *System requirements.* This contains a summary of the information needs of the different units of the Judiciary, a description of planned and in-progress projects, project priority considerations, and implementation plans including project sequence timetables.

2. *Technology plan.* This plan contains the requirements for hardware and software features to support the identified needs of the Judiciary. It should address both the use of current and acquisition of new hardware and software including facilities requirements. The plan should consider the alternative between custom development or package acquisition for software. A schedule of requirements indicating the time and implementation phase should also be developed.

3. *Organization and human resources plan.* This plan contains the organizational structure and the number and type of personnel required to support the Judiciary's EDP operations.

*Recommendation.* We recommend that the Judiciary develop a comprehensive electronic data processing plan encompassing system requirements, technology plan, and organization and human resources plan. This comprehensive plan should cover a three- to five-year period and be periodically reviewed and updated as necessary.

#### **Lack of a Disaster Recovery Plan**

The Judiciary does not have a formal disaster recovery plan for the maintenance of electronic data processing services in the event of a natural disaster or other disruptive event. Because data processing is critical for the continuity of operations, it is important that such a contingency plan be formulated. Key issues to resolve would include identifying an alternative processing site and ensuring that



personnel understand their roles and responsibilities in the event of a disaster or other service disruption. The effort to develop a plan would involve formulating the plan, committing appropriate resources towards its implementation, and periodically testing its effectiveness.

*Recommendation. We recommend that the Judiciary develop a disaster plan to ensure that electronic data processing services are not disrupted in the event of a natural disaster or other disruptive event.*





## Chapter 5

### FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination of the financial statements of the Judiciary for the fiscal year ended June 30, 1986. It contains the opinion of Peat, Marwick, Mitchell & Co. (Peat Marwick) regarding the fairness and accuracy of the Judiciary's financial statements. It also presents various financial statements of the general fund, special revenue funds, capital projects funds, and trust and agency funds administered by the Judiciary, together with explanatory notes.

#### Summary of Findings

In the opinion of Peat Marwick, the financial statements present fairly the financial position of the Judiciary at June 30, 1986, and the results of its operations for the 1985-86 fiscal year.

#### Accountants' Opinion

Peat Marwick filed the following report on the financial statements with the Legislative Auditor:

"To the Legislative Auditor  
State of Hawaii  
Honolulu, Hawaii:

We have examined the general purpose financial statements of the Judiciary, State of Hawaii, as of and for the fiscal year ended June 30, 1986, as listed in the accompanying table of contents. Except as stated in the following paragraph, 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.



Due to lack of centralized detailed historical fixed asset accounting records, it was not practicable to extend our auditing procedures to satisfy ourselves as to the General Fixed Assets Account Group balances totaling \$11,442,243. Accordingly, we do not express an opinion on the financial statements of the General Fixed Assets Account Group which are included within the aforementioned general purpose financial statements.

In our opinion, based upon our examination, and except that as explained in the preceding paragraph, we do not express an opinion on the financial statements of the General Fixed Assets Account Group, the general purpose financial statements referred to above present fairly the financial position of the Judiciary at June 30, 1986 and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

/s/ PEAT, MARWICK, MITCHELL & CO.

Honolulu, Hawaii  
December 19, 1986"

## Descriptions and Definitions

**Descriptions of financial statements.** The following is a brief description of the financial statements examined by Peat Marwick. The financial statements are attached at the end of this chapter.

1. *Combined Balance Sheet—All Fund Types and Account Groups (Exhibit A).* This statement presents the assets, liabilities, and fund equity of all the funds and account groups used by the Judiciary on an aggregate basis.

2. *Combined Statement of Revenues and Appropriations, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds (Exhibit B).* This statement presents the revenues and appropriations, expenditures, and changes in fund balances for the governmental fund types and expendable trust funds used by the Judiciary on an aggregate basis.



3. *Combined Statement of Revenues and Appropriations and Expenditures—Budget and Actual—General and Special Revenue Funds (Exhibit C).* This statement presents a comparison of budgeted and actual revenues and appropriations and expenditures for the general and special revenue funds used by the Judiciary.

