

H B

1 1 7

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

LEGISLATIVE REFERENCE LIBRARY

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Judiciary	2/5/85	1:30 pm
" "	2/6/85	1:30 pm
" "	3/28/85	1:30 pm

COMMITTEE REPORT
HOUSE

3/29

(7)

FURTHER: FINANCE

1/25/85

Date: 3-28-85

The Committee on JUDICIARY has had HB 117

"An Act relating to appointment, qualifications and duties of an internal auditor within the Alaska Court System."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s) same title
- replace with CS for _____ new title
- and recommends _____
- AND attaches a "letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]

[Signature]
CHAIRMAN

IN THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE - FIRST SESSION

117

A BILL

For an Act entitled: "An Act relating to appointment, qualifications and duties of an internal auditor within the Alaska Court System."

BE IT ENACTED BY THE LEGISLATURE OF ALASKA:

Section 1. AS 22.20 is amended by adding a new section to read:

Sec. 22.20.038. INTERNAL AUDITOR. (a) Appointment. The administrative director shall appoint an internal auditor to provide the administrative director with objective information to assist in determining whether Alaska Court System operations are adequately controlled and whether the required high degree of public accountability is maintained.

(b) Qualifications. The internal auditor shall be a certified public accountant of this state, or of another state having requirements equivalent to those of this state, with at least three years of practice in the profession, or the equivalent, before the appointment.

(c) Duties. The internal auditor shall have the following duties:

1. to review and appraise the soundness, adequacy and application of accounting, financial and operating controls;
2. to ascertain the extent of compliance with established policies, plans and procedures;
3. to ascertain the extent to which court system

assets are accounted for and safeguarded from losses of all kinds; and

4. To ascertain the reliability of accounting and other data developed within the Alaska Court System.

(d) Access to Records. The internal auditor shall have full, free and unrestricted access to all public records, all activities of the Alaska Court System, all Alaska Court System property, all Alaska Court System personnel, and all policies, plans and procedures and records pertaining to expenditures financed by Alaska Court System funds. This section shall not authorize the public disclosure of material that is confidential or privileged under federal, state or local law, court rule or order, or materials the public disclosure of which constitutes an unwarranted invasion of personal privacy.

(e) Reports. The internal auditor's conclusions and recommendations shall be reported promptly in writing to the administrative director. Copies of reports of the internal auditor shall be available for public inspection at the office of the internal auditor during regular business hours.

(f) Audit Records. The internal auditor shall keep a complete file of all audit reports and other reports or releases issued by the auditor, and a complete file of audit work papers and other related supportive material.

14-0418
 Levy
 1/18/85 ✓

JAN 18 10 05

1
 2
 3
 4
 5
 6
 7
 8
 9
 10
 11
 12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25
 26
 27
 28
 29

IN THE HOUSE

BY THE JUDICIARY COMMITTEE
 (For the Chief Justice of
 the Alaska Supreme Court)

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the small claims jurisdictional limitation and the duties of magistrates; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 22.15.040 is amended to read:

Sec. 22.15.040. SMALL CLAIMS. When a claim for relief does not exceed \$5,000 [\$2,000] exclusive of costs, interest and attorney fees, and request is so made, the district judge or magistrate shall hear the action as a small claim unless important or unusual points of law are involved. The supreme court shall prescribe the procedural rules and standard forms to assure simplicity and the expeditious handling of small claims.

* Sec. 2. AS 22.15.120 is amended to read:

Sec. 22.15.120. LIMITATIONS ON PROCEEDINGS WHICH MAGISTRATE MAY HEAR. A magistrate shall preside only in cases and proceedings under AS 22.15.040, 22.15.100, and 22.15.110, and as follows,

(1) for the recovery of money or damages only when the amount claimed, exclusive of costs, interest, and attorney fees, does not exceed \$5,000 [\$1,000];

(2) for the recovery of specific personal property when the value of the property claimed and the damages for the detention do not exceed \$5,000 [\$1,000];

(3) for the recovery of a penalty or forfeiture, whether given by statute or arising out of contract, not exceeding \$5,000

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
[\$1,000];

(4) to give judgment without action upon the confession of the defendant for any of the cases specified in this section, except for a penalty or forfeiture imposed by statute;

(5) to give judgment of conviction upon a plea of guilty by the defendant in a criminal proceeding within the jurisdiction of the district court;

(6) to hear, try, and enter judgments in all cases involving misdemeanors, if the defendant consents in writing that the magistrate may try the case;

(7) to hear, try and enter judgments in all cases involving infractions under AS 28 and violations of ordinances of political subdivisions. [;

(8) REPEALED]

