

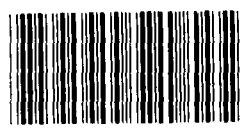
**GAO**

Report to the Director, Administrative  
Office of the United States Courts

April 1986

# THE JUDICIARY

## Stronger Financial Internal Controls Needed Over Court Resources



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United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-221659

April 29, 1986

The Honorable L. Ralph Mecham  
Director, Administrative Office  
of the United States Courts

Dear Mr. Mecham:

This report discusses the strengths and weaknesses of the financial internal control practices at federal courts and the Administrative Office of the United States Courts. We are making a number of recommendations to improve internal controls over collections, disbursements, and court property. In addition, the report contains recommendations that are directed at increasing petty offense collections at less cost.

We are sending copies of this report to the congressional oversight committees; the Chief Justice of the United States; the Chairmen, Judicial Conference Budget Committee and Committee on Court Administration; the circuit executives of the Judicial Councils; the Chief Judge of each district court visited; and other interested parties.

We would like to express our appreciation for the cooperation and assistance extended to us by your staff during the review.

Sincerely yours,

William J. Anderson  
Director

# Executive Summary

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During fiscal year 1985, the Judiciary estimated that it spent about \$1 billion to operate the United States Courts; collected about \$119 million for administrative services and court-imposed fines, penalties, and forfeitures; and held about \$1.1 billion in registry funds (money placed in the courts' trust, such as cash, bail, and bankruptcy money). The Federal Managers' Financial Integrity Act of 1982 requires management to assume responsibility for establishing adequate internal controls and for correcting problems that can cause waste and loss. Although the Judiciary is excluded from the act's provisions, the Administrative Office of the U.S. Courts, which establishes the accounting procedures for the courts, expressed its desire to comply with the act's intent. Because of this interest, GAO performed a general risk assessment of selected financial operations in three district courts (central California, Maryland, and eastern Virginia) and at the Administrative Office. This assessment focused on identifying internal control weaknesses and not on identifying or quantifying losses resulting from those weaknesses. In addition, GAO reviewed the findings of selected internal audit reports and the results of a recently administered internal control self-assessment questionnaire.

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## Background

There are 94 federal district courts. Each clerk of the court is responsible for establishing and maintaining a sound system of internal controls. Overseeing the courts' financial operations are 12 circuit councils and the Administrative Office, which is also responsible for paying the salaries and certain expenses of the courts.

Over the last several years, the Administrative Office and the courts have initiated several actions to improve administrative and financial operations. They include strengthening internal control guidelines over collections; developing model financial operating procedures for courts; administering an internal control self-assessment questionnaire; and installing, over the next 5 years, an automated financial system in 50 courts.

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## Results in Brief

The Judiciary has taken positive actions to improve internal controls, and during GAO's review, the Administrative Office and three courts visited took additional actions to improve internal control weaknesses that GAO identified. However, more needs to be done. GAO found that (1) the courts are not complying with the Administrative Office's collection guidelines, which follow generally accepted internal control principles,

(2) the Administrative Office needs to strengthen internal control procedures over disbursements, and (3) the Administrative Office needs to strengthen inventory control procedures over court resources and obtain court compliance with security controls over cash and court documents.

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## Principal Findings

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### Collections

GAO's review of internal controls over collections of administrative fees and petty offense forfeiture payments showed that district courts need to improve their compliance with Administrative Office collection guidelines in order to reasonably assure that monies collected are safeguarded against loss, theft, and misuse. GAO also observed that petty offense collections could be improved at potentially less cost if state assistance were obtained to help the courts notify persons about outstanding traffic tickets and if private financial institutions were used to process petty offense payments. Finally, GAO found that the courts do not always comply with the Administrative Office accounting guidelines for defendant reimbursements for private counsel. (See ch. 2.)

Court officials cited the following reasons for not complying with collection guidelines:

- additional staff are needed to exercise proper controls,
- guidelines do not provide detailed internal control procedures for handling receipts, and
- court staff lack adequate training.

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### Disbursements

GAO's review of disbursements made by the Administrative Office and the courts visited found that internal control procedures need to be strengthened to detect and prevent unauthorized and improper payments. For example, internal controls over payroll at the Administrative Office and courts need improvement in the areas of payroll certification, access to the courts' automated payroll system, and verification of pay changes. During GAO's review, the Administrative Office took action to restrict access to the payroll system and to improve payroll verification. In addition, the Administrative Office needs to improve its disbursement guidelines for private attorney claims, jury payments, and consumable supply purchases. It also needs to develop a follow-up system to resolve

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rental discrepancies with the General Services Administration.  
(See ch. 3.)

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## Court Resources

The courts are accountable for controlling various resources in their custody, such as registry funds, furniture, and equipment. They are also responsible for safeguarding cash, negotiable instruments, and court documents, such as naturalization certificates. GAO found that the courts visited were generally complying with Administrative Office guidelines in receiving, investing, and disbursing registry funds. However, two of the courts were not maintaining proper inventory controls over furniture, furnishings, and equipment, and the two courts were not always restricting employee access to cash and/or other court documents.  
(See ch. 4.)

