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Judiciary
Administrative Office of the Courts
Superior Court of New Jersey
Morris/Sussex Vicinage

July 1, 1996 to August 31, 1998

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State Auditor
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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

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Richard L. Fair
State Auditor
December 1, 1998
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We have completed an audit of the Judiciary, Administrative Office of the Courts, Superior Court of New Jersey, Morris/Sussex Vicinage for the period July 1, 1996 to August 31, 1998. Our audit included financial activities accounted for in the state’s General Fund as well as agency functions related to the Judiciary’s Bail, Child Support, Probation, Special Civil, and Superior Court funds.

Annual appropriations for the vicinage were $14 million. The prime responsibility of the vicinage is the overall operation of the Civil, Criminal and Family Courts, the Probation Services Unit and a Field Operations Section. Vicinage General Fund revenues totaled $2.4 million annually and the major components of revenue were fines and fees collected. The vicinage collects $35 million annually that is disbursed by other funds.

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. We also tested for resolution of significant conditions noted in our prior reports which were within our current audit scope.

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.

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 agency. 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.

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. Samples were selected on a judgmental basis.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the agency 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 agency’s programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted internal control weaknesses requiring management’s attention. We also found that the agency has resolved the significant issues noted in our prior report except for the matters related to the segregation of duties at the Sussex bail unit and the collection of bail filing fees. These issues have been updated and restated in our current report.

**Auditee’s Response**

The audit recommendations to strengthen internal controls in the areas of payroll and personnel, revenue collection in Special Civil, Bail Unit operations and CABS, Bail forfeitures and filing fees, and Probation Division systems is timely. Morris/Sussex Vicinage has been actively engaged in developing a finance division which will have full responsibility for all vicinage financial functions by late 1999. An integral part of this plan will be the addition of professional,
The risk of state funds being lost could be reduced if proper internal controls over payroll functions were implemented.

Financial supervision of the court funds areas listed above.

Payroll and Personnel

Annual salary expenditures totaled $11.9 million or 85 percent of the total appropriated expenditures. Internal controls at the Morris/Sussex Vicinage should be strengthened to provide management with reasonable assurance that salary appropriations are properly safeguarded.

Adequate segregation of duties is an important element of internal control. Our review of payroll procedures found that the individual who prepared the payroll proofs also received the biweekly checks prior to distribution. The lack of segregation of these duties can allow for the inappropriate issuance of a payroll check to go undetected.

We also noted that there is no supervisory approval of an employee’s pay time. Vicinage payroll policy does not require the use of time sheets or sign-in sheets by employees or supervisors attesting to their time worked. The payroll office and the unit timekeepers, who do not have contact with the employees, assume that employees are working their assigned schedules unless informed to the contrary by the employee. In most instances there is no documentation to verify the validity of the pay time. Probation unit employees working on the federal Title IV-D program, however, are required to submit monthly time sheets to the accounting office. Our test of these employees found four instances where the hours reported on the monthly time sheets contradicted the time paid.

Recommendation

We recommend management strengthen internal controls by ensuring the duties of payroll proof preparation are performed by an individual other than the one who receives the payroll checks. We also
recommend that the vicinage establish a biweekly time reporting system where each employee and their immediate supervisor certifies the accuracy of the pay time.

**Auditee’s Response**

Beginning in November 1998, the person preparing the payroll proofs is not distributing paychecks. Beginning with January 1999 a biweekly time reporting system will be implemented throughout the vicinage that will require each employee and their immediate supervisor to certify the accuracy of pay time.

**Unremitted Revenue - Special Civil Court**

The Special Civil Court filing fees collection and remittance procedures need improvement and two outstanding checks totaling $31,500 should be reissued to the State Treasurer.

The Administrative Office of the Courts (AOC) Special Civil Court filing fee collection procedures require each vicinage to deposit daily receipts into a central account controlled by the AOC. In accordance with N.J.S.A. 22A:4-15, the court clerk must certify the monthly revenue and remit this revenue to the State Treasurer. Therefore, the AOC procedure is to wire transfer the total month’s filing fee back to the Special Civil Court Clerk’s checking account so a check can be issued to the State Treasurer. This process could be simplified by transferring funds from the AOC directly to the state’s General Fund.

The bank reconciliation of the Sussex special civil checking account included on its outstanding checks list two monthly revenue remittance checks totaling $31,500. These checks issued to the State Treasurer were for the May 1996 and February 1998 Special Civil Court revenues. No inquiry on the disposition of these stale dated checks and delinquent revenue remittances was made by the vicinage or AOC. This revenue went unrecorded in the General Fund.

