Judiciary
Administrative Office of the Courts
Superior Court of New Jersey
Somerset, Hunterdon and Warren Vicinage

July 1, 1998 to June 21, 1999
The Honorable Christine Todd Whitman
Governor of New Jersey

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

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


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

Richard L. Fair
State Auditor
October 6, 1999
Table of Contents

Scope ...................................... 1
Objectives ................................... 1
Methodology ................................. 1
Conclusions ................................. 2

Findings and Recommendations
Segregation of Duties .......................... 3
Local Bank Account ........................ 4
Bail ..................................... 6
Superior Court Miscellaneous Fees ............ 7
Payroll ................................... 8
Escheated Funds ............................. 8
Hunterdon’s Open Bail List ................. 9
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Scope
We have completed an audit of the Judiciary, Administrative Office of the Courts, Superior Court of New Jersey, Somerset, Hunterdon and Warren Vicinage (Vicinage 13) for the period July 1, 1998 to June 21, 1999. Our audit included financial activities accounted for in the state’s General Fund as well as vicinage functions related to the Judiciary-Bail, Child Support, Probation, Special Civil and Superior Court Funds.

General Fund expenditures and revenues for our audit period totaled $13 million and $1.6 million, respectively. 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. The vicinage also collected $47 million during our audit period that is disbursed by other funds.

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 vicinage. 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 vicinage personnel to obtain an understanding of the programs and the 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. 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 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 internal control weaknesses requiring management’s attention. We also found that the vicinage has resolved issues noted in our prior audit except for the matter relating to segregation of duties. This issue has been updated and restated in our current report.
Segregation of Duties

Certain incompatible functions should be segregated to strengthen controls.

The purpose of a system of internal controls 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 the custody and accounting of receipts in the areas of special civil court filing fees, bail and superior court miscellaneous fees. In addition, we noted a lack of segregated duties in the payroll function pertaining to the recording of pay time and the issuing of paychecks.

Currently, most of the staff who is involved with the receipt, accounting and disbursement of Judiciary revenues and court held funds are located in the various Superior Court Divisions. Because Vicinage 13 is a tri-county vicinage with limited staff, in some divisions there is only one individual who is assigned to perform financial functions.

Recently, Vicinage 13 developed an action plan to consolidate all financial related functions and staff under the Finance Division. By consolidating financial responsibilities that had previously been performed independently, the vicinage will be able to increase accountability, as well as implement segregation of duties measures. In the interim, however, until the vicinage action plan is fully implemented, steps to implement appropriate control measures will be taken.
Local Bank Account
The civil divisions within the vicinage collect filing fees and escrows that are deposited daily into a central account controlled by the Administrative Office of the Courts (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 or the appropriate person for overpayments or escrows. The AOC procedure is to wire transfer the total month’s collections back to the Special Civil Court Clerk’s local bank checking account so a check can be issued to the State Treasurer or appropriate individual for escrows. This process could be simplified by depositing the fees directly to the state’s General Fund. The vicinage disburse approximately $600,000 annually from the local bank accounts.

During our audit, we noted that the individual maintaining the local bank accounts also prepares the bank reconciliations for these accounts. At each county court, the clerk requests funds, prepares the checks for disbursement and then prepares the bank reconciliation. These functions are incompatible. Individuals having custody of funds (requests and disbursements) should not be involved in the accounting function (preparation of the bank reconciliations).

Recommendation
We recommend that the vicinage simplify the process by depositing the fees directly to the state’s General Fund. We also recommend that for escrows an independent reconciliation of the local bank accounts be performed by someone other than the individuals that have custody of these accounts.

Auditee’s Response
As recommended, bank reconciliations of the local escrow accounts will be performed by someone other than the individuals that have custody of the accounts. In order to accomplish this, Warren fiscal staff will perform Hunterdon’s reconciliation, Hunterdon will perform Somerset’s reconciliation and Somerset will perform Warren’s reconciliation.
With regard to deposit of Civil Division filing fees, please note that the monies received by the Special Civil Division are a combination of escrow and revenue, and that most of the checks received contain both escrow and revenue. In addition, the bulk of the checks received also contain summons and complaint fees for the services of process servers. These fees must be paid to the process servers and is not revenue to the State.

The Special Civil Agency Fund is separate from the State’s General Fund. Deposit of a single check into multiple separate bank accounts (Special Civil and General Fund) is not possible. Even if each of the checks received were either 100% revenue or 100% escrow, it would be inefficient to separate them out daily and deposit them to the respective accounts. Therefore, all funds received are deposited by the vicinage into the Special Civil Agency Fund, pending subsequent distribution.

At the end of the month, each vicinage receives a Special Civil computer system (ACMS) report which identifies revenues deposited by them, which are due to the state. Currently, there is no consolidated statewide data which could be used as the basis for a single monthly General Fund deposit. ACMS could be modified to support consolidated revenue. However, the priority of this enhancement must be evaluated against other Judiciary needs to determine feasibility.
Bail

There is no segregation of duties in handling bail in the criminal units within the vicinage. Without supervisory review, the same person at each county prepares deposits, disburses bail, and has full computerized security access to the Central Automated Bail System (CABS) where bail is posted and accounted for. The custody and accounting duties for these funds should be segregated. In addition, we noted that the bail liability recorded on CABS is not being reconciled to the AOC’s cash balance account for differences. We performed our own reconciliations and noted differences at each county court within the vicinage.