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## Recommendations

GAO is recommending that the Director of the Administrative Office of the United States Courts, in concert with circuit councils, develop a plan to assist those courts that have not established a system of internal controls that comply with generally accepted internal control standards. This plan should, among other things, establish a financial management team in the circuits to help the courts (1) implement the recently developed model operating procedures and (2) authorize the use of public accounting firms, when necessary, to help the courts identify and correct internal control weaknesses. GAO is also recommending several actions to improve controls over petty offense collections, disbursements, and inventory. (See pages 23, 39, and 45.)

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## Agency Comments

The Director of the Administrative Office of the United States Courts and the Chief Judges and/or clerks of the three district courts visited provided written comments on this report. (See appendixes I to IV.) The Administrative Office generally agreed with GAO's recommendations and said that every effort would be made to comply with them. The three district courts told GAO that they have taken corrective actions on many of the internal control problems identified in this report. However, the clerk of the eastern Virginia district expressed reservations over the need for time and attendance records and believed that current controls over attorney claims were adequate. (See pages 23, 40, and 45 for GAO's evaluation of agency comments.)



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**Abbreviations**

AO	Administrative Office of the United States Courts
CJA	Criminal Justice Act
GAO	General Accounting Office
GSA	General Services Administration

# Introduction

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In September 1982, the Congress enacted the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets across a wide spectrum of executive branch operations. This act reaffirmed and broadened the concept that all management levels must assume responsibility for establishing adequate internal controls and correcting problems that can cause waste and loss. Although the judicial branch is not bound by the Financial Integrity Act, the Administrative Office of the United States Courts (AO) has expressed interest in complying with the spirit of the act. Because of this interest, we performed a general risk assessment of selected financial operations of the AO and three district courts to determine the adequacy of internal controls.

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## Administrative Structure of the Judiciary

The judicial branch has three levels of administration—the Judicial Conference of the United States, the judicial councils of circuit courts of appeals, and the district courts. The AO provides administrative support to the United States Courts.

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## Judicial Conference

The Judicial Conference, the policymaking body of the Judiciary, is composed of the Chief Justice of the United States, the Chief Judge of the Court of Appeals for the Federal Circuit, the chief judges of the other 12 courts of appeals, and 12 district court judges. The Judicial Conference, which meets at least annually, considers administrative problems in all circuits and makes recommendations to the Congress concerning legislation affecting the federal judicial system. In conducting its business, the Judicial Conference has established 21 committees. Two of these committees—budget and court administration—have primary interest in financial management.

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## Judicial Councils

The United States is divided into 12 regional judicial circuits, each containing a court of appeals (circuit court) and from 1 to 15 district courts based on the size of the circuit's geographic area and population. Each of these circuits has a council consisting of the Chief Judge of the circuit, a fixed number of other circuit court judges, and at least 2 district court judges from the circuit. The councils, which are required to meet at least twice a year, are responsible for overseeing the administrative operations of the district courts within their circuit. The councils can promulgate orders to promote effective and expeditious administration

of the courts within their circuit. Additionally, each council has appointed a circuit executive who exercises administrative powers and duties delegated by the council.

## U.S. District Courts

There are 94 federal district courts. The judges of each court formulate local rules and orders and generally determine how court activities are managed. Each court has a clerk who is under the direction of the chief judge. As the courts' chief administrative officers, clerks have a wide range of management responsibilities, among which are the development and maintenance of adequate accounting and internal control systems, the maintenance of court records, and the development of court operating procedures.

## Administrative Office of the United States Courts

The AO is headed by a Director appointed by the U.S. Supreme Court. The Director is the administrative officer of all U.S. courts except the Supreme Court. Under the supervision and direction of the Judicial Conference, the Director is required to:

- supervise administrative matters relating to the clerks' offices and other clerical and administrative court employees;
- prepare and submit various reports regarding cases and other statistical data to the Congress, the circuits, and the Judicial Conference;
- pay salaries and certain expenses of the courts; and
- audit vouchers and court accounts.

## Financial Resources of the Judiciary

The AO and the clerks of the courts administer the majority of the judiciary's appropriations. For fiscal year 1985, the AO estimated that the judiciary spent about \$998 million—about \$620 million for personnel compensation and benefits, \$316 million for services and supplies, \$57 million for purchasing capital assets, and \$5 million for grants. In addition to disbursing monies, court clerks collected in fiscal year 1985 about \$65 million in fines, penalties, and forfeitures; \$29.4 million in civil and bankruptcy case filing fees; \$14.6 million for naturalization requests; \$641 thousand for attorney admission charges; and \$9.6 million for district and bankruptcy court charges for such services as copying court documents, certifying court documents, and selling publications.

Court clerks also administer registry funds, which are monies placed in district and bankruptcy courts' custody pending case outcome. These funds include criminal cash bail, deposits in land condemnation cases,

bankruptcy money, and funds held in trust. As of June 30, 1985, the registry fund balance was about \$1.1 billion.

## Actions Taken by the Judiciary to Improve Administrative and Financial Operations

On two separate occasions since 1970,<sup>1</sup> we reported on selected administrative and financial operations of the U.S. district courts. Among other things, we reported that the internal control procedures over collections, registry funds, and valuable court exhibits needed to be strengthened. In both reports we recommended that the AO provide the court clerks with detailed internal control procedures to correct the problems identified.