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 117
 Title: An Act Creating an
Internal Auditor
 Sponsor: _____
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Alaska Court System
 Program Category Affected: _____
Administration of Justice
 BRU, Program or Subprogram(s) Affected: _____
Appellate Courts, Trial Courts,
Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		85.4	90.5	95.9	101.7	107.8
200 TRAVEL		7.5	8.0	8.5	9.0	9.5
300 CONTRACTUAL		3.5	3.7	3.9	4.1	4.3
400 SUPPLIES		2.0	2.1	2.2	2.3	2.4
500 EQUIPMENT		7.2				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		105.6	104.3	110.5	117.1	124.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		105.6	104.3	110.5	117.1	124.0
FEDERAL FUNDS						
OTHER						
TOTAL		105.6	104.3	110.5	117.1	124.0

POSITIONS:

FULL-TIME		2.0	2.0	2.0	2.0	2.0
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Robert G. Fisher, Fiscal Officer Phone: 264-0561
 Division: Alaska Court System Date: 1/15/85

Approved by Commissioner: [Signature] Date: 1/15/85
 Agency: Alaska Court System

Distribution (by Agency preparing fiscal note):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

12/1/83

ALASKA COURT SYSTEM
FISCAL NOTE ANALYSIS

JUDICIAL INTERNAL AUDITOR

PERSONNEL:	SALARY	BENEFITS	TOTAL COST
INTERNAL AUDITOR (Range 20A)	\$40,932	\$11,790	\$52,722
ASSISTANT (Range 12B)	24,516	8,116	32,632

Total Personnel Costs			85,354
TRAVEL			7,500
CONTRACTUAL			3,500
SUPPLIES			2,000
EQUIPMENT (one-time item)			7,200

TOTAL FY 86 COST			\$105,554 =====

Subsequent fiscal years adjusted to reflect 6% inflation.

A REPORT ON THE
ALASKA COURT SYSTEM

For the Fiscal Year Ended June 30, 1984

Audit Control Number

41-1176-85-F

Chief Justice of the
Alaska Supreme Court

Administrative Director

Jay A. Rabinowitz

Arthur H. Snowden, II

TABLE OF CONTENTS

	<u>Page</u>
Purpose of the Report	1
Organization and Function	3
Findings and Recommendations	5
Auditor's Opinion	13
Financial Statements:	
<u>General Fund</u>	
Statement of Revenues - Budget and Actual	15
Statement of Expenditures and Encumbrances Compared with Appropriations	17
<u>Agency Trust Fund</u>	
Statement of Agency Trust Funds	19
Notes to the Financial Statements	21
Agency Response:	
Alaska Court System	23

PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes, an examination of the Alaska Court System was conducted to determine:

1. If the financial statements appearing in the State's Annual Financial Report for the fiscal year ended June 30, 1984, are fairly presented.
2. If the Alaska Court System has complied with applicable State statutes and regulations governing fiscal activities.

ORGANIZATION AND FUNCTION

The Alaska Court System is the Judicial Branch of State government whose authority is granted under Article IV of the Constitution of Alaska and Title 22 of the Alaska Statutes.

The Court System has two major organizational components, judicial and administrative.

Judicial

The appellate courts consist of a five-member Supreme Court and a three-member Court of Appeals. The trial courts include superior courts and district courts. The trial courts are organized into four geographic districts. In each trial court district the presiding judge is responsible for administration of the courts in addition to his or her duties as a judge. Each presiding judge is assisted by an area court administrator who supervises day-to-day court operations. There are 27 Superior Court judges, 18 District Court judges and 64 magistrates in 59 locations statewide.

Administrative

The Chief Justice of the Supreme Court is the administrative head of the Court System. However, by court rule, administrative responsibilities have been delegated to the Administrative Director of the courts, subject to general guidelines set forth by the Supreme Court. The Administrative Director is assisted by a deputy director for operations and a deputy director for services. Operations include centralized accounting, purchasing and supply, data processing, and electronic engineering. Services cover personnel, magistrate training, and the law libraries.

The Court System also includes two independent agencies. The Commission on Judicial Conduct investigates allegations of misconduct by judges, and the Alaska Judicial Council makes recommendations for judicial appointments, evaluates judges standing for retention, and conducts studies of the justice system.

In FY 84, the Court System's operating budget totalled \$36,395,700 and funded 74 full-time positions. The legislature also amended Title 22 to add one Superior Court judge and enacted legislation that moved certain duties of the public administrator from the Court System to a newly-created Office of Public Advocacy in the Department of Administration.

(Intentionally left blank)

(Intentionally left blank)

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The Court System should improve trust accounting procedures and should report trust investment balances.