**Recommendation**

We recommend that the AOC reconsider its revenue remittance procedures and make remittances directly to the State Treasurer. We further recommend that the Sussex special civil unit follow-up on the disposi-
Auditee’s Response

The Automated Case Management System (ACMS), which is an automated case processing system utilized by the Special Civil Part, does not have the capability to generate checks centrally. The AOC will request that this shortcoming be corrected after the Judiciary’s Y2K issues have been addressed. In the meantime, the AOC will explore a centralized, manual check capability with its disbursement bank that will eliminate the need to wire funds to a local account.

The outstanding revenue checks cited have been canceled and a replacement check for the full amount of the revenues was remitted to the General Fund. In the future outstanding checks will be reviewed on a monthly basis and stale dated checks will be stopped and replacement checks issued as necessary.

Reconciliation between Probation Fund payable balances and cash balances is needed to assure the proper recording of funds.

Probation Fund

The Judiciary-Probation Fund is established on the state’s financial system to account for fines and restitution payments received from probationers pending their remittance to the proper payee. The AOC cash receipt procedures require each vicinage to deposit daily receipts into a central account controlled by the AOC. The vicinage, however, is required to maintain records that account for these deposits and identify the payables created when these funds are collected from the probationers and pending their remittance to the proper payee.

There is no reconciliation of the probation units’ fines and restitutions accounts payable balance with the monies held by the AOC in the Judiciary-Probation Fund. As of June 30, 1998, the funds held by the AOC for the Morris and Sussex probation units totaled $324,600 and $29,500, respectively. However, the respective probation units’ fines and restitu-
tions payable balances only totaled $109,100 and $13,300. Since reconciliations of these two balances are not performed, it is unknown what caused the inappropriate $231,700 surplus and when they first appeared.

**Recommendation**

We recommend that the surplus be escheated. We further recommend that the AOC establish procedures for the periodic reconciliation of these balances.

**Auditee’s Response**

The majority of the surplus funds result from balances in local bank accounts prior to the unification of the Judiciary. A concerted effort will be made to reconcile these funds to determine how much of the indicated surplus can be escheated. As soon as this task is completed, the appropriate amount will be paid over to the State’s Unclaimed Property Fund.

**Bail Unit**

The Morris and Sussex bail units collect $1 million in cash receipts annually. Our review of bail cash receipt and disbursement procedures indicated that at both Morris and Sussex bail units, the bail clerks have access to all operating functions and there is no independent review of their work. Subjecting the work of each employee to the review of another non-subordinate employee, is an important element of internal control. Following are major functions in the bail process that require internal control enhancements.

The Central Automated Bail System (CABS) is the statewide system used by the bail units to account for cash receipts, revenues and contingent receivables. The source document used for recording the bail receipt or contingent receivable on CABS is a prenumbered bail recognizance form (recog). The filing of this form is necessary before a defendant is released from jail.
There is no independent review of the issuance of the prenumbered recogs to assure that all bail receipts are posted to CABS. Proceeds from recogs not posted to CABS are at high risk of unaccountability. Our sample tests found that 1 of 28 recogs sampled at the Morris bail unit could not be accounted for.

Special audits and reconciliations performed during the last two years by the AOC’s internal audit unit found theft and kiting of Sussex bail funds. They also noted an unreconciled shortage of $24,905 at Sussex and an unexplained excess of funds totaling $33,768 at Morris. Despite these audit findings, procedures requiring the independent reconciliation of recogs, CABS entries and deposits have not yet developed.

When criminal cases are concluded and the courts authorize the release of bail, the sureties are entitled to the return of all deposited funds. These disbursements are processed by CABS, with checks being issued to the surety name and address recorded in the CABS case file. Bail clerks have the ability to make changes to the surety name and address. There are no edit reports or independent reviews that would detect improper or unauthorized changes. Bail clerks are also responsible for notifying the sureties that their funds are available and confirming their address. Not segregating these processes adds to the internal control weakness.

Unclaimed funds are at particular risk. The Morris bail unit has $64,000 of unclaimed bail funds where the surety has not been located for over one year. There are no formal procedures for identifying unclaimed bails on CABS or locating missing sureties.

Recommendation

We recommend that the bail units maintain sequentially numbered recognizance logs to track the use and recording of each prenumbered recognizance onto CABS. These logs, along with the daily reconciliations of CABS to the deposits, should be reviewed by the vicinage finance unit or some other designate independent of the bail unit. We also recommend that
the CABS input controls be strengthened by requiring a second level of authorization, independent of the bail unit, prior to allowing any changes to the surety.

Inappropriate CABS entries resulted in added internal control risk.

Statutorily, when bail funds go unclaimed for 10 years they are to be escheated to the State Treasurer. The Morris bail unit escheated $12,000 in unclaimed funds. CABS issued checks for the escheated funds to the Morris bail unit. The bail unit has been depositing these checks back into the Judiciary-Bail Fund bank account (without making any entry on CABS). The AOC cash control unit is dependent on the vicinage in notifying them of the escheatment so they can properly transfer the funds to the State Treasurer. There is a risk that these checks can be misused to cover shortages or otherwise misappropriated.