Since these reports, the AO has taken several actions to improve administrative and financial operations. Specifically, the AO:

- Established internal control guidelines for the courts.
- Established in 1981 a committee made up of court clerks who together with AO staff developed and reviewed model operating procedures for different size courts. Models were completed in 1984 and are now available to all courts.
- Authorized one court at its request to use a public accounting firm to develop detailed financial operating procedures.
- Sent out a questionnaire in 1984 to all courts to evaluate their internal control practices. As of November 1985, 77 district courts (about 83 percent) had completed the questionnaire, and the AO is using the results to show court clerks where internal controls can be improved.

The AO is in the process of overhauling its centralized accounting system and is automating the accounting systems at the courts. The AO anticipates that the new automated systems will reduce paperwork and improve the timeliness, accuracy, and reliability of financial data. The AO plans to implement its centralized accounting system beginning in fiscal year 1987. The courts' automated system has been under development since July 1983 and is being tested at the western Texas, eastern North Carolina, and eastern Pennsylvania district courts. The AO plans to implement the courts' automated accounting system in 50 district courts by the end of fiscal year 1989.

In addition, the AO created an Office of Audit and Review in 1975 to conduct internal audits of court financial and administrative operations.

<sup>1</sup>Opportunities for Improvement in the Administrative and Financial Operations of the United States District Courts (B-133322, October 8, 1970); and Further Improvements Needed in Administrative and Financial Operations of the U.S. District Courts (GGD-76-67, May 10, 1976).

Recently, its audit mission was expanded to cover AO operations and functional areas such as procurement. This office has 12 management analysts and 8 financial auditors to conduct its reviews. Presently, management audits of individual courts are conducted about once every 9 years; financial audits, once every 2 to 3 years. To address its expanded mission and to increase the frequency of audits, the AO plans to add 30 positions to its audit group over the next 3 fiscal years (1986 to 1988).

## Objectives, Scope, and Methodology

Our objective was to identify the strengths and weaknesses in the Judiciary's financial internal controls and to assess the risk of waste, loss, or misuse of funds and property. To accomplish our objective, we performed a general risk assessment of selected financial operations at the AO and 3 of 94 district courts. We focused on identifying vulnerable areas and not on identifying or quantifying losses resulting from control weaknesses.

In conducting our risk assessment, we reviewed the internal controls at the AO and three district courts—central California, Maryland, and eastern Virginia. We selected these courts because of their large collection activities and different accounting systems. For instance, the three courts visited handled large amounts of petty offense collections. In addition, the central California district court had an automated accounting system for recording collections and disbursements. The other two courts operated manual accounting systems.

At these locations, we reviewed major revenue and expense categories. These revenues included collections for various court services and petty offense payments for violation notices issued by federal law enforcement officers. The expenses reviewed were payroll, rent, private defender claims, jury payments, furniture and furnishings, and supplies.

To get an indication of strengths and weaknesses in internal controls in other courts, we judgmentally selected and analyzed 25 of 173 AO internal audit reports. These audits were conducted between July 1982 and February 1985, and they covered 11 circuit, 81 district, and 81 bankruptcy courts. We also analyzed the results of the questionnaire the AO sent to all courts in 1984 to evaluate the courts' internal control practices over collections and disbursements.

At the AO and three district courts visited, we

- interviewed clerks of the courts, deputy clerks, and AO officials in personnel, payroll, financial management, and program offices to learn their program operations and responsibilities for controlling financial resources;
- analyzed AO and court procedures to process collections and disbursements;
- analyzed AO and court procedures to control property and registry funds held in court custody;
- reviewed reports of Judicial Conference proceedings and annual AO reports issued from 1982 through 1984 to identify issues related to financial management;
- reviewed a public accounting firm's report that examined one district court's financial operating procedures;
- reviewed the recently developed court model operating procedures;
- tested a limited number of transactions that were judgmentally selected to determine whether AO and stated court procedures were being followed; and
- interviewed U.S. Marshals at one court concerning their involvement in serving warrants on outstanding petty offense violation notices.

Because major changes are being made to the systems used for recording, controlling, and reporting appropriated funds, we did not assess the adequacy of the AO's and courts' existing fund control systems. However, we administered a questionnaire to the two AO officials responsible for designing the courts' new automated accounting system. The questionnaire was designed to determine the types of financial controls and safeguards incorporated in the new system. We also reviewed the draft user's manual for the new automated system.

The methodology we followed in making the internal control risk assessment was GAO's audit guidelines for reviewing and evaluating agency accounting and financial management systems. The criteria we followed in assessing the adequacy of internal controls included GAO's guidance to executive branch agencies for accounting, payroll, and financial operations found in Titles 2, 6, and 7 of the Policy and Procedures Manual for Guidance of Federal Agencies;<sup>2</sup> AO policies and procedures manuals; and generally accepted internal control standards contained in GAO's

<sup>2</sup>GAO Policy and Procedures Manual for Guidance of Federal Agencies: Title 2-Accounting; Title 6-Pay, Leave, and Allowances; and Title 7-Fiscal Procedures.

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accounting series on internal controls.<sup>3</sup> Our work was conducted in accordance with generally accepted government auditing standards and was performed from February through December 1985.

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<sup>3</sup>Accounting Series Standards for Internal Controls in the Federal Government, 1983.