The Court System has not developed procedures to account for court-ordered investment of trust money held pending case disposition. After a disbursement has been made for a trust investment, no other accounting is made for the investment asset although it remains in the Court's custody. Because these assets have not been accounted for in the individual trust account balances, they were not reported as a part of the total year-end trust balance prior to FY 84.

Although trust investment transactions represent a relatively small number of Court System transactions, they represent a material amount of the total trust balance. Reported trust investments at June 30, 1984, were \$2.8 million. Also, if trust money is reinvested when the investment matures, the transaction is reported as a receipt and disbursement each time reinvestment occurs. This results in overstatement of trust activity.

In addition, procedures for identification of old or unclaimed balances have not been implemented. Disposition of a trust balance is generally initiated by court order with the payee requesting payment, but in instances where bail is forfeited to pay a fine, the State or Municipal government does not initiate action and trust money may not be transferred in a timely manner. Trust balances should be reviewed regularly to ensure prompt disposition.

Generally accepted accounting principles require all assets, whether cash or not, to be properly recorded and reported. The Court System should improve its trust accounting procedures to eliminate overstatement of activity due to reinvestment and to provide for timely disposition of old or unclaimed balances, and it should develop a system of accounting for trust investment transactions. To ensure that all investments are reported, investment securities in the Court's custody should be periodically inventoried, and inventory records should be reconciled to accounting records.

Recommendation No. 2

The Court System should strengthen internal controls and improve accounting and management procedures.

Internal controls comprise the plan of organization and the coordination of methods and measures adopted within an organization to safeguard its assets; check accuracy and

reliability of its accounting data; promote operational efficiency; and encourage adherence to prescribed managerial policies, administrative regulations, and applicable statutes. As a matter of course, we made a study and evaluation of the internal controls of the Alaska Court System.

Our study and evaluation would not necessarily disclose all weaknesses in the various systems of the Court System because it was based on selective tests of the accounting records, related data, and observations. However, our study and evaluation at the various locations we visited disclosed the following conditions that we believe to be significant:

1. Accumulated deposits should be transferred from the Court System's bank account to the Treasury suspense account intact in order to provide a clearer audit trail. All revenues should be properly identified by source and promptly allocated to the appropriate Court System codes and accounts in the State accounting system. The Treasury suspense account balance should be zero at year end. Also, because of the volume and complexity of bank account transactions, procedures should be developed to reduce the potential for clerical errors.
2. Cash control procedures need to be strengthened. Each cashier should count their own cash and include a record of their count with the cash when it is stored in the safe overnight. All checks should be restrictively endorsed when they are received. Deposits should be made promptly and intact, and duplicate bank certified deposit slips should be returned promptly for comparison. Those preparing trust deposits should not also be responsible for preparing trust disbursements.
3. The controlled property inventory should be completed as soon as possible, and inventory records should be updated and reconciled to State accounting records.
4. Systems analysis of both manual and automated procedures should be performed to eliminate duplication of effort whenever possible. Manual revenue accounting in small courts should be streamlined. Automated systems should be programmed to provide exception reports for identification of missing or invalid data.
5. The trial courts' accounting manual should be revised and updated, and all trial court accounting personnel should be instructed in its use. The manual has not been updated since 1977.
6. Draft purchasing guidelines should be finalized and circulated as soon as possible. The Court System has operated without formal purchasing regulations since

it was determined to be exempt from Executive Branch requirements in 1979.

The Court System is a complex environment in which to develop and maintain a system of internal controls. Statewide offices and two separate major organizational components present both geographical and organizational obstacles; interaction between and within the components results in a network of relationships. If responsibilities and authority are unclear, lines of communication can break down causing weaknesses in internal control. The Court System needs to ensure that sound, reliable internal controls are in place and are adhered to at all organizational levels. A well maintained system of internal controls, in conjunction with a clear set of accounting and management procedures, enhances public confidence and promotes operational efficiency.

Recommendation No. 3

The Court System should close out inactive capital projects and should implement a project accounting system for projects underway.

In the past five years, the Court System has received appropriations for nine capital projects. Three have been completed and closed out while six remain. Three of the remaining projects should be closed out.