#### **Definition of Terms**

Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

1. *Fund.* An independent fiscal and accounting entity with a self-balancing set of accounts that records cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

2. *Allotted appropriations.* Authorization to incur obligations and to make expenditures pursuant to the appropriation made by the Legislature.

3. *Appropriation.* An authorization granted by the Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are of two types: (a) funds which are available for use until completely expended, and (b) funds which lapse if not expended by or encumbered at the end of the fiscal year.

4. *Revenue.* A financial resource which is both measurable and available to finance expenditures of the fiscal year.



5. *Encumbrance.* Obligations in the form of purchase orders, contracts, or other commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid.

6. *Expenditure.* Cost of goods delivered or services rendered, whether paid or unpaid, including expenses and capital outlays. Expenditures are distinguished from encumbrances in that expenditures relate to goods delivered or services rendered whereas encumbrances represent commitments or obligations for goods to be delivered or services to be rendered and for which no actual liability has been incurred.

7. *Transfer—lapse.* The balance of funds authorized, which is unexpended and uncommitted at the end of the prescribed time period. The balance reverts to the designated fund and is available for appropriation by the Legislature in the ensuing fiscal year.

8. *Operating transfers.* Legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

9. *Other expenditures.* Expenditures other than for personal services.

10. *Personal services.* Salaries and wages paid to employees.

11. *Reserve.* An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

12. *Unexpended allotments.* Reservations of capital project appropriations that are available to complete such projects in future fiscal periods.



## Notes to General Purpose

### Financial Statements

Explanatory notes to the financial statements of the funds administered by the Judiciary are discussed below.

**Financial statement presentation.** The accompanying general purpose financial statements of the Judiciary present the financial position of the various fund types and account groups and the results of operations of the various fund types as of and for the fiscal year ended June 30, 1986.

The Judiciary has defined its reporting entity in accordance with National Council on Governmental Accounting Statement 3, as adopted by the Governmental Accounting Standards Board, "Defining the Governmental Reporting Entity." This statement provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity and how information about them should be presented.

**Summary of significant accounting policies.** The accounting policies of the Judiciary conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

1. *Basis of presentation—fund accounting.* A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that records cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The accounts of the Judiciary are organized on the basis of funds or groups of accounts, each of which is considered to be a separate set of self-balancing



accounts which comprise its assets, liabilities, fund balances, revenues, and expenditures. The various funds are grouped by type in the financial statements. The following fund types and account groups are used by the Judiciary.

a. *Governmental fund types.* Governmental funds are those through which the acquisition, use, and balances of the Judiciary's expendable financial resources and the related liabilities are accounted for. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The general fund is the general operating fund of the Judiciary. It is used to account for all financial resources except for those required to be accounted for in another fund. The general fund programs presented are a part of the State's general fund and are limited to only those appropriations and obligations of the Judiciary.

The special revenue funds are used to account for resources legally restricted to expenditure for specific current operating purposes. Federal grants received by the Judiciary to fund various programs are accounted for as special revenue funds.

The capital projects funds are used to account for purchases or construction of major capital facilities of the Judiciary. Capital projects funds must be used when they are legally mandated or when projects are financed wholly or in part by bond issues or intergovernmental revenues.

b. *Fiduciary fund types.* Fiduciary funds are used to account for assets held by the Judiciary in a trustee capacity or as an agent. Fiduciary fund types are comprised of expendable trust funds and agency funds.

Expendable trust funds account for assets held in trust to be expended for designated purposes. Agency funds account for assets held by the Judiciary as an



agent for individuals, private organizations, other governmental units, and/or other funds.

c. *Account groups.* Account groups are used to establish accounting control and accountability for the Judiciary's general fixed assets and long-term debt.

- . General Fixed Assets Account Group. This group of accounts is established to account for all general fixed assets of the Judiciary.
- . General Long-Term Obligations Account Group. This group of accounts is established to account for all long-term obligations of the Judiciary.

2. *Basis of accounting.* The modified accrual basis of accounting is followed by the governmental funds and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to pay for liabilities of the current period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: accumulated unpaid vacation which is recognized as an expenditure when paid from available financial resources; and principal and interest on general long-term debt which is recognized when due.