# Courts Need to Improve Compliance With Internal Control Procedures Over Collections

During fiscal year 1985, district courts collected about \$28.5 million<sup>1</sup> for court administrative services, and for the 12 month reporting period ending June 30, 1985, they received about \$9.6 million from persons issued petty offense violation notices by federal law enforcement officers. At the courts we visited, AO collection guidelines were not always followed, which increased the risk of loss, theft, and misuse of funds and delayed deposits to the U.S. Treasury. The compliance problems we observed may be widespread based on results of the AO's internal control questionnaire and internal audit reports we reviewed. We also observed that controls over collections received from persons issued petty offense notices could be improved at potentially less cost if state assistance were obtained in helping the courts notify persons about outstanding traffic tickets, as is currently done at the central California and Maryland district courts, and if private financial institutions were used in processing petty offense payments made to the government. Finally, we found that the courts were not complying with AO guidelines in accounting for defendant reimbursements.

## Court Administrative Fees

District courts collect fees for issuing naturalization certificates, filing civil cases, admitting attorneys to practice, and other administrative services, such as copying and certifying court documents. These administrative fees can be received over the counter or through the mail. To prevent loss, theft, or misuse of the fees, AO guidelines, which follow generally accepted internal control principles, recommend that all fees collected be placed under immediate accounting controls as soon as they are received. This is to be accomplished by logging in all incoming fees received through the mail and issuing prenumbered receipts for fees collected over the counter. The guidelines also recommend

- use of a central cashier location for processing all collections;
- separation of critical collection functions between employees who receive, record, prepare, and make deposits; and
- reconciliation on a daily basis of amounts received to amounts recorded.

In addition, AO guidelines state that collections totaling \$1,000 or more should be deposited daily, with lesser amounts to be accumulated and deposited when they total \$1,000, or at least weekly.

The courts we visited collected about \$4.9 million in administrative fees during fiscal year 1985. Our review of their internal control procedures

<sup>1</sup>Exclusive of fees collected in bankruptcy courts totaling about \$25.7 million.



**Chapter 2**  
**Courts Need to Improve Compliance With**  
**Internal Control Procedures Over Collections**

showed that all three could improve their compliance with AO guidelines. Table 2.1 summarizes the internal control weaknesses found and the associated risks.

**Table 2.1: Control Weaknesses Noted Over Collection of Administrative Fees**

<b>Location</b>	<b>Weaknesses</b>	<b>Risks</b>
<b>Eastern Virginia</b>	Clerks were not keeping logs of fees received through the mail.	Cash could be lost, misused, or diverted, and shortages could go undetected.
<b>Eastern Virginia</b>	A central cashier location was not used for processing fees collected over the counter.	Delayed deposits and loss of funds could occur.
<b>Maryland</b>	A central cashier location was in place but was not being used to process all fees collected over the counter.	" "
<b>Maryland</b>	A reconciliation was not performed for fees received through the mail.	Errors or omissions could go undetected.
<b>Eastern Virginia</b>	Naturalization fees totaling \$9,000 were not deposited in accordance with AO guidelines. This money was held an average of about 8 days before being deposited.	Delayed deposits and loss of funds could occur.
<b>Central California</b>	Naturalization fees in excess of \$1,000 were deposited twice a week instead of daily, as suggested by AO guidelines.	" "

We discussed our findings with court officials. Central California and Maryland court clerks told us that they have taken action to ensure prompt deposit and accountability of funds. The Maryland court clerk stated, however, that a reconciliation of fees received through the mail would not be adopted because he felt that the cost of this control outweighed the benefit. The eastern Virginia court clerk told us that he would look into ways of expediting the deposit of naturalization fees which are collected by the Immigration and Naturalization Service and submitted to the court for deposit. He said that the volume of fees received through the mail was small and did not warrant keeping logs. He also said that a central cashier location was not possible because of limited staff and space.

## Lack of Compliance With Collection Procedures May Be Widespread

The AO's self-assessment questionnaire and the internal audit reports we reviewed showed that many courts were not following internal control procedures for collections. The AO's self-assessment questionnaire was returned by 77 of the 94 district courts, including the courts we visited. Table 2.2 describes the major collection weaknesses identified by the questionnaire, the number of courts reporting problems, and the associated risks.

**Table 2.2: Collection Weaknesses Reported by AO Questionnaire**

Control weaknesses noted	Number of courts reporting problems	Risks
Collections were not logged in by clerks.	33	Cash could be lost, misused, or diverted.
Discrepancies found between amounts received and amounts recorded were not reconciled daily.	19	Cash shortages could go undetected.
Separation of duties:		
Cashiers opened mail.	15	Funds could be misused or diverted, and losses could go undetected.
Cashiers had access to accounting records.	11	" "
Same employee prepared and made bank deposits.	21	" "
Bookkeepers performed cashier duties.	10	" "
Persons opening mail had access to accounting records.	23	
Collections received through the mail were not sent directly to the cashier.	22	Delayed deposits and loss of funds could occur.

Our review of 25 financial audit reports issued by the Office of Audit and Review also showed widespread compliance problems in the courts that we did not visit. For example, audit reports for 16 of the 25 courts (64 percent) stated that court management had not always incorporated AO collection control principles into their operations. Furthermore, the reports showed that courts were not in compliance with AO internal control guidelines. For example, 18 of 25 courts (72 percent) showed that there was lack of separation of duties over collections.