1. Fairbanks Court Planning -- \$50,000 of the original \$110,000 FY 81 appropriation was expended in the first year for a study of court expansion alternatives; however, there has been no activity since FY 81. The project balance of \$57,532 should be lapsed.
2. Sitka Court Building Remodeling -- \$13,500 of the original \$96,000 FY 81 appropriation was expended for an engineering study by the Department of Transportation and Public Facilities (DOTPF) in FY 81. There has been no activity since then. The project balance of \$81,166 should be lapsed.
3. Kotzebue Court Addition - \$132,345 was appropriated in FY 81, of which \$104,075 was expended for an addition to the building by DOTPF. The balance of \$28,824 was available for remodeling to integrate the old and new parts of the structure. The remodeling contract for \$23,863 was increased to \$38,334 as a result of 17 change orders during the course of the work. Final payment has not been made because of a dispute between the contractor and the Court System. The dispute should be resolved and the project closed out even though it may result in an overexpenditure of as much as \$10,009.

In addition to closing out the projects mentioned above, the Court System should establish a project accounting system to improve control over the three projects currently underway. It should be structured to account for projects by appropriation, and within appropriation by contract, so that progress can be monitored at the individual contract level. This is particularly important when numerous change orders are approved as they were on the Anchorage and Kotzebue remodeling projects. On the Anchorage project some unforeseen costs were charged to a subsequent appropriation for the court building addition, while some of the costs associated with change orders in Kotzebue have resulted in a potential overexpenditure.

The project accounting system should also have the capability to accumulate costs by location which would provide useful management information on both the statewide automated records project and the statewide recording equipment replacement project now underway. An effective project accounting system would assist managers in planning, monitoring, and controlling capital projects.

Recommendation No. 4

Plans for further installation of computers under the statewide automated records project should be reevaluated and the system's accounting module should be improved and enhanced.

The Court System received an appropriation for \$933,000 in FY 82 for purchase, development, and installation of a statewide automated records system. Nineteen locations were to be automated using stand-alone microprocessor-based computers and a specially modified software package. The primary purpose of the project was to eliminate all manual statistical reporting of case activity and to provide case indexing and calendaring functions. In addition, all accounting processes were to be automated.

This system developed from the top down. The choice of operating system software was the determining factor in the choice of hardware and together, software and hardware limitations constrained possible applications and output. In addition, installation and training problems have undermined acceptance and full utilization of the systems in some locations.

The accounting module of the Alaska Court Records System (ACRS) does not provide sufficient accounting information nor adequate internal controls in the following ways:

1. Trust accounts are maintained manually.
2. Numerical control over receipt number series is not automated.

3. Separate daily summaries for trial and traffic transactions are unnecessary.
4. Daily totals for deposit by bank account are not provided; instead, totals are by general category of revenue or trust.
5. The capability to print monthly summaries for bank account reconciliation has not been used.
6. Protection against invalid input is not adequately programmed in the system.
7. Exception reports showing missing data are not produced.

Some of the weaknesses noted can be eliminated by simple program modifications; however, the more substantial problems (e.g., trust accounting) will require detailed analysis and major changes in the software.

The accounting module was added to the original software and is not well integrated into the system. Accounting data is stored in the record of actions module, not just in the accounting module which prints receipts and lists and summarizes receipt transactions. Thus, it is important for the record of actions module, which contains case history information, to be complete and accurate as well. However, in some locations, staffing limits and high case volume have slowed data input or resulted in partial input of case information. Also, ACRS was not designed to provide regular standardized management reports for administrators. Instead, ACRS contains a module that allows administrators to design and produce their own individualized reports. To date, one area court administrator has done so.

As of August 1, 1984, eleven systems had been installed in the following locations:

Ketchikan	Seward	Kodiak	Barrow
Sitka	Homer	Bethel	
Valdez	Kenai	Nome	

Ten additional systems have been delivered to Anchorage in anticipation of installation in Juneau, Fairbanks, Palmer, and Anchorage. However, plans to upgrade these systems prior to installation have been postponed because of delays in development of upgraded software by an outside company.

We recommend that the Court System take this opportunity to reassess its plans and perform a comprehensive reevaluation of its needs with regard to both the existing and proposed installations. The analysis should begin with an assessment of user needs. Development of detailed designs for output

should be completed before decisions are made to improve or replace existing software or hardware or to obtain new software or hardware. It may be possible to enhance the ACRS accounting module so that all accounting functions are fully automated in the small courts; however, the higher volume courts in Anchorage, Fairbanks, Palmer, Kenai, Juneau, and Ketchikan may require major changes in hardware and software in order to provide the necessary data processing support for both records and accounting applications.

Recommendation No. 5

The Court System should strengthen, expand, and upgrade its internal audit capabilities.

The role of internal audit is to provide an independent appraisal activity within an organization for the review of accounting, financial, and other operations as a basis for service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls. It provides assistance to management by furnishing objective appraisals, recommendations, and pertinent comments concerning activities reviewed.