3. *Encumbrances.* The general, special revenue, and trust funds follow encumbrance accounting under which purchase orders, contracts, and other commitments are recorded as a reserve of fund balance and provide authority for the carryover of appropriations to the subsequent year in order to complete these transactions. Encumbrances are not reported in the financial statements for



commitments related to grants which have not yet been recognized as revenues in the funds.

4. *Appropriations.* Appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended or encumbered. Appropriations for the capital projects continue in force until the purpose for which they were appropriated has been accomplished or abandoned after a specified time limitation.

5. *Unexpended allotments.* Allotment accounting is employed in the capital projects funds to reserve appropriations to complete capital projects that were funded during a given fiscal period. Unexpended allotments represent reserves of capital projects appropriations that are available to complete such projects in future fiscal periods.

6. *General fixed assets.* Fixed assets acquired for general purposes are recorded as expenditures in the fund financing the purchase and are capitalized at cost in the general fixed assets account group.

No depreciation has been provided on general fixed assets, nor has interest been capitalized.

7. *Accumulated unpaid vacation and sick leave.* In governmental fund types, the amounts expected to be liquidated with expendable available resources are accrued in the respective funds and the amounts payable from future resources are recorded in the general long-term obligations account group. All accumulated unpaid vacation at June 30, 1986, is expected to be liquidated with future expendable resources.



Unaccrued sick leave at June 30, 1986, totaled \$14,724,000 for the Judiciary. Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. Judiciary employees who retire or leave government service in good standing with 60 days or more of unused sick leave are entitled to additional service credit in the Employees' Retirement System.

8. *Total columns.* Total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position or results of operations of the Judiciary in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation.

9. *Leases.* Noncancelable leases under which the Judiciary is lessee are capitalized based upon guidelines established by Statement of Financial Accounting Standards No. 13, as amended. Leases transferring substantially all of the risks and benefits of ownership are capital leases; other leases are operating leases. Capital leases are recorded as fixed asset additions at their estimated fair market value at the inception of the leases and the related present value of the future minimum lease obligations is recorded as long-term debt in accordance with the fund's fixed asset and long-term debt accounting policies. Operating lease expenditures and expenses are recognized when the lease obligation is paid.

**Description of the trust and agency funds.** Trust and agency funds are used to account for resources held by the Judiciary as a trustee or an agent. These accounts are operated in accordance with court orders, specific agreements, or



other governing regulations. The Judiciary also use the trust and agency funds for clearing accounts in which collections are deposited and are subsequently transferred into the State Treasury.

The resources held in custody by the courts include cash; cash securities such as savings certificates and time certificates of deposit; and certain noncash assets such as stocks, insurance policies, bonds, real property, and equipment. These resources represent deposits received for court costs or assets placed under the courts' jurisdiction by court order for small estates or small guardianship cases.

**Biennial budget.** The Judiciary follows these procedures in establishing the budgetary data reflected in the financial statements:

1. *The budget.* Not less than 20 days before the Legislature convenes in every odd-numbered year, the Chief Justice submits to the Legislature and to each member thereof, a budget which contains the program and budget recommendations for the succeeding two fiscal years.

2. *Legislative review.* The Legislature considers the proposed program and financial plan and budget, evaluates alternatives to the recommendations, and adopts programs and determines the Judiciary budget.

3. *Program execution.* Except as limited by policy decisions of the Chief Justice, appropriations by the Legislature, and other provisions of law, the Judiciary is responsible for administering to its programs. The appropriations by the Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the budget and fiscal director. No appropriations transfers or changes



between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the Legislature.

**Budget basis of accounting.** Budgets adopted by the Legislature for the general and special revenue funds are presented in the Combined Statement of Revenues and Appropriations and Expenditures—Budget and Actual. The Judiciary's budgetary fund structure differs from those utilized to present financial statements in conformity with generally accepted accounting principles. A summarization of the material differences for the fiscal year ended June 30, 1986, follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses—actual on budgetary basis	\$ (115,889)	\$284,962
Reserve for encumbrances at year end	2,553,635	10,666
Expenditures for liquidation of prior year encumbrances	(782,688)	—
Excess of revenues over expenditures for nonbudgeted funds	<u>—</u>	<u>18,240</u>
Excess of revenues and other financing sources over expenditures and other financing uses—GAAP basis	<u>\$1,655,058</u>	<u>\$313,868</u>