## Reasons for Noncompliance With Collection Procedures

When we asked court officials why there was a general lack of compliance with the AO's collection guidelines, they cited the following reasons:

- additional staff are needed to exercise proper controls;
- the cost of implementing the AO collection guidelines outweighs the benefit to the government of doing so;
- guidelines do not provide detailed procedures outlining internal controls for each phase of financial responsibility, and the AO has been reluctant to approve court procedures;
- financial management assistance and audits do not tell courts how to correct identified problems, and guidance received from different AO offices has been inconsistent;
- the AO does not always coordinate with circuit executives on corrective actions needed at courts;
- court staff lack adequate training and clerk seminars are not effective training tools; and
- court staff turnover detracts from effective operations.

The AO has done two things to help the courts comply with internal control procedures: (1) developed, in conjunction with court clerks, detailed model operating procedures which show courts how to comply with AO collection guidelines, taking into consideration the number of court offices and the number of clerk staff within a district and (2) authorized the use of an independent public accounting firm to assist one court in establishing a detailed internal control plan for its day-to-day operations. The model operating procedures incorporate AO guidelines and provide examples of how different personnel in the clerk's office should be assigned specific responsibilities for handling collections received through the mail and over the counter, operating central cashier stations, and receipting and depositing funds. The procedures developed by the public accounting firm for one court also detailed specific procedures for handling mail and over-the-counter receipts, processing and depositing collections, and posting and reconciling receipts with deposits. The clerk of this court believed that the product developed provides excellent internal control procedures that each person in his court can understand and implement. Regarding the model procedures, an official said that the AO has notified the clerks through meetings and correspondence that the models are available to the courts. However, AO officials stated that they can only advise courts on internal control procedures, and it is up to individual clerks to decide whether they want to incorporate them into their operations. An official also told us that the AO currently has no plans to use independent public accounting firms to

help courts incorporate internal control principles into their day-to-day operations but would support courts who request such help.

## Petty Offense Collections

Eight district courts operate automated central violation units and are responsible for preparing case records for persons issued notices by federal law enforcement officers and for receiving payments on these notices when persons forego a formal hearing. Such payments are known as forfeitures, and they are generally mailed into the central violation units. These units prepare case records for about 70 district courts and account for about 90 percent of the national volume of notices and payments received. During the 12 month reporting period ending June 30, 1985, the AO reported that nationally the courts received 642,884 violation notices from federal agencies. These notices were issued for traffic violations, such as illegal parking or speeding, and minor criminal offenses, such as illegal hunting or damaging federal property. Of the 642,884 notices, 427,163 resulted in forfeiture payments totaling about \$9.6 million. Of the remaining 215,721 tickets, AO officials told us that a large number were disposed of through judicial action at magistrate offices. For example, for the 12-month period ending June 30, 1985, magistrates (1) disposed of 77,107 petty offense cases through conviction, dismissal, or acquittal; (2) dismissed 34,518 petty offense cases for non-appearance; and (3) issued 61,787 summonses and arrest warrants in petty offense cases.

## Accounting Controls Over Petty Offenses

The three courts we visited operated central violation units, and for the 12 month reporting period ending June 30, 1985, these three units collected about \$3.6 million. This represents about 37 percent of all such collections made nationwide.

Our review of accounting controls over these receipts showed that the three courts needed to improve their internal control procedures. Table 2.3 summarizes the weaknesses found and the associated risks.

**Table 2.3: Control Weaknesses Noted  
 Over Petty Offense Collections**

Location	Weaknesses	Risks
<b>Maryland and Eastern Virginia</b>	Petty offense payments were not placed under immediate accounting controls.	Cash may be lost, misused, or diverted and shortages could go undetected.
<b>All</b>	Cash or checks were not separated from the violator's copy of the ticket upon receipt, and central violation unit deputy clerks who prepared or had access to the case records also handled collections.	Funds could be diverted.
<b>All</b>	Prenumbered receipts for payments made at magistrate offices were not always used and/or adequately controlled.	Cash shortages could go undetected.
<b>Maryland</b>	No procedures had been established for independently verifying the accuracy or completeness of data entered into case records.	Unnecessary enforcement actions could occur or cases could be dismissed because of erroneous information.
<b>Maryland</b>	Payments of \$800 made at one magistrate's office were not promptly deposited. On the average, it took 26 days to deposit these payments.	Delayed deposits and loss of funds could occur.
<b>Eastern Virginia (\$27,000) and Central California (\$3,000)</b>	Collections of about \$30,000 paid to the central violation units had not been deposited at the time of our review. This money had been held an average of about 9 calendar days. <sup>a</sup>	" "

<sup>a</sup>Average days held was based on an analysis of 116 payments out of 1,329 payments awaiting deposit.

We discussed these control weaknesses with court officials who generally agreed with our observations. The reasons cited for the weaknesses were similar to those previously mentioned for administrative fees. Central California, eastern Virginia, and Maryland court officials told us that they had acted or would act to correct the identified problems.

