Judiciary
Superior Court of New Jersey
Hudson Vicinage

Fiscal Years 1997 and 1998

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

The Honorable Christine Todd Whitman  
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The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
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Enclosed is our report on the audit of the Judiciary, Superior Court of New Jersey, Hudson Vicinage for fiscal years 1997 and 1998.

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

Richard L. Fair  
State Auditor  
December 1, 1998
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Scope

We have completed an audit of the Judiciary, Hudson Vicinage, for fiscal years 1997 and 1998. Our audit included financial activities accounted for in the state’s General Fund. We did not include balances or transactions of the Bail Trust Fund within our audit scope.

Total operating expenditures (excluding bail distributions) of the vicinage during the audit period were $45.8 million. The prime responsibility of the vicinage is to see to the proper administration and operations of the Superior Court of New Jersey as it pertains to the dissemination of justice within its jurisdiction. Revenues consist of various fees, fines and restitutions as collected by the several courts. Total revenues (excluding bail receipts) for the audit period were $8.2 million.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the vicinage’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

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, circular letters promulgated by the State Comptroller, and policies of the Administrative Office of the Courts. Provisions that we consid-
ered 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 the internal controls.

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

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the vicinage and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the vicinage’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.
Segregation of Duties

The purpose of a system of internal control is to provide adequate checks and balances that ensure financial transactions are properly authorized and recorded, and to provide a means to safeguard the assets of the entity. In order for such a system to function, more than one person must be involved in carrying out various duties related to specific operations. The failure to utilize more than one person and to segregate the duties of those persons may result in a breakdown of the system resulting in unauthorized transactions, improper record keeping and the misappropriation of resources.

In our review of the various functions at the vicinage, we noted a lack in the segregation of duties between receiving, recording revenues and preparing deposits. The duties of personnel and payroll offices and the recording of pay time and issuing paychecks were also not segregated. In addition, purchasing and receiving goods and services were performed by the same employees. These duties should be effectively segregated.

Recommendation

We recognize that internal controls at the vicinage have improved since hiring a new manager of finances. However, we recommend that additional improvements be made by segregating employee duties in the above areas.

Auditee’s Response

The recommendation to strengthen controls over revenue collection procedures, payroll processing, and purchasing and receiving is timely. Hudson Vicinage has been actively engaged in implementing a finance division which will have full responsibility for all vicinage financial functions by early 1999.

We are confident that the following measures will strengthen the important internal control function of segregation of duties and provide the level of checks and balances necessary to safeguard the assets of Hudson Vicinage.
Revenue Collection Procedures

Revenue is collected at various locations by several people within those offices. Persons who actually receive monies are also responsible for entering data into the respective subsystem of the courts. In some offices, the supervisory person also “proofs” the daily receipts and postings and prepares the deposit. Failure to assign these duties to different personnel weakens the internal controls and increases the risk of loss, improper recording or misuse of monies. In addition, we noted that although receipt books contain copies of receipts issued to cash paying clients, these books are not being verified to deposited cash by someone independent of the office processing the receipts. The failure to segregate duties may have contributed to the two known occurrences of misappropriation of cash receipts at the vicinage. If a stronger system of internal controls had been in place, a greater deterrence may have existed to prevent those circumstances, as well as an earlier detection of the loss.

**Recommendation**

Persons receiving monies should not also post receipts to the accounting records; nor should verification or daily “proofs” be made by a person with access to revenue collections. Copies of receipts books should be used by an independent person to prove cash deposited.

**Auditee’s Response**

The bookkeeping functions will be realigned under professional accounting staff and the functions of receipting, data entering, depositing, and reconciling funds paid into the Court will be separated to the extent possible given our existing budgetary constraints.
Personnel and Payroll Duties

The vicinage employs 650 persons and incurs a turnover rate of approximately 8 percent (50 persons) per year. This requires many procedures which are handled by the offices of personnel and payroll. The personnel office is responsible for hiring and retiring employees, and other personnel duties. The payroll office is responsible for recording employee pay time, maintaining leave records and distributing payroll checks. We noted that payroll office employees who report employee pay time are also responsible for removing employees leaving state service from the personnel and payroll systems. In addition, these same employees receive and distribute paychecks. While our tests did not disclose improprieties, the failure to segregate these duties increases the risk that such could occur and remain undetected in the records.

Recommendation

Persons having access to personnel functions should not also report employee work time nor should persons distributing employees payroll (checks or electronic transfer authorizations) have access to employee pay time records.

Auditee’s Response

In the area of personnel and payroll, duties will be aligned to ensure that an employee who is not involved in the preparation or distribution of payroll checks will handle the removal of departing employees’ records from the personnel and payroll systems. Furthermore, payroll related transactions will also be independently verified.
Purchasing and Receiving

Purchasing is performed by primarily two persons. One procures court services such as interpreters and one makes other purchases. Verification of receipts of items purchased is generally performed by the office for whom the purchase was made and who accepts delivery. In cases of the administrative office purchases, however, the receipt is acknowledged by the orderer who also approves the pertinent payment. Although we noted no exceptions in our tests of items, the lack of segregating duties creates a higher risk that wrongdoing could occur without detection.

**Recommendation**

In order to maintain adequate controls over procurement and expenses, the duties of ordering, receiving and payment should all be segregated.

**Auditee’s Response**

Concerning purchasing and receipt of goods, a person not in the purchasing unit will be assigned the responsibility of receipting goods.