**Fixed assets.** A summary of changes (unaudited) in general fixed assets shown on Exhibit A follows:

	<u>Balance at 07/01/85</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/86</u>
Land	\$ 695,188	\$ —	\$ —	\$ 695,188
Building	253,562	—	—	253,562
Equipment	<u>8,287,094</u>	<u>2,301,769</u>	<u>(95,370)</u>	<u>10,493,493</u>
	<u>\$9,235,844</u>	<u>\$2,301,769</u>	<u>\$(95,370)</u>	<u>\$11,442,243</u>



**Employees' retirement system.** All eligible employees of the Judiciary are required by Chapter 88 of the Hawaii Revised Statutes to become members of the State Employees' Retirement System (ERS), a contributory multiple-employer retirement system. Employer contributions to the plan for positions at the Judiciary funded by federal grants are included as expenditures to the special revenue fund. Contributions for other employees are funded by state general fund appropriation.

Prior to June 30, 1984, the plan was only contributory. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under social security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by social security were excluded from the noncontributory plan. The noncontributory plan which provides for reduced benefits covers most eligible employees hired after June 30, 1984. Employees hired before that date were given the option of remaining in the contributory plan or joining the new noncontributory plan and receiving a refund of employee contributions.

The ERS consists of a Pension Accumulation Fund which provides basic pension benefits and a Post Retirement Fund which provides annual increases to individuals receiving pensions. Employer contributions to both funds are comprised of normal cost plus level annual payments required to liquidate the unfunded accrued liability of both funds. The ERS uses the frozen initial liability method and the entry age normal cost method for the Pension Accumulation Fund and Post Retirement Fund, respectively, to calculate the unfunded accrued liability for each fund.

Required contributions to the ERS are based on actuarial valuations and include the amortization of accrued unfunded liability over 50 years from July 1,



1964. The State's policy is to fund its required contribution annually. Information on the Judiciary's portion of the contribution to the ERS is not available.

Actuarial valuations are prepared for the entire ERS and are not separately computed for the Judiciary. The actuarial report does not provide the actuarially computed value of vested benefits. Instead, the following data for the entire ERS (contributory plan) is provided as of the latest available report dated June 30, 1985, as follows:

Net assets available for benefits (unaudited)	\$2,314,334,300
Present value of future employee contributions	433,043,700
Present value of future employer normal cost contributions	1,378,834,900
Unfunded accrued liability	<u>496,996,200</u>
	<u>\$4,623,209,100</u>
 Present value of benefits to current pensioners and beneficiaries	 1,139,770,200
Present value of future benefits to active employees and inactive members	<u>3,483,438,900</u>
	<u>\$4,623,209,100</u>

The actuarial valuation as of June 30, 1985, is based on an assumed investment yield of 8 percent. Estimated earnings in excess of the assumed rate are used to reduce required contributions.

**Post retirement health care and life insurance benefits.** In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements. State contributions for post retirement benefits which are funded as accrued aggregated \$17,251,000. Information on the Judiciary's portion of post retirement benefit contributions is not available.



**Long-term obligations.** The following is a summary of other long-term obligations transactions for the fiscal year ended June 30, 1986:

	Accrued Vacations Payable	Installment Contracts Payable	Obligations Under Capital Leases	Total
Balance, July 1, 1985	\$5,046,596	\$1,115,530	\$122,159	\$6,284,285
Net increase in accrued vacation payable	615,128	-	-	615,128
Additions	-	160,520	222,592	383,112
Deductions and payments	-	(358,090)	(87,706)	(445,796)
	<u>\$5,661,724</u>	<u>\$ 917,960</u>	<u>\$257,045</u>	<u>\$6,836,729</u>

The Judiciary purchases machinery and equipment under installment purchase contracts. Maturities of the installment purchase contracts for the next five years are as follows:

Year ending June 30:	
1987	\$295,250
1988	287,375
1989	217,934
1990	100,546
1991	<u>16,855</u>
	<u>\$917,960</u>

**Leases.** The Judiciary leases machinery and equipment under noncancelable leases expiring at various dates through June 1991 which meet the criteria for capitalization established by Statement of Financial Accounting Standards No. 13, as amended. The leases are financed from general government resources. The estimated value of the leased machinery and equipment at the inception of the capital leases, amounting to \$337,000, and the related present value of the obligations under the capital leases, amounting to \$257,045 at June 30, 1986, are included in the General Fixed Assets and General Long-Term Obligations Account Groups, respectively.