In further commenting on the reasons that all petty offense collections were not promptly deposited, officials at the central California and eastern Virginia district courts told us that the collections in question were received before they had received the original violation tickets from the issuing agency. The officials said that they are reluctant to record and deposit these monies using the violators' copies of the tickets, which in many cases are not legible. Furthermore, some violators send their payments without copies of the tickets. Officials explained that in these situations, recording and depositing collections could result in erroneous case records being established and unnecessary case prosecutions being taken against accused violators. In cases

where unidentified funds are received or where records are not legible, GAO procedures found in title 7 of the Policy and Procedures Manual recommend that the monies be deposited and recorded in a suspense account until later identified. This procedure should be followed by central violation units. In this regard, the central violation units should record the unidentified receipts in a suspense ledger and deposit these monies into the petty offense account. However, AO guidelines do not instruct the courts to follow this process.

### Use of Lockboxes Could Improve Controls Over Petty Offense Collections

In our discussions with AO officials about accounting controls over petty offense forfeiture payments, they told us that they were looking into the use of lockboxes to process these collections and asked us for our views on this matter. In this regard, we believe that lockboxes would be one way to better control and facilitate the deposit of forfeiture payments to the government. A lockbox is a postal rental box serviced by a commercial bank where persons issued violation notices could send their forfeiture payments. After processing and transferring the forfeiture payments to a government account, the bank would transmit the violator's copy of the ticket to the appropriate central violation unit for posting to court records. In situations where unidentified funds were received by the bank, copies of the checks submitted by the individuals would also be sent to the central violation unit. If the Judiciary adopted the use of lockboxes for forfeiture payments, the separation of duties problem we observed would be eliminated because central violation unit personnel would no longer have access to the payments. Additionally, because the banks would process the payments, the deposit delays at the central violation units would be eliminated. Furthermore, since the deposit function would be eliminated, the court personnel who prepare forfeiture payments for deposit could be utilized elsewhere.

In 1983, President Reagan's Private Sector Survey on Cost Control and the Office of Management and Budget's Reform '88 Project to improve federal management and administrative systems endorsed the lockbox system as a means for achieving savings through improved collections and reduced paperwork and personnel. Currently, a number of executive branch agencies, such as the Department of Housing and Urban Development and the U.S. Customs Service, are using lockboxes in their collection activities.

## Methods Used for Notifying Violators of Outstanding Tickets

If individuals fail to respond to violation notices issued by federal law enforcement officials, the central violation units send follow-up notices to the accused ordering them to either pay the forfeiture amount specified on the ticket or appear for a formal hearing to answer the charges. If these notices are ignored, additional action may be taken. The judicial officer may issue arrest warrants for the U.S. marshals to serve on individuals who do not opt to pay their tickets and who fail to appear for a hearing. AO officials told us that in Maryland and California state law permits the flagging or suspension of drivers' licenses and vehicle registrations for federal offenses involving traffic violations when the accused violator fails to pay or appear. The motor vehicle administrations in these states assist the central California and Maryland district courts by notifying individuals with outstanding violations that registrations and/or licenses will not be renewed until the matter is resolved with the U.S. courts.

At the two courts that use state assistance, officials told us that they believe collections have improved and that it was more cost effective than having federal marshals serve warrants against individuals with outstanding traffic tickets. For example, one magistrate's office in the Maryland district court did a study in 1982 comparing the effectiveness of using state assistance versus warrants. The study results showed, as explained by a magistrate's office official, that during a 10-month period (1-1-82 to 10-20-82) his office received about \$17,000 from 200 suspension notices sent by the Maryland Motor Vehicle Administration versus about \$2,500 generated from 500 issued warrants.

The magistrates and federal marshals at the eastern Virginia district court agreed that serving warrants may not be cost effective and that using state motor vehicle administrations to assist in notifying individuals of outstanding traffic violations had merit. The clerk of the eastern Virginia district court said that the Virginia state law requires a conviction of the offense before the state can withhold vehicle registration. One magistrate at the eastern Virginia district court and AO officials told us that it is not within the scope of judicial authority to enter into such arrangements with states, but it would be within the authority of the executive branch (Department of Justice). AO officials explained that it would be inappropriate for the Judiciary to enter into agreements with the states because such agreements involve the promotion of case prosecutions and therefore conflict with their responsibility for rendering impartial judgments in cases.

Under the Victims of Crime Act of 1984 (Public Law 98-473), petty offense payments are available for funding annual grants to the states for victims' compensation programs. As a result, states that cooperate with the courts in notifying accused violators of outstanding tickets could help generate revenues for the victims' compensation programs established in their states.

## Criminal Justice Act Reimbursements

The Criminal Justice Act (CJA), (18 U.S.C. Section 3006A), enables each district court to provide legal representation for defendants in federal criminal cases who are financially unable to obtain adequate representation. The act also authorizes judicial officers to order reimbursement to the government when the court determines that a defendant has funds available to pay for the costs of legal representation. During fiscal year 1985, defendant reimbursements totaled about \$368,000.

In response to our report on the administration of the CJA,<sup>2</sup> the AO issued guidelines in March 1984 recommending accounts receivable be established for court-ordered reimbursements. To implement these guidelines, court clerks are to establish an accounts-receivable ledger and send out monthly follow-up notices to delinquent defendants. A copy of the notice should also be provided to the defendants' attorneys and the judge or magistrate who issued the reimbursement order.

