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

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**The Judiciary  
Administrative Office of the Courts  
Child Support Enforcement Program**

July 1, 1996 to November 6, 1997

**Richard L. Fair  
State Auditor**

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

The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Judiciary, Administrative Office of the Courts, Child Support Enforcement Program for the period July 1, 1996 to November 6, 1997.

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

Richard L. Fair  
State Auditor  
December 31, 1997

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**The Judiciary**  
**Administrative Office of the Courts**  
**Child Support Enforcement Program**

*Scope*

We have completed an audit of the Judiciary, Administrative Office of the Courts, Child Support Enforcement Program for the period July 1, 1996 through November 6, 1997. Our audit included financial activities accounted for in the Judiciary Child Support and Paternity Fund and the Unclaimed Child Support Trust Fund. The audit was limited to the collection and payment of child support, the proper transfer of funds to the state accounts during unification in January 1995, and the escheat of unclaimed monies. Administrative costs and federal reimbursements were excluded from our scope.

The objectives of the Child Support Enforcement Program are to enforce support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child, spousal and medical support. During fiscal year 1997 approximately \$635 million was collected for child support.

*Objectives*

The objectives of our audit were to determine whether financial transactions were related to the program, 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.

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In preparation for our testing, we studied federal legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agencies administering the program, primarily the Administrative Office of the Courts (AOC). Provisions that we considered significant were documented and compliance with those requirements was verified by interview and 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 controls.

We performed audit steps at 11 county probation offices. 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. Transactions were selected on a judgmental basis.

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***Conclusions***

We found the financial transactions included in our testing were related to the program, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

***Auditee's Response***

I have reviewed the audit of the Judiciary Child Enforcement Program for the period July 1, 1996 through November 6, 1997 and welcome this opportunity to comment on the report.

As you are aware, Child Support Enforcement is a cooperative effort between the Judiciary and the Department Of Human Services (DHS), the latter being the lead agency insofar as federal requirements are concerned. This program revolves around an automated system (ACSES) which is controlled by DHS. Further, virtually all aspects of the program are very closely governed by a myriad of federal regulations.

The Judiciary has already moved to rectify some of the findings and will actively explore the remainder in conjunction with DHS.

### **Automated Child Support Enforcement System (ACES)**

Automated Child Support Enforcement System (ACES) access by employees is necessary for the daily operation of program. There were four levels of access capabilities used in every county we reviewed:

ACEPRO allows the user to access and change critical data regarding a case as well as initiate payments through the recording of receipts and through void/reissues, hold releases, and manual checks. Critical data includes absent parents' obligations and arrears balances as well as all absent parent and custodial parent demographic data.

ACESUP and

**Employee access to various ACSES applications should be limited to avoid the risk of unauthorized use of funds.**

ACEUPD allow the user to access and change certain critical data without the ability to release payment. Access includes, but is not limited to, demographics, payment histories and arrears balances with the ability to change demographics.

ACEINQ allows the user to view certain screens but has no change or initiation capabilities.

Employees are routinely assigned access which creates control weaknesses. Specifically, caseworkers/investigators were assigned ACESUP or ACEUPD which allowed them to change the address of the custodial parent on the system automatically sending subsequent payments to the new address. Even though not all counties had the caseworkers make necessary changes to demographic data as part of their duties, the ability remained. There were no edit reports or independent reviews by supervisors which would have detected improper address changes. Caseworkers familiar with the individual cases could be selective in their choice of cases from which to misappropriate funds, i.e., cases where regular payments are not received and those with large arrears balances. In addition, clients routinely contact these same caseworkers to question nonpayment.

ACES access was determined by a person designated as the security administrator at each county. A match of staff with ACSES access to the counties = probation office employees disclosed

numerous people with ACEPRO access and no explanation as to the need for such high level access. In addition, several people with access are no longer employed by the AOC.