The future minimum obligations under capital leases as of June 30, 1986, follows:

Year ending June 30:	
1987	\$ 97,890
1988	97,890
1989	67,201
1990	39,873
1991	<u>19,153</u>
Total minimum lease payments	322,007
Less amount representing interest	<u>64,962</u>
Obligations under capital leases	<u><u>\$257,045</u></u>

The Judiciary leases equipment and office space under noncancelable operating leases that expire over the next five and six years, respectively. Future minimum lease payment under noncancelable operating leases as of June 30, 1986, are:

Year ending June 30:	
1987	\$649,000
1988	507,000
1989	385,000
1990	262,000
1991	157,000
Thereafter	12,000



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## Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1986

Assets	Governmental Fund Types		Fiduciary Fund Types	Account Groups			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	General Fixed Assets (Unaudited)	General Long-Term Obligations		
Cash:							
In State Treasury	\$ 3,524,060	630,779	16,804,680	-	-	-	21,036,287
Held in banks	-	-	-	-	-	-	10,023,724
Certificates of deposit	-	-	-	-	-	-	302,339
Marketable investment securities	-	-	-	-	-	-	505,784
Land	-	-	-	695,188	-	-	1,091,889
Buildings	-	-	-	253,562	-	-	347,761
Equipment	-	-	-	10,493,493	-	-	10,685,942
Other assets	-	-	-	-	-	-	251,419
Resources to be provided in future years for retirement of general long-term obligations	-	-	-	-	6,836,729	-	6,836,729
Total assets	\$ 3,524,060	630,779	16,804,680	11,442,243	6,836,729	-	51,081,874
Liabilities:							
Vouchers payable	816,216	11,322	-	-	-	-	827,538
Accrued wages payable	154,209	1,829	-	-	-	-	156,038
Trust accounts payable	-	-	-	-	-	-	8,343,562
Case deposits payable	-	-	-	-	-	-	3,226,631
Due to State General Fund	-	-	-	-	-	-	195,108
Due to other funds	-	-	-	-	-	-	1,314
Accrued vacation payable	-	-	-	-	5,661,724	-	5,661,724
Installment contracts payable	-	-	-	-	917,960	-	917,960
Obligations under capital leases	-	-	-	-	257,045	-	257,045
Total liabilities	970,425	13,151	-	-	6,836,729	-	19,586,920
Fund equity:							
Investments in general fixed assets	-	-	-	11,442,243	-	-	11,442,243
Fund balances (deficit):							
Reserved for continuing appropriations	-	-	4,110,510	-	-	-	4,110,510
Reserved for encumbrances	2,553,635	10,666	16,405,103	-	-	-	18,969,404
Reserved for other	-	-	-	-	-	-	76,768
Unexpended allotments	-	-	399,577	-	-	-	399,577
Unreserved	-	606,962	(4,110,510)	-	-	-	(3,503,548)
Total liabilities and fund equity	2,553,635	617,628	16,804,680	11,442,243	-	-	31,494,954
Total liabilities and fund equity	\$ 3,524,060	630,779	16,804,680	11,442,243	6,836,729	-	51,081,874

The accompanying notes are an integral part of the general purpose financial statements.