At the three district courts visited, we found that only Maryland recorded accounts receivable for defendant reimbursements and performed follow-up actions. At the central California district court, the reimbursement orders were filed by the clerk's office, but accounts-receivable ledgers were not prepared. This court sent the judge or magistrate who had issued the reimbursement order a notice of nonpayment, but it did not send the defendant or the defendant's attorney a delinquency notice. The clerk informed us that his court would take actions to adopt AO guidelines. At the eastern Virginia district court, the clerk's office maintained no records of court-ordered reimbursements. This court established an accounts receivable only when the first payment was received. We brought this matter to the clerk's attention. He stated that this practice has been changed, and now his court does maintain accounts-receivable records.

<sup>2</sup>Inconsistencies in Administration of the Criminal Justice Act (GGD-83-18, Feb. 8, 1983).



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## Conclusions

The Administrative Office and the courts have taken several positive actions to improve financial internal controls. Moreover, the courts we visited were very receptive to incorporating suggested changes to improve their internal controls.

On the basis of our review of the AO's self-assessment questionnaire results and internal audit reports, it seems that other courts can improve their internal controls to reduce the risk of loss, theft, and/or misuse of monies collected. We believe that the AO, in concert with the circuit councils, needs to develop a plan to bring all courts into compliance with generally accepted internal control principles for collections. We believe that the AO, working with the circuit councils, will have to actively promote the use of the newly developed model operating procedures and assist the courts in implementing the models. In addition, the AO may need to authorize additional courts to use public accounting firms to assist them in developing sound internal control procedures and practices. Finally, better controls and improved collection practices over petty offense forfeiture payments may be possible at potentially less cost with greater state coordination and the use of lockboxes.

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## Recommendations

We recommend that the Director of the Administrative Office of the United States Courts work with the circuit councils to develop a plan to assist those courts that have not established a system of internal controls that comply with AO collection guidelines. The plan should (1) include an educational program for court clerks on the importance of establishing and maintaining adequate internal controls, (2) establish a financial management team in the circuits to assist court clerks in implementing the recently developed model operating procedures, and (3) authorize the use of public accounting firms, when necessary, to assist courts in identifying and correcting internal control weaknesses. We also recommend that the Director of the Administrative Office of the United States Courts (1) instruct the central violation units to use a suspense ledger for recording unidentified collections so receipts can be deposited promptly, (2) consult with the Judicial Conference and Justice Department on obtaining state assistance in notifying violators of outstanding traffic tickets, and (3) conduct a feasibility study on the use of lockboxes to process petty offense forfeiture payments.

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## Agency Comments

The AO generally agreed with our recommendations and told us that they would take remedial action to improve guidelines and administrative procedures over collections. They also told us that a task force is

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currently reviewing the central violation system and will address the internal control problems we identified over petty offense collections. They agreed to explore the feasibility of using lockboxes to facilitate the deposit of petty offense payments and to explore with the Department of Justice whether state assistance could be obtained in notifying violators of outstanding traffic tickets. The district courts also agreed to take actions on many of the control weaknesses identified in their courts.



# Disbursement Procedures Need to Be Strengthened

The AO is responsible for paying, among other things, the salaries of U.S. Court personnel, rent, and CJA attorney claims. For fiscal year 1985 these payments totaled about \$461 million. The courts also make local disbursements. For example, they pay for jury services and operation and maintenance expenses. These payments totaled about \$83 million for fiscal year 1985.

Our review of internal controls over payroll expenditures showed that improvements were needed in (1) certifying the courts' payroll, (2) limiting access to automated payroll records, and (3) processing and reviewing court payroll changes. Our review also showed that the AO needs to provide the courts with more specific guidance for (1) verifying the accuracy of rental charges, (2) processing CJA private attorney claims, and (3) strengthening controls over local disbursements to prevent and detect erroneous payments. Furthermore, the AO needs to actively follow up with the General Services Administration (GSA) concerning possible rent overcharges on court space and to improve its examination of disbursements.

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## Payroll

The AO prepares the biweekly payroll for about 540 AO employees and 15,900 district and circuit court officers and employees. For fiscal year 1985, the AO paid \$314.7 million to court employees—\$62.3 million to judges' law clerks and secretaries, \$88.4 million to clerks' staff, \$11.4 million to public defenders, and \$152.6 million to other supporting personnel.

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## Payroll Certification

Title 6, Chapter 5 of GAO's Policies and Procedures Manual recommends that a record of time and attendance be maintained to support hours worked and leave taken. Those responsible for time and attendance records (timekeepers) should have "positive knowledge" as to the employee's presence or absence before certifying to the correctness of the time and attendance reports. In our 1970 report, we recommended that the AO provide for uniform time, attendance, and leave records for all court employees, except judges. Since our report, the AO has recommended and the courts have established leave records. Although the AO requires time and attendance records for its employees, it lets the courts decide whether to keep time and attendance records for their employees.

To determine whether the number of hours a court employee is being paid for are correct, the AO's Personnel Division sends a computer printout at the end of each pay period to the court clerks listing the

judges' and clerks' staffs as they appear on the payroll system. The clerks are requested to review and return the printout certifying that the employees worked the hours shown. Separate lists are also sent to other court managers for certification. Any changes to hours worked are to be corrected on the list.