Recommendation

We recommend that the vicinage segregate the bail receipt and disbursement functions from the accounting function and stop the practice of one person having full access to the CABS system. Periodic independent bail reconciliations should be performed to account for differences between CABS bail liability and the AOC’s cash balance.

Auditee’s Response

The consolidation of bail financial function under the Finance Division is planned for later in the fall of this year. In advance of this consolidation, the CABS access of the individuals performing the bail financial function has been limited to exclude backloading and void functions. In addition, the Judiciary recently instituted security code measures which will ensure that no single person has full access to CABS functions. Vicinages will implement proper segregation of duties within the bail unit such that individuals who post bails will not be able to modify the bail record nor authorize their disbursement. In addition, there will be daily, independent supervisory review of bail modifications and disbursements.
The Conference of Vicinage Finance Division Managers recently distributed a model format for reconciling the CABS’ bail liability and the AOC’s cash balance on NJCFS. Vicinage 13 has used this format to reconcile Somerset and Hunterdon’s bail for the period of January 1999 to present and is currently working on the reconciliation for Warren. Working forward, CABS will be reconciled to NJCFS on a monthly basis.

Superior Court Miscellaneous Fees
There is no segregation of duties in the receipt and recording of superior court miscellaneous fees. These fees total approximately $360,000 annually and are collected in the criminal and family divisions within the vicinage. We noted that the same person that receives monies is also responsible for entering data into respective subsystems and preparing the deposit. There is no corresponding subsystem in the vicinage’s criminal divisions to verify the amount of receipts which should have been collected and deposited. We also noted that the vicinage issues receipts, but they are not prenumbered in all cases. The practice of using prenumbered receipts coupled with independent reconciliations of receipts with the deposits would enhance controls.

Recommendation
We recommend that the vicinage issue prenumbered receipts for all transactions and independently reconcile the receipts with deposits.

Auditee’s Response
In order to enhance controls, prenumbered receipts have been ordered and will be used for Superior Court Miscellaneous Collections in the Criminal and Family Divisions. In addition, an individual not associated with the receipt of the fees or preparation of the deposit will reconcile the receipts with the daily deposit.
Payroll
The timekeeping and payroll processing functions were not properly segregated from the check distribution function. The individual who prepares the payroll has the responsibility of distributing paychecks. These functions should not be conducted by the same individual. The vicinage did take corrective action when apprized of the segregation problem.

Recommendation
We recommend that the payroll preparation and distribution functions be segregated.

Auditee’s Response
In order to provide appropriate segregation of duties, Vicinage 13 has implemented the following procedure for paycheck distribution. Paychecks are picked up by an employee who is not associated with the Human Resources Division. The checks are then delivered to Human Resources where they are sorted by staff members who are not involved in the payroll process. The actual distribution of paychecks to employees is administered by staff in the Finance Division in Somerset and Child Support Fiscal staff in Hunterdon and Warren Counties. The individual who prepares the payroll is not involved in the distribution of paychecks.

Escheated Funds
The Uniform Unclaimed Property Act provides for the escheatment of all unclaimed and abandoned funds to the appropriate state’s State Treasurer within prescribed periods of time. When an individual fails to seek funds due to them from the Superior Court, the funds become abandoned and are escheated. At the conclusion of the state fiscal year, the vicinage finance manager submits an escheatment list to the AOC and before November 1, the AOC will then submit the escheatment list to the State Treasurer. The vicinage sent their list to the AOC timely, but the AOC’s fiscal year 1998 escheatments amounting to $8,000 for the vicinage were six months late. In addition, out-of-state
esc  heatments amounting to $16,000 have not been transferred.

**Recommendation**

We recommend that the AOC comply with the provisions of the Uniform Unclaimed Property Act.

**Auditee’s Response**

It is the Judiciary’s position that all funds escheated from the State of New Jersey to other states should be coordinated by a single office within New Jersey State government. This office would be the point of contact with the other states to determine their escheat criteria and transmission protocols, thereby avoiding redundant efforts by various New Jersey State offices.

The Judiciary will pursue development of a coordinated out-of-state escheatment policy with the Treasury Office of Unclaimed Property.

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**Hunterdon’s Open Bail List**

Hunterdon’s Criminal Division does not maintain a current updated open bail list. As of May 31, 1999, there are approximately 500 open bails totaling $4 million. In reviewing 13 open bails over a year old totaling $10,650, we found nine exceptions. Six of the nine bails should have been refunded to the defendants or sureties and three should have been forfeited. There were also no follow-up procedures taken by management for a $50,000 bail bond which continues to be in forfeiture status since April 1996. Forfeited bail was last collected by Hunterdon in September 1997 while Somerset and Warren collect bail forfeitures monthly. Inadequate supervision and monitoring by management contributed to Hunterdon’s outdated bail list.

**Recommendation**

We recommend that management monitor the bail function more closely by bringing their bail list up to date and processing forfeitures more timely.
Auditee’s Response

The consolidation of the bail function under the Finance Division is scheduled for later in this calendar year. In the meantime however, the Trial Court Administrator has directed the Criminal Division Manager, specifically the Assistant Criminal Division Manager in Hunterdon County to take a more active role in monitoring the bail function including the open bail list. To that end, the open bail list is currently being worked to follow up on any bails that need to be discharged. In addition, documentation has been sent to County Counsel requesting enforcement action on the $50,000 bail bond that has been in forfeiture status since April 1996.

A protocol is now in place which assigns responsibility for review of old bench warrants. In those instances where it is appropriate, forfeitures will be ordered.