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Combined Statement of Revenues and Appropriations, Expenditures and  
Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds

For the fiscal year ended June 30, 1986

	Governmental Fund Types			Fiduciary Fund Types	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
State appropriations	\$ 46,757,692	-	13,014,000	-	59,771,692
Drivers education and training program	-	1,456,818	-	-	1,456,818
Other revenues	-	96,003	-	77,463	173,466
	<u>46,757,692</u>	<u>1,552,821</u>	<u>13,014,000</u>	<u>77,463</u>	<u>61,401,976</u>
Expenditures:					
Personal services	29,164,204	1,084,522	-	-	30,248,726
Other	13,639,406	154,431	-	65,223	13,859,060
Capital outlay	-	-	8,562,822	-	8,562,822
	<u>42,803,610</u>	<u>1,238,953</u>	<u>8,562,822</u>	<u>65,223</u>	<u>52,670,608</u>
Excess of revenues over expenditures	<u>3,954,082</u>	<u>313,868</u>	<u>4,451,178</u>	<u>12,240</u>	<u>8,731,368</u>
Other financing sources (uses):					
Operating transfers in	503,598	-	9,051,830	-	9,555,428
Operating transfers out	(503,598)	-	(9,051,830)	-	(9,555,428)
Transfer - lapse to State General Fund	(2,299,024)	-	(4,260,590)	-	(6,559,614)
Reserve for continuing appropriations, July 1, 1985	-	-	14,922,200	-	14,922,200
Less reserve for continuing appropriations, June 30, 1986	-	-	(4,110,510)	-	(4,110,510)
	<u>(2,299,024)</u>	<u>-</u>	<u>6,551,100</u>	<u>-</u>	<u>4,252,076</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>1,655,058</u>	<u>313,868</u>	<u>11,002,278</u>	<u>12,240</u>	<u>12,983,444</u>
Fund balances at July 1, 1985	<u>898,577</u>	<u>303,760</u>	<u>5,802,402</u>	<u>64,528</u>	<u>7,069,267</u>
Fund balances at June 30, 1986	<u>\$ 2,553,635</u>	<u>617,628</u>	<u>16,804,680</u>	<u>76,768</u>	<u>20,052,711</u>

The accompanying notes are an integral part of the general purpose financial statements.



STATE OF HAWAII  
THE JUDICIARY

Combined Statement of Revenues and Appropriations and Expenditures -  
Budget and Actual - General and Special Revenue Funds

For the fiscal year ended June 30, 1986

	General Fund			Special Revenue Fund			Total (Memorandum Only)		
	Budget	Actual On A Budgetary Basis	Variance - Favorable (Unfavor- able)	Budget	Actual On A Budgetary Basis	Variance - Favorable (Unfavor- able)	Budget	Actual On A Budgetary Basis	Variance - Favorable (Unfavor- able)
Revenues:									
State appropriations	\$ 46,757,692	46,757,692	-	-	-	-	46,757,692	46,757,692	-
Drivers education and training program	-	-	-	1,312,564	1,456,818	144,254	1,312,564	1,456,818	144,254
Expenditures:									
Personal services	46,757,692	46,757,692	-	1,312,564	1,456,818	144,254	48,070,256	48,214,510	144,254
Other	31,227,879	29,164,204	2,063,675	1,133,914	1,028,113	105,801	32,361,793	30,192,317	2,169,476
	15,529,813	15,410,353	119,460	178,650	143,743	34,907	15,708,463	15,554,096	154,367
	46,757,692	44,574,557	2,183,135	1,312,564	1,171,856	140,708	48,070,256	45,746,413	2,323,843
Excess of revenues over expenditures	-	2,183,135	2,183,135	-	284,962	284,962	-	2,468,097	2,468,097
Other financing sources (uses):									
Operating transfers in	-	503,598	503,598	-	-	-	-	503,598	503,598
Operating transfers out	-	(503,598)	(503,598)	-	-	-	-	(503,598)	(503,598)
Transfer - lapse to State General Fund	-	(2,299,024)	(2,299,024)	-	-	-	-	(2,299,024)	(2,299,024)
	-	(2,299,024)	(2,299,024)	-	-	-	-	(2,299,024)	(2,299,024)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ -	(115,889)	(115,889)	-	284,962	284,962	-	169,073	169,073

The accompanying notes are an integral part of the general purpose financial statements.

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**PART III**

**RESPONSE OF THE AFFECTED AGENCY**

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## COMMENTS ON AGENCY RESPONSE

On January 15, 1987, copies of a preliminary draft report of this financial audit were transmitted to the presiding officers of the Legislature and the Chief Justice. A copy of the letter of transmittal to the Chief Justice is included here as Attachment 1. As is our practice, we invited the Chief Justice to comment on the recommendations made in the report. The Chief Justice responded by letter dated January 28, 1987, which is included here as Attachment 2.