At the three courts we visited, the clerks or an assigned deputy clerk were the payroll certifying officers for their staffs as well as the judges' staffs. Maryland and eastern Virginia do not keep time and attendance records to support the certification of hours worked. The certifying officers told us that time and attendance records were not needed because supervisors are in a position to observe the hours clerk staff worked. In central California, the clerk kept time and attendance records on his employees because he felt it was necessary to support and verify the flexible hours his large staff worked. Based on our observations, the certifying officers in the Maryland and eastern Virginia courts were generally in a position to know what hours clerk staff worked, but none of the certifying officers in the three courts visited was in a position to know what hours the judges' staffs worked. Nevertheless, clerks at all three courts were certifying, on the payroll printout, to the correctness of the hours shown for judges' staffs.

## Payroll Processing

Court clerks send personnel actions, including appointments, terminations, and payroll changes, to the AO's Personnel Division. Personnel clerks who handle certain district courts within a circuit are then responsible for entering this information directly into the automated payroll system. To control access to an automated payroll system, password codes are assigned to personnel authorized to enter the system. The number of persons having passwords should be kept to a minimum. Passwords not only restrict access to the system, but they also create an audit trail so that it is possible to identify who initiated a transaction.

At the AO, adequate safeguards were not in place. The terminals used to access the main computer were located in an unsecured area. Furthermore, the password system consisted simply of entering the name of an individual with access to the system. It did not require an "identification number or word" to go with the name. There were sixty individuals whose names the computer would accept for accessing and changing payroll records. These names were not confidential. Without adequate password controls, unauthorized individuals could easily gain access to all judicial pay records and enter fictitious names to receive paychecks or make unauthorized changes to existing pay records.

We brought this matter to the attention of an AO official responsible for payroll processing. He agreed to take immediate action to incorporate identification numbers as part of the password system. He also told us that the payroll system was being redesigned to be integrated with a new personnel system, and access would be restricted by either limiting the number of individuals who could make payroll changes or by allowing personnel clerks to make changes only to the pay records for which they were responsible. At the completion of our review, AO officials told us that locks now secure all access doors to the automated payroll system and that the password system has been changed to a confidential letter code system which must be entered with the person's name to gain access to the main computer records.

To check the accuracy and completeness of data input to the payroll, the AO has established a payroll audit group separate from the Personnel Division. The automated payroll system generates a report listing all pay changes. This report is supposed to be used to verify that entries are authorized and correct. However, at the time of our review, the audit group was not using this report. Instead, they examined payroll documents authorizing payroll changes to verify that changes were properly and accurately entered into the system. By auditing from source documents only and not comparing them to the biweekly payroll report, any transactions in the payroll system which are not supported by a source document would not be covered in the audit. The official in charge of the payroll audit group told us that the biweekly payroll report was not used because it was cumbersome and did not readily identify reasons for payroll changes. He told us that the automated report was being streamlined to make it more useful for auditing payroll transactions. At the end of our review, AO officials informed us that they are now using the automated report to audit payroll transactions.

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## Disbursement Criteria for Nonpayroll Expenditures

GAO's Policy and Procedures Manual (Title 7, Chapter 5) provides that disbursement controls should be established to ensure that all expenditures are legal, proper, and correct and that they be reported promptly and efficiently. Effective controls over disbursements require adequate separation of duties and verification of payment accuracy before payments are made. Such controls prevent duplicate payments and reduce the need for subsequent collection efforts. In addition to preventing duplicate payments, the verification process should include procedures

for preventing improper or incorrect payments by determining whether the

- required procurement authorization and payment approvals were obtained,
- payment is permitted by law or regulation,
- payee name and payment amount are correct,
- goods received or services performed were in accordance with the agreement, and
- quantities and prices are accurate.

GAO's Manual (Title 7, Chapter 2) also provides that goods and services provided by one government agency to another on a reimbursable basis should be verified. While the payments generally represent a transfer of appropriated funds from one agency's account to another, the verification system should have controls for identifying erroneous charges and for resolving disputes because clerical billing errors could result in overpayments and/or underpayments to the billing agency or losses to the government if private contractors are involved.

In addition to providing guidance to help agencies ensure the propriety, accuracy, and legality of disbursements, GAO guidelines set forth in Title 7, Chapter 5 of the Policy and Procedures Manual require that procedures be established to ensure that (1) prompt payment discounts offered by vendors are taken when due and (2) sound cash management practices are followed by making payments as close as possible to, but no later than, the due date. This latter principle was established because early payments unnecessarily accelerate cash flow and increase the government's interest costs.

Nonpayroll expenditures that we examined included AO disbursements for rent and attorney claims and court payments for jury and other local expenses. Our review disclosed that the controls over these disbursements could be enhanced through more specific guidance, compliance with existing procedures, and improved management oversight as discussed in the sections that follow.

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## **Rent Payments**

Next to payroll, the AO's largest disbursement is rent payments to GSA. For fiscal year 1985, it paid GSA about \$128 million for rent. According to GSA's December 1984 records, the Judiciary is being billed for 614 locations of which 349 (57 percent) are government owned, and 265 (43 percent) are leased from private contractors.

The AO relies on each court to verify the accuracy of its assigned space. Periodically, the AO asks courts to conduct surveys of assigned space, and during the fourