



**New Jersey State Legislature
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Office of the State Auditor**

**The Judiciary
Administrative Office of the Courts**

July 1, 1998 through August 15, 1999

**Richard L. Fair
State Auditor**

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President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

The Honorable Deborah T. Poritz
Chief Justice of the Supreme Court

Mr. Albert Porroni
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Office of Legislative Services

Enclosed is our report on the audit of The Judiciary, Administrative Office of the Courts for the period July 1, 1998 through August 15, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
October 21, 1999

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The Judiciary Administrative Office of the Courts

Scope

We have completed an audit of The Judiciary, Administrative Office of the Courts (AOC) for the period July 1, 1998 through August 15, 1999. The scope of our review was limited to expenditures accounted for in the state's General Fund.

Total appropriations were \$120 million for fiscal year 1999. The primary responsibility of the AOC is to provide legal, administrative, and data processing support services through the central office and 15 trial court offices throughout the state.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, *Rules Governing the Courts of the State of New Jersey*, and policies of the agency. Provisions that we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal control.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses meriting management's attention.

Cellular Telephones

Periodic analyses of cellular telephone plans could result in annual savings of more than \$60,000.

The Facilities Management Unit oversees 168 cellular telephones which are being utilized primarily by probation officers. However, the AOC does not perform cost analyses and reviews of available plans when a current contract expires in order to determine whether a more cost-effective plan exists. Our review of current billings and research into cellular telephone plans available through various providers showed that there were several plans available that would have been more cost effective and would have resulted in annual savings of more than \$60,000.

Recommendation

To achieve cost savings, we recommend the AOC perform periodic cost analyses and reviews of available plans in order to determine whether a more cost-effective plan exists.

Auditee's Response

The Judiciary uses the cellular service contract negotiated by the Treasury Office of Purchase and Property and the Office of Information Technology (OIT). Your recommendations regarding cost analysis and review are therefore more appropriately directed to Treasury and OIT. Any resultant cost savings would accrue statewide.

When assessing cellular service offerings, feature offerings must be evaluated carefully. Availability of service at convenient geographic locations is a significant consideration in acquiring service. For example, our ISP and JISP officers were provided cellular instruments as a matter of personal safety given the environments in which they must conduct business and the hours during which they must make contact with their clients. Cellular service reliability cannot be compromised to achieve cost savings.

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Hold Checks

Internal controls over hold checks should be improved.

Internal controls to reduce the risk of loss or misuse of funds require the implementation of adequate policies and procedures. The Department of the Treasury, Office of Management and Budget has provided a service to state fiscal officers by not mailing appropriation accounting checks under specific circumstances. These checks are commonly referred to as “Hold Checks.” Our review found the “Hold Check Procedures” implemented by the AOC to be inadequate, as there are no restrictions on the reasons for holding checks. Checks totaling \$1.9 million were held without reasonable justification. The development of more stringent policies and procedures in regards to hold checks could reduce the number of checks held for convenience rather than necessity.

Recommendation

We recommend management strengthen internal controls by implementing policies and procedures that prevent checks from being held without reasonable justification.

Auditee’s Response

Management Services is undertaking a review of “Hold Check” processing to ensure that this practice is limited to those instances allowable under Treasury Circular Letter 94-17-OMB. We intend to develop an approval process whereby allowable “Hold Check” requests are justified and reviewed for appropriateness.

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Payroll

Internal controls over payroll would be strengthened by segregating payroll processing duties.

Management is responsible for establishing internal controls that will safeguard assets from loss or irregularity. Our review of payroll procedures disclosed a weakness in internal controls in regards to payroll preparation and subsequent paycheck distribution. The individual who prepares the payroll proofs for submission to the Department of the Treasury centralized payroll unit regains access to the payroll proofs after they have been reviewed and approved by management. This could enable the preparer to make changes to the payroll proofs prior to submission. This same individual also has access to the paychecks prior to distribution. Our testing revealed no instances of impropriety. However, the lack of segregation of duties presents a potential for loss where a check could be removed prior to check distribution without being detected.

Recommendation

We recommend management strengthen internal controls by having the payroll proofs submitted directly to the Department of the Treasury centralized payroll unit after having been approved by management and by not allowing the preparer to regain access. Furthermore, employees involved in payroll preparation should not distribute checks.

Auditee's Response

We agree with the need to strengthen internal controls related to payroll processing duties. A procedure has been implemented to prevent the preparer of the payroll from regaining access of the documents after management approval. With regard to distribution of paychecks human resources management will review options so that payroll preparers do not distribute checks.

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