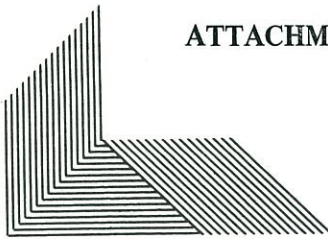
In his response, the Chief Justice expresses the view that the audit report will be very helpful in the Judiciary's efforts to make improvements. The Chief Justice also states that "many of the findings relating to the financial management, as well as the findings relating to the sheriff's office, electronic data processing, and personnel management, have been discussed internally in the past, and corrective action has been taken or is presently under consideration."

We are pleased that the audit report has been well received by the Judiciary, and we hope that the Chief Justice will continue to monitor the progress of the Judiciary.



ATTACHMENT 1

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
465 S. KING STREET, RM. 500  
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA  
AUDITOR

January 15, 1987

The Honorable Herman T. F. Lum  
Chief Justice of the  
Supreme Court of Hawaii  
417 S. King Street, Ali'iolani Hale  
Honolulu, Hawaii 96813

Dear Chief Justice Lum:

Enclosed are two preliminary copies, numbered 3 and 4, of our report on the *Financial Audit of the Judiciary*. We call your attention to the recommendations affecting the Judiciary which are made in Chapters 3 and 4 of the report. If you have any comments on our recommendations, we ask that you submit them in writing to our office by January 28, 1987, for inclusion in the final report.

The presiding officers of the Legislature have been provided with copies of this preliminary report.

Since the report is not in final form and there may be changes to it, access to this report should be restricted to those officials whom you might wish to call upon to assist you in the review of the report. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

We appreciate the assistance and cooperation extended to us.

Sincerely,

  
Clinton T. Tanimura  
Legislative Auditor

Enclosures

ATTACHMENT 2



SUPREME COURT OF HAWAII

ALIOLANI HALE

P. O. BOX 2560

HONOLULU, HAWAII 96804

CHIEF JUSTICE

HERMAN LUM

ASSOCIATE JUSTICES

EDWARD H. NAKAMURA

FRANK D. PADGETT

YOSHIMI HAYASHI

JAMES H. WAKATSUKI

January 28, 1987

RECEIVED

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OFF. OF THE AUDITOR  
STATE OF HAWAII

Mr. Clinton T. Tanimura  
Legislative Auditor  
465 S. King St., Suite 500  
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for sharing with us the preliminary report of the audit of the Judiciary. We appreciate very much the efforts of your staff as well as the staff of Peat, Marwick, Mitchell & Company.

A preliminary review of your report indicates that the information contained therein will be very helpful in our attempts to make improvements in the Judiciary.

You will be interested to know that our efforts to revise and overhaul our financial management system is ninety percent completed, and will be one hundred percent completed very shortly.

We have accelerated the work on the district courts. A first draft of a new fiscal system for our neighbor island district courts was recently completed, and work on the Honolulu district court is scheduled to begin in June.

In the meantime, all district courts are utilizing the fiscal system (accounting manual) developed for the Judiciary by Peat, Marwick, Mitchell & Company.

Regarding auditing, we will be taking aggressive efforts to strengthen and upgrade our internal audit office as recommended in your report, and as recommended by the Citizens' Panel on Judicial Administration.

Additionally, you will be interested to know that our present internal audit office has completed 15 audits and limited examinations over the past two years and 254 special projects since 1981.



Many of the findings relating to financial management, as well as the findings relating to the sheriff's office, electronic data processing, and personnel management, have been discussed internally in the past, and corrective action has been taken or is presently under consideration.

We will also be seriously evaluating the present organizational structure for administrative management as recommended by the Citizens' Panel on Judicial Administration. We expect to make appropriate changes that will enhance operational efficiency and effectiveness.

Thank you again for sharing your preliminary report with us. We appreciate the assistance of your staff and the staff of Peat, Marwick, Mitchell & Company.

Sincerely,

  
Herman Lum