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NATIONAL FINE CENTER

**Implementation of Criminal
Debt System Presents
Challenges**

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Mr. Chairman and Members of the Committee

I am pleased to be here today to discuss the Administrative Office of the United States Courts' (AOUSC) efforts to centralize criminal debt accounting and reporting within the National Fine Center (NFC). Under the Criminal Fine Improvements Act of 1987, AOUSC was required to establish a criminal debt accounting and reporting system. The system was expected to (1) automate and centralize criminal debt processing for all 94 judicial districts and (2) replace the fragmented approach for receiving criminal fine payments and alleviate long-standing weaknesses in accounting for and reporting on criminal monetary penalties.

As discussed in our May 1995 report entitled, National Fine Center: Progress Made but Challenges Remain for Criminal Debt System (GAO/AIMD-95-76), AOUSC has made progress in centralizing new criminal debt information in 25 of the smaller judicial districts. We believe, however, that there are significant challenges ahead that will require extensive planning and coordination between AOUSC, the Department of Justice (DOJ), and other system users if AOUSC is to successfully implement a system to centralize criminal debt processing for all 94 districts.

First, Mr. Chairman, I would like to briefly address AOUSC's initial efforts to centralize criminal debt and implement a system, and then discuss additional actions needed by AOUSC and DOJ to complete NFC implementation. My comments regarding additional actions will focus on the need to

- complete planned software enhancements to AOUSC's current NFC system,
- reconcile existing debt accounts and enter the resulting amounts into the NFC system,
- determine the collectibility of both new and existing criminal debt accounts, and
- define specifically how and when the objectives described under phase II of the NFC project will be accomplished.

AOUSC HAS BEGUN CENTRALIZING CRIMINAL DEBT

In April 1994, AOUSC began its current two-phased implementation approach that emphasized using an off-the-shelf accounting system which could be enhanced rather than developing a system totally in-house. Under phase I, AOUSC plans to install an off-the-shelf accounting system to establish debtor accounts, bill debtors, record receipts, pay victims, and report on a limited scale for criminal debts. AOUSC plans that by the end of phase I in September 1996, the NFC system will have complete data for all 94 judicial districts. This recognizes entering new criminal debts as they become available and existing debts as they are reconciled. Once the selected system is fully operational under phase I, AOUSC plans to expand the system during phase II to improve users' access to NFC information and increase management information reporting capabilities.

Since April 1994, AOUSC officials have (1) established a process for centralizing and maintaining federal criminal debt accounts, (2) developed a formal training program for judicial district staff, (3) selected an off-the-shelf accounting system, and (4) begun processing new criminal debt information for 25 of the smaller judicial districts using the selected system, 2 more than AOUSC had initially planned in April 1994. AOUSC's implementation schedule calls for 15 additional judicial districts to be added to NFC by the end of August 1995. According to AOUSC officials, 24 staff are currently assigned to the NFC project and, since its inception, they will have either expended or obligated about \$10.9 million for NFC by the end of fiscal year 1995.

There are additional actions that AOUSC and DOJ need to take to complete NFC implementation.

AOUSC HAS NOT COMPLETED PLANNED PHASE I SOFTWARE ENHANCEMENTS

Currently, only a small fraction of criminal debt accounts are on the NFC system. AOUSC officials recognize that, before the larger courts and existing criminal debts are added, software enhancements will be needed so that NFC can effectively support certain billing, payment receipt, and disbursement functions, most of which NFC staff now do manually. For example, one enhancement will automate the calculation of interest and penalties. Automating such interest and penalty calculations, which are required by legislation, would save time and eliminate errors inherent in manual calculations.

Another enhancement involves developing an automated interface to enable judicial districts to provide account data to NFC in automated formats. These improvements would reduce manual data entry tasks now performed by NFC staff and the corresponding risk of errors. Other enhancements include (1) automating transaction data from debtor payments sent to lock boxes and payments made through the Bureau of Prisons Inmate Financial Responsibility Program and (2) establishing an interface between NFC and a DOJ system to allow DOJ staff increased access to account information. Since the issuance of our report, AOUSC officials have progressed in developing the needed enhancements; however, none are operational.

EXISTING CRIMINAL DEBT ACCOUNTS HAVE NOT BEEN RECONCILED

While AOUSC has begun entering new account information, a major challenge will be reconciling existing criminal debt accounts, which have been separately maintained by judicial district staffs within Clerk of the Court offices, probation offices, and U.S. Attorneys' Offices, and entering the resulting amounts into the NFC system. The NFC system will not contain complete criminal debt information for its users and the Congress until it also includes complete and reliable data on the estimated \$4.5 billion in existing criminal debt.

AOUSC has drafted a reconciliation strategy to guide the performance of reconciliations in the judicial districts. However, the strategy has not been agreed to by DOJ and judicial district officials. AOUSC has not established time frames for beginning and completing reconciliations in all judicial districts or estimated the resources needed to perform the process. In addition, the reconciliation strategy does not set forth steps to be followed if addresses and/or social security numbers are missing from debtor account information. This information is essential for efficient billing and collecting of criminal debts.