The combination of the ability to change critical data, lack of edit reports, lack of independent reviews and inadequate control over the assignment of ACSES security access creates a statewide environment subject to unauthorized use of funds.

As recommended in our audit report Department of Human Services Automated Child Support Enforcement System (ACSES) dated August 1997, A The function of the security administrator should be performed by an independent person within a centralized unit of the organization. The security administrator should be delegated the authority to monitor and scrutinize ACSES system access and to deny or terminate privileges and

***Recommendation***

log on id's when they violate reasonable standards for proper control.@

We further recommend creating a separate security level for demographic changes and assigning this level to one or two persons in each county. Additionally, system changes should be made to provide edit reports detailing address changes which would allow independent supervisory review.

*Auditee Response*

With respect to centralized security administration for this application, the Judiciary is exploring this issue and will work closely with DHS to develop a mutually satisfactory solution within the capabilities of the ACSES application.

We believe that a more effective approach to the issue of demographic changes is to implement an enhancement to ACSES whereby all such changes are automatically logged by ACSES inclusive of the date and time, and the logon id of the person entering the change. This would enable us to continue to react to changing client circumstances while maintaining full accountability.

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**Internal Control**

**Internal control over the collection and disbursement of funds should include adequate segregation of duties.**

Duties governing the issuance and recording of manual checks were not adequately segregated at six of ten counties tested. At these counties the same person wrote checks, applied the signature stamp, mailed checks and recorded the payment on ACSES using ACEPRO access. This increased the risk of misappropriation occurring without timely detection. Controls were further weakened because checks are not returned to the county or the Judiciary Cash Control Unit for an independent match of the payee to the endorser or the ACSES manual check register. ACEPRO allows the employee to determine all recorded history of child support cases and change critical data which could create the appearance of transaction propriety while the check is misappropriated. There were 12,400 manual checks issued statewide in fiscal year 1997 totaling \$3.7 million.

The AOC requires all counties to void and reissue all child support checks outstanding over 180 days.

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This process was done independently by one person at seven of the nine counties where this procedure was examined. In each county the person had ACEPRO access and the ability to change the address where the check is sent. Since the check had been outstanding over 180 days, one could assume the payee is not waiting for it to arrive thereby removing a major compensating control. A similar condition existed with checks returned undeliverable. The person handling returned checks in six counties had ACEPRO access and could reroute or reissue checks with no independent review.

In one county the cashiers handling currency payments had ACEPRO access, collected the receipt, operated the register, entered into ACSES, balanced out, and prepared the deposit. In another county, employees with ACEPRO access were responsible for

recording, depositing and reconciling daily mail receipts to the next day's payments.

***Recommendation***

We recommend the use of signature stamps for manual checks be terminated and two signatures be required by employees without access to blank checks or ACSES. Conversely, AOC may consider the feasibility of system changes which would have ACSES produce and mail the check from Trenton like regular child support checks.

Procedures should be implemented to allow for the independent verification of void reissue and returned check activity.

We recommend ACSES access be limited to ACEINQ (no input/change capabilities) for those employees handling currency. Additionally, to properly segregate the cash receipt function, deposits and reconciliations should not be performed by employees entering receipts into the system.

***Auditee's Response***

The use of signature stamps will be eliminated effective January 1, 1998 when all manual checks will require two live signatures. Further, during the first half of calendar year 1998, Probation offices will be provided with the means for online viewing of all paid checks, both front and reverse.

We are taking steps to fully implement the recommendation to segregate the cash receipt deposit function and the reconciliation process, which is already being done in some locations.

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**Reconciliation Process**

**verification that child support assets transferred to the state during unification were adequate to satisfy assumed liabilities.**

**There has been no**

***Recommendation***

An established reconciliation process is an integral part of any control system and would provide management assurances that transactions are properly processed and that child support assets are adequately safeguarded. The State Judicial Unification Act required that each county transfer all child support liabilities and assets to the state on January 1, 1995. The AOC did not independently verify that assets transferred were adequate to satisfy corresponding liabilities assumed by the state. Furthermore, since the date of unification, reconciliations have not been performed between the ACSES liabilities and child support assets (i.e. cash in the bank). Unreconciled differences, erroneous transfers of funds in and out of the program and nonrecognition of losses incurred prior to unification being recorded as assets were noted at ten counties.