As a separate branch of government with approximately 575 employees in 59 locations statewide and an operating budget of \$36 million in FY 84, the Court System needs to establish effective internal audit capabilities. Currently, the Court System has one field auditor who is responsible for providing training and assistance to accounting personnel in addition to auditing duties. Recommendation Nos. 1 -- 4 above point to the need for improvements in trust accounting, internal controls, project accounting, and data processing. An enhanced internal audit function would be useful in developing solutions to these problems.

In order to provide the separate higher level of control needed, internal audit should be organizationally independent and should report to the highest administrative level. Duties should include study and evaluation of internal controls as well as substantive tests of detailed transactions and performance reviews. Auditing procedures, documentation, and reporting should be in accordance with professional auditing standards, and personnel should have professional auditing expertise. An effective internal audit capability would strengthen the Court System's ability to review its own operations for the purpose of achieving needed improvements.

Recommendation No. 6

The Court System's unrecorded liability for judicial retirement contributions should be eliminated.

Judicial retirement contributions were not properly recorded

at the end of FY 82 when contributions covering the period May 16, 1982, through June 30, 1982, were not recorded before the August 31 cutoff and the funds lapsed. These contributions were recorded in FY 83 and, similarly, the FY 84 expenditures included the May 16, 1983, through June 30, 1983, contributions. This resulted in an unrecorded liability of \$465,946 for judicial retirement contributions representing the last six weeks of Fiscal Year 1984. The Court System should arrange for disposition of this liability and should ensure that all judicial retirement contributions are accounted for properly in the future.

(Intentionally left blank)

STATE OF ALASKA

AUDIT DIVISION
POUCH W
JUNEAU, ALASKA 99811

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

November 16, 1984

Members of the Legislative Budget
and Audit Committee:

We have examined the General Fund Statement of Revenues -- Budget and Actual, the General Fund Statement of Expenditures and Encumbrances Compared with Appropriations, and the Statement of Agency Trust Funds for the State of Alaska, Alaska Court System, for the fiscal year ended June 30, 1984. Except as set forth 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.

As described in Note 2 to the financial statements, the Alaska Court System's accounting records do not provide sufficient evidence supporting Agency Trust Fund investment activity to permit the application of adequate auditing procedures.

As discussed in Note 3 to the financial statements, encumbrances on the General Fund Statement of Expenditures and Encumbrances Compared with Appropriations are overstated \$73,695 or 11 percent.

As discussed in Note 4 to the financial statements, the Alaska Court System established an encumbrance for \$450,000 which \$194,000 is not adequately supported. The amount of the encumbrance cannot presently be determined, and no provision for any adjustment that may result has been made in the financial statements.

As noted in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Agency Trust Funds. In our opinion, except for the matter discussed in the third paragraph, and subject to the effects on the financial statement of the adjustment, if any, as might have been required had the amount of the encumbrance referred to in the fourth paragraph been known, the General Fund Statement of Revenues -- Budget and Actual and the General Fund Statement of Expenditures and Encumbrances Compared with Appropriations present fairly the

revenues earned, appropriations, expenditures, and encumbrances for the State of Alaska, Alaska Court System, for the fiscal year ended June 30, 1984, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

STATE OF ALASKA
ALASKA COURT SYSTEM
GENERAL FUND
STATEMENT OF REVENUES -- BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 1984

	<u>Final Revised Budget</u>	<u>Actual</u>	<u>Over or (Under) Budget</u>
<u>Unrestricted Revenues</u>			
<u>Charges for Services</u>			
Miscellaneous Revenues	\$ 569,500	\$ 342,298	\$(227,202)
Filing Fees	<u>695,300</u>	<u>587,017</u>	<u>(108,283)</u>
<u>Total Charges for Services</u>	<u>1,264,800</u>	<u>929,315</u>	<u>(335,485)</u>
<u>Fines and Forfeitures</u>			
Fines and Forfeitures	3,148,300	3,173,772	25,472
Court Cost Recovery	<u>105,300</u>	<u>235,518</u>	<u>130,218</u>
<u>Total Fines and Forfeitures</u>	<u>3,253,600</u>	<u>3,409,290</u>	<u>155,690</u>
<u>Other Revenues</u>	<u>-0-</u>	<u>386</u>	<u>386</u>
<u>Total Unrestricted Revenues</u>	<u>4,518,400</u>	<u>4,338,991</u>	<u>(179,409)</u>
<u>Restricted Revenues</u>			
<u>Interagency Revenues</u>	<u>340,800</u>	<u>318,131</u>	<u>(22,669)</u>
<u>Total Alaska Court System Revenues</u>	<u>\$4.859.200</u>	<u>\$4.657.122</u>	<u>\$(202.078)</u>

The Notes to the Financial Statements are an integral part of this Statement.

(Intentionally left blank)

STATE OF ALASKA
ALASKA COURT SYSTEM
GENERAL FUND
STATEMENT OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH APPROPRIATIONS
For the Fiscal Year Ended June 30, 1984

	Budget Act Appropriations	Continuations, Supplementals, and Revisions	Total Appropriations	Expenditures	Encumbrances	Balances	
						Continuing Programs	Lapsed
<u>Operating Programs</u>							
Courts, Administration & Support	\$35,931,800	\$1,410,504	\$37,342,304	\$36,250,503	\$669,541	\$ -0-	\$382,260
Courts, Administration & Support - RSA	-0-	340,300	340,800	318,027	104	-0-	22,669
Commission on Judicial Conduct	59,500	50,744	110,244	91,414	-0-	-0-	18,830
Judicial Council	404,400	4,300	408,700	408,516	-0-	-0-	184
<u>Total Operating Programs</u>	<u>36,395,700</u>	<u>1,806,348</u>	<u>38,202,048</u>	<u>37,108,460</u>	<u>669,645</u>	<u>-0-</u>	<u>423,943</u>
<u>Capital Projects</u>							
Chapter 107, SLA 1933	1,410,000	-0-	1,410,000	196,885	-0-	1,213,115	-0-
Chapter 25, SLA 1982	-0-	513,583	513,583	210,296	-0-	303,287	-0-
Chapter 82, SLA 1981	-0-	6,489,087	6,489,087	897,511	-0-	5,591,576	-0-
Chapter 50, SLA 1980	-0-	157,453	157,453	9,059	-0-	148,394	-0-
Chapter 113, SLA 1978	-0-	3,068	3,068	-0-	-0-	3,068	-0-
<u>Total Capital Projects</u>	<u>1,410,000</u>	<u>7,163,191</u>	<u>8,573,191</u>	<u>1,313,751</u>	<u>-0-</u>	<u>7,259,440</u>	<u>-0-</u>
<u>Total Alaska Court System</u>	<u>\$37,805,700</u>	<u>\$8,969,539</u>	<u>\$46,775,239</u>	<u>\$38,422,211</u>	<u>\$669,645</u>	<u>\$7,259,440</u>	<u>\$423,943</u>
<u>By Object</u>							
			Total Appropriations	Expenditures	Encumbrances	Balances	
Unallocated			\$ 6,568,442	\$ -0-	\$ -0-	\$6,568,442	
Personal Services			27,932,207	27,668,216	39,100	224,891	
Travel and Moving			1,036,913	965,126	4,324	67,463	
Contractual Services			8,085,700	7,687,209	549,539	(151,048)	
Supplies and Materials			523,051	535,972	16,044	71,035	
Machinery and Equipment			2,267,210	659,523	6,011	1,601,676	
Capital Outlay			261,716	905,829	43,345	(687,458)	
Unappropriated Disbursements or Transfers			-0-	336	11,282	(11,618)	
<u>Total By Object</u>			<u>\$46,775,239</u>	<u>\$38,422,211</u>	<u>\$669,645</u>	<u>\$7,693,383</u>	

The Notes to the Financial Statements are an integral part of this Statement.

(Intentionally left blank)

STATE OF ALASKA
ALASKA COURT SYSTEM
AGENCY TRUST FUND
STATEMENT OF AGENCY TRUST FUNDS
For the Fiscal Year Ended June 30, 1984

<u>Description</u>	<u>Beginning Balance July 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance June 30</u>
Alaska Court System Trust (Note 2)	<u>\$4,921,213</u>	<u>\$34,790.162</u>	<u>\$31,955.888</u>	<u>\$7,755.487</u>

The Notes to the Financial Statements are an integral part of this Statement.

(Intentionally left blank)

STATE OF ALASKA
ALASKA COURT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 1984

Note 1 -- Summary of Significant Accounting Policies

Alaska Statute 37.05.150 requires the State of Alaska to conform to generally accepted accounting principles (GAAP). The following is a summary of the significant policies applicable to the Alaska Court System.

- A. Fund Accounting. The State of Alaska maintains its accounting in accordance with the principles of fund accounting. A fund is a fiscal and accounting entity established by law to segregate and account for designated resources and activities. The Court System's activities are in the General Fund and the Agency Trust Fund.
- B. Basis of Accounting. The financial statements are reported on the modified accrual basis of accounting. Modifications to the accrual basis are as follows:
1. Revenues for operating programs are recorded on an accrual basis, except for revenues not susceptible to accrual which are recorded at the time of receipt.
 2. Expenditures for operating programs are recorded on accrual basis, except for certain types of expenses which are considered expenditures at the time of purchase:
 - a. Inventory type items.
 - b. Prepaid expenses, such as insurance.
 3. Expenditures for capital projects of the General Fund are reported on the cash basis (which is not in accordance with GAAP).
- C. Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they are neither expenditures nor liabilities.