Recommendation

System wide controls and procedures should be implemented so that escheatment remittances are made directly to the State Treasurer.

Auditee’s Response

The implementation of the vicinage finance division next year includes an accounting supervisor in each county who will be held accountable for ensuring proper internal controls and safeguarding of funds received and disbursed by the courts. Among these are the issues you raise for the Bail Unit regarding the proper recording and inventorying of pre-numbered recognizance forms and daily and monthly reconciliations. The vicinage will work with the appropriate AOC cash control and information systems staff to strengthen the internal control functionality of CABS and to provide for closing accounts through the escheat process without generating a check.
Bail Forfeitures

The county council’s failure to comply with CABS procedures weakens internal controls.

The state and county share equally on all bail forfeitures posted after December 31, 1994. CABS procedures for bond forfeitures require the full amount of the bond to be received and recorded on CABS. The system will clear the bail bondsman of their liability and automatically issue a check to the county and state for their share of the forfeiture revenue. The Morris bail unit has been unable to have the County Counsel comply with the bond forfeiture procedures. To compensate, the bail unit has been circumventing the automatic CABS processes by making adjustments to CABS case files in order to trick the system into accomplishing their desired results.

The Morris County Counsel requires bail bondsmen to pay forfeited bail bonds to the county instead of the bail unit. The county then issues a check to the bail unit for the state portion. These funds are not being recorded as bail forfeiture revenue and are not remitted to the State Treasurer. The bail unit has deposited these checks into the Judiciary-Bail Fund bank account without making an entry on CABS. There is a risk that either the county or CABS issued checks ($126,000 at the close of our audit) can be misappropriated. This weakness in control could be alleviated if the County Counsel deposited the full amount of the forfeited bonds with the bail unit.

Recommendation

The Morris County Counsel should comply with established procedures.

Auditee’s Response

The vicinage Assignment Judge will mandate that remittances be made directly to the court.
Filing Fee

Filing fee collection procedures should be enforced to maximize revenues.

N.J.S.A. 22A:2-29 establishes an $18 filing fee to be charged on all recognizance filings. Our tests found that in 23 of 32 bail filings sampled at the Morris bail unit, the $18 fee had not been collected. Although CABS has an automated process which assures that filing fees are collected prior to the refunding of bail funds to the surety, relying on this process results in long delays in collection. In many cases, when no cash was collected from the surety, such as ROR (Released on Own Recognizance) type bails, there is no cash to withhold and the follow-up collection abilities of the bail unit are weak. These fees are rarely collected. In addition, we noted instances at both counties where the bail units processed municipal bails without collecting the filing fee. We estimate that lost revenue fees total $11,000 annually.

Recommendation

We recommend that the bail units collect recognizance filing fees in accordance with N.J.S.A. 22A:2-29.

Probation Unit

Internal Controls at the probation units should be strengthened to provide management with reasonable assurance that funds are properly segregated.

The Morris and Sussex probation units collect $33 million in child support and $1.6 million in probation fines and restitutions annually. Our review of the input procedures of the two automated systems and their effects on the disbursement function indicated that probation fiscal unit clerks could make changes that are not subjected to supervisory review or approval. Subjecting the work of each employee to the review of another non-subordinate employee, is an important element of internal control.

Child support and probation fines and restitutions disbursements are based on the payee and arrearage information input by the probation fiscal unit clerks on the Automated Child Support Enforcement System (ACSES) and Fines and Restitutions Accounting
System (FRAS). There is no review to verify that only authorized adjustments were made. ACSES generates a report that lists all adjustments to child support arrearages, but no one at Sussex probation unit reviews this report and the Morris unit doesn’t even request it. As for other case file adjustments on ACSES, such as payee name and address, as well as all case file adjustments on FRAS, there are no edit reports that identify these adjustments. As a result, unauthorized adjustments and their effects on receivables and the automated issuance of checks can go undetected. This systemic control weakness was included in our AOC Child Support Enforcement Program report dated December 31, 1997. Corrective measures have not yet been implemented.

**Recommendation**

We recommend that the ACSES and FRAS input controls be strengthened by implementing enhancements to these systems whereby edit reports that detail any case file or receivable adjustments are generated and independently reviewed.

**Auditee’s Response**

The FRAS system utilized to process fines and restitutions will be replaced next year by the Judiciary developed Comprehensive Automated Probation System (CAPS). CAPS will provide edit reports for supervisory staff to review changes and monitor adjustment activities. There are reports provided by ACSES that allows for such monitoring. Again, with the institution of the vicinage finance division will come the necessary segregation of duties between the case processing and fiscal staffs so that there can be continuous review and checking of financial transactions.