We recommend procedures be implemented to properly reconcile

*Auditee Response*

child support assets to liabilities at each county and that a policy be established for proper disposition of any surplus or deficit. Periodic reconciliations should be performed to ensure assets and liabilities remain balanced after the original differences are eliminated.

We concur that appropriate procedures need to be implemented to allow for proper reconciliation of accounts. Yet, as the DHS audit report states, A Cumulative fiscal data required for financial reporting is not readily available for fiscal unit staff due to the lack of on-line financial reporting functions. @ The Judiciary considers this to be a major roadblock to proper reconciliation and will continue to ask DHS for enhancements to the ACSES application to allow for such reporting capabilities.

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**Unclaimed Child**

**Support Payments**

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**Vicinage officials should transfer all unclaimed child support payments to the proper trust fund as required by established AOC procedures.**

Pursuant to N.J.S.A 46:30B-1 et seq. the AOC issued Procedures for Processing Unclaimed Child Support Collections and Unidentified Funds Held by the Probation Division. The initial escheat, which resulted in a \$3.4 million transfer, should be the largest undertaking as vicinages attempted to locate the rightful owners of funds held for up to 15 years. Subsequently, the escheat process will include only those funds deemed abandoned during the prior year. During the initial escheat:

- \* Five of the eleven counties reviewed did not include \$576,000 of unclaimed funds in the escheat process. Part of the process requires attempts to locate the proper owner.
- \* The AOC transferred the money to the trust fund 45 days after the date required by statute. Additionally three counties submitted a total of \$208,000 after the transfer was made. These funds will remain in the child support account until the next annual escheat (November 1997).
- \* Three counties escheated funds totaling \$40,000 to their respective county treasurers after April 1989 and have yet to transfer these funds to the state pursuant to the statute cited above.

Failure to include all abandoned funds in the escheat process can result in rightful owners not being located. Additionally, funds remaining in the Judiciary child support account are not subject to the same degree of internal control at the Department of the Treasury due to the decentralization and widespread access to ACSES as discussed previously.

***Recommendation***

We recommend the AOC enforce established

*Auditee Response*

procedures to ensure complete vicinages complete future escheats in a timely and thorough manner. This can enhance the probability of locating the rightful owner of the funds while increasing internal controls over the funds abandoned.

The magnitude of this function was much greater than anticipated when state funding was implemented.

Exacerbating this in New Jersey's lack of reciprocal agreements with other states necessitating the review of and compliance with a wide array of escheat laws. Steps have been put into place to bring the Judiciary into full compliance with these laws and reporting of unclaimed property will be done on an annual basis.

### **Uncollectible Receivables**

**Procedure should be established to provide funds for child support payments supported by uncollectible receivables.**

An inherent risk that NSF (nonsufficient fund) check receivables will go uncollected is assumed with all collection processes. Analytical procedures performed on the Judiciary Child Support and Paternity Fund balance sheets at five counties disclosed NSF receivables totaling \$98,000. Currently, no policy or procedure has been established to properly cover uncollectible NSF receivables and to replenish the fund. This shortage will increase each year as more NSF receivables become uncollectible.

#### ***Recommendation***

We recommend the AOC establish procedures to properly cover uncollectible NSF receivables and replenish the fund.

#### ***Auditee's Response***

The Judiciary is considering the feasibility

of extending enforcement procedures developed for the Special Civil Part of the Superior Court for

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NSF receivables.  
Further, discussions are underway with the Department of the Treasury as to the feasibility of using a portion of the interest earned from investment of fund balances to offset losses inclusive of unrecoverable NSF receivables.

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