Recently, AOUSC indicated that the strategy for reconciling existing accounts and transferring them to NFC, while not yet approved, had been provided to the 25 districts currently on the NFC system. According to AOUSC and DOJ officials, the transfer of these accounts is to begin at the end of July 1995. At this time, we have not reviewed the judicial districts' implementation of the reconciliation process.

COLLECTIBILITY OF CRIMINAL DEBT HAS NOT BEEN DETERMINED

While not specifically required by the Criminal Fine Improvements Act of 1987, a critical area that AOUSC and DOJ have not yet addressed is that of determining the collectibility of criminal debt accounts. Currently, AOUSC records all new criminal debt in its NFC system as accounts receivable without a determination by AOUSC or DOJ as to whether such debt is collectible. Also, AOUSC officials have not established within the NFC system an allowance for doubtful or uncollectible receivables¹ to properly account for and report on those receivables determined to have a low probability of collection. Without such allowances, decisionmakers, including the Congress, may be led to believe that substantially greater amounts are collectible.

AOUSC will need to work with DOJ to ensure that realistic determinations of collectibility are made on new criminal debts as the accounts are established, based on available information, and on those that have become delinquent or are in default.² In addition, there is a need to review existing debt accounts that are legally enforceable, but which may be uncollectible. Although AOUSC has no authority to make adjustments to accounts or to write off debts, it could categorize certain debts as uncollectible for accounting and reporting purposes.

¹Uncollectible accounts are those fines, restitutions, special assessments, and court costs that should not be considered as valid accounts receivable for financial reporting purposes. The allowance for doubtful or uncollectible receivables account represents those receivables that are unlikely to be collected and results in a decrease to the accounts receivable account balance. This allowance would not affect the enforceability of the debts.

²A fine becomes delinquent if a debtor's payment is more than 30 days late. A fine is in default if a payment is delinquent for over 90 days.

Court officials told us that sufficient information is often available at the time of sentencing to determine the offender's ability to pay and, therefore, whether or not a monetary penalty imposed is likely to be collected. For example, in the 1993 bombing of the World Trade Center in New York City, each of the four defendants received 240 years in prison and \$250,000 in fines. Although \$1 million of outstanding fines resulted from this case, DOJ and AOUSC officials said the probability of collecting these fines is low. Currently, however, DOJ reports these debts as being fully collectible.

Without distinguishing between collectible and uncollectible criminal debt accounts, NFC will be unable to accurately report on the composition of the outstanding criminal debt balance. Similarly, users who are responsible for collecting debts will not have the ability to effectively target collection resources and realistically assess their performance unless information is available to distinguish debts which are likely collectible, and thus should be rigorously pursued, from uncollectible debts.

According to AOUSC and DOJ officials, DOJ has recently instituted a new policy intended to improve its ability to determine collectibility of criminal debts. We have not analyzed the policy or the extent to which it has been implemented.

AOUSC HAS NOT DETERMINED HOW TO ACCOMPLISH PHASE II OBJECTIVES

AOUSC recognizes that the NFC system established during phase I will have to evolve to a more sophisticated financial information system during phase II to improve the management of criminal debt collection activities. AOUSC officials told us that they have begun working with DOJ and other system users to define the necessary information and reporting requirements. While they plan to address this more fully, at this time, AOUSC officials have not determined what additional enhancements will be needed.

According to AOUSC officials, the future NFC system is to (1) provide a repository of national statistical information on criminal debt collection, (2) produce reports to accommodate the management information needs of the Congress, the judiciary, the executive branch, and other entities, (3) provide the Clerk of the Court offices, probation offices, U.S. Attorneys' Offices, and the Bureau of Prisons with easy access to account information so that the maximum level of debt collection can be achieved, and (4) provide a means to account for the collection of bail bond and collateral forfeiture actions, as required by the Criminal Fine Improvements Act of 1987. AOUSC officials believe that, if they successfully implement phase II, they will have fully met the act's requirements.

CONCLUSIONS AND RECOMMENDATIONS

The approach AOUSC has taken has enabled it to begin centralizing new criminal debt information in 25 of the smaller judicial districts. However, to fully centralize criminal debt for all 94 judicial districts and provide the information needed to improve the government's ability to collect what is owed, we believe that AOUSC will need to

- complete planned NFC system enhancements, such as the one needed to perform interest and penalty calculations, and various interfaces to facilitate the exchange of information between NFC and its users;
- work with DOJ to finalize a reconciliation strategy to include time frames and resources for reconciling existing criminal debt accounts at judicial districts and entering the reconciled information into the NFC system;
- fully define a strategy for addressing additional actions needed to enable the NFC system to (1) provide a repository for national criminal debt statistical information, (2) produce reports to accommodate management information needs, (3) facilitate communication between NFC and its users, and (4) account for bail bond and collateral forfeiture actions; and
- work with DOJ to develop and implement a methodology for determining the collectibility of all criminal debt.

AOUSC generally agreed with our findings and recommendations and has begun to address these issues.

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Mr. Chairman, that concludes my testimony. I would be happy to answer any questions you or Members of the Committee may have at this time.



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