- D. Budgetary Control. Except for Trust Fund receipts, all money received is deposited in the State Treasury, and may not be expended without appropriation. An appropriation is an authorization to spend money and incur obligations. It is a legal limit as to purpose, time, and amount. Appropriations are enacted by the Legislature and approved by the Governor. Expenditures are reported at the appropriation level to show compliance with the law.
- E. Interagency Revenues. Intrafund (and interfund) reimbursements for services provided to other State agencies are reported as interagency revenues rather than as reductions in expenditures. The Court System's authorizations and estimated revenues were increased in the amount of the reimbursable services agreements.

Note 2 -- Agency Trust Fund

The Court System has not developed procedures to account for court-ordered investment of trust money held pending case disposition. After a disbursement has been made for a trust investment no other accounting is made for the investment asset although it remains in the Court's custody. Because these assets have not been accounted for in the individual trust account balances, they were not reported as a part of the total year-end trust balance prior to FY 84.

The Court System estimated the investments to be approximately \$2.8 million at June 30, 1984, and reported this amount as FY 84 additions and in the ending balance of the Agency Trust Fund.

Note 3

The Court System established two encumbrances that were not valid obligations at June 30, 1984. Therefore, encumbrances are overstated by \$73,695 or 11 percent on the Statement of Expenditures and Encumbrances Compared with Appropriations.

Note 4

The Court System established an encumbrance for \$450,000 to pay court-appointed attorneys. As of January 15, 1985, about \$256,000 in billings had been liquidated against the balance of the encumbrance. There is no attorney billing system or other support to substantiate the remaining balance of the encumbrance. The remaining balance of \$194,000 represents 29 percent of the total outstanding encumbrances of \$669,645 at fiscal year end.



Alaska Court System

State of Alaska

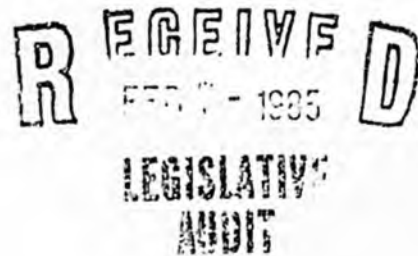
303 "K" STREET
ANCHORAGE, ALASKA
99501

ARTHUR K. SNOWDEN II
ADMINISTRATIVE DIRECTOR

(907) 274-8611

February 1, 1985

Mr. Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit
Budget and Audit Committee
430 C Street, Suite 301
Anchorage, AK 99501



Re: Preliminary Report
Alaska Court System

Dear Mr. Wilkerson:

Below I have listed Court System responses to each of the recommendations contained in your January 14, 1985 Preliminary Report.

Recommendation No. 1

The Court System should improve trust accounting procedures and should report trust investment balances.

The Court System is implementing a system of subsidiary ledgers to properly account for trust investment transactions. This will eliminate the overstatement of trust activity and will permit the proper reporting of investments maintained outside of the trust fund bank accounts. Trust balances will be monitored on a regular basis and old or unclaimed balances will be disposed of in a systematic manner.

Recommendation No. 2

The Court System should strengthen internal controls and improve accounting and management procedures.

The response to this recommendation follows the format of the Preliminary Report wherein six specific points were raised.

1. The Court System is working with the treasury and the revenue depository bank to coordinate the transfer of and proper accounting for revenue transactions.
2. After the trial court accounting manual is re-issued, a renewed effort will be taken to assure that the trial courts are following the specified procedures. The establishment of an internal audit section would greatly improve this function.
3. Property inventory system is fully functional at the present time and approximately one-half of all existing items have been entered into the automated system. Physical inventories and recording of information has taken place for all items in Anchorage, and other locations around the state will be completed during 1985.
4. The Court System will be implementing an extensive systems analysis of both the manual and automated accounting/information systems. This analysis will be completed by June 30, 1985.
5. Updates to the trial court accounting manual will be merged into the main document and this document re-issued by June 1, 1985.
6. The purchasing guidelines draft will be finalized by January 1, 1985, and circulated for final review. Adoption of these guidelines is anticipated by March 1, 1985.

In addition to completing the above six items, the Court System will evaluate its lines of authority and responsibility to assure that the organization is properly functioning to accommodate the complex and growing nature of the system.

Recommendation No. 3

The Court System should close out inactive capital projects and should implement a project accounting system for projects underway.

The Court System has initiated the implementation of project accounting systems for current capital projects. Project accounting will be utilized in all future capital projects.

Following are comments regarding the three inactive capital projects identified in the letter:

1. Fairbanks court planning - the planning for a new Fairbanks court facility was initiated in FY 81 with a preliminary feasibility study. No further work has been done on this project due to the delays experienced in securing approval and implementing the major new facility in Anchorage. It is anticipated that the remaining balance of \$57,532.00 in the Fairbanks court planning project will be expended in the next 12 months for the purpose of updating the 1981 study and preparing materials to present to the Legislature during the 1986 legislative session.

1. Sitka court building remodeling - the project balance will be lapsed.
3. Kotzebue court addition - this project will be closed as soon as an agreement can be reached between the Department of Labor, the contractor, and the Court System regarding disputes arising in this project.

Recommendation No. 4

Plans for further installation of computers under the statewide automated records project should be reevaluated and the system's accounting module should be improved and enhanced.

The ACRS project was initiated in 1981 to implement stand-alone trial court automation packages in 17 trial courts and the appellate court clerk's office. The goal of this project was and is to improve the operating efficiency and management of our trial courts in order to reduce the need for additional clerical personnel as caseloads in our courts continually increase.

The selection of the specific hardware and software to support this project was based on the following factors:

- (1) The package selected would allow us relatively easy program/record generation capability with limited programming staff;
- (2) The package would allow us to easily and quickly modify the contents of programs/records as field experience dictated without major reprogramming efforts;
- (3) The package provides a relatively simple report generator that would allow clerks of court to create and process their own information/management reports;
- (4) Source code was available for the package so that it would be modified by our staff rather than an outside vendor;
- (5) Purchase and ongoing costs would be significantly less expensive than using the state data processing centers to support our applications around the state; and
- (6) It was the most cost effective software/hardware solution to our project.

To date, 11 trial Court Systems and the appellate court clerk's system have been implemented. We believe these systems to be sound starting points for continued development of automated trial Court Systems.

The court system recognizes that while the concept of implementing stand-alone computer systems in the trial courts of Alaska is an important and valuable step in improving the efficiency of these courts, programs implemented to date have not, in some cases, filled all the needs of these trial courts.

As discussed in the response to Recommendation No. 2, the Court System will be implementing a widespread systems analysis of manual and automated procedures currently in use around the state. It is estimated that this analysis will require approximately six months to complete. This analysis is particularly important to plans for computer installations in Anchorage and the other major court locations. During this period there will be no installation of additional records systems.

Recommendation No. 5

The Court System should strengthen, expand, and upgrade its internal audit capabilities.

The Court System concurs with this recommendation and will be introducing legislation to create an internal audit section functioning directly under the administrative director. The Court System believes that such a section could lead to both improvements in the operations and controls throughout the state as well as develop a system which lends itself more readily to external audit.

Recommendation No. 6

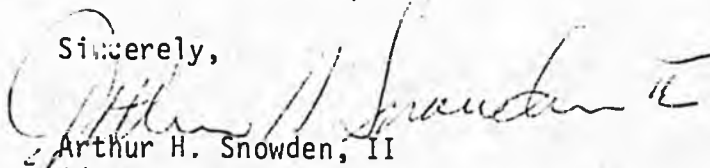
The Court System's unrecorded liability for judicial retirement contributions should be eliminated.

The sum of \$499,400.00 for judicial retirement contributions has been included in the FY 86 budget request of the Court System. If these funds are approved by the Legislature, the Court System will dispose of this liability.

This liability is a result of an error that occurred during the closeout of fiscal year 1982. In August 1982 a document in the amount of \$416,100, which covered the final contributions for FY 82 was forwarded to Finance. The document reported costs for the period May 16 to June 30, 1982. The contributions were erroneously charged to FY 83 rather than to FY 82. This error was detected shortly after submission. Upon being informed of the mistake, the Division of Finance prepared a correction document. For reasons not known to the court, the correction was not processed. The court attempted to make an adjustment after the end of the fiscal year. This was not successful. As a result, FY 82 was charged for only ten and one-half month's of retirement costs. This created an unreported liability for six weeks of contributions. The court system lapsed \$2,447,900 in FY 82 and, therefore, had sufficient funds to cover the cost of the retirement payments, had the final payment been properly processed.

We appreciate the opportunity to respond to your recommendations and comments prior to the formal release of your audit report.

Sincerely,


Arthur H. Snowden, II
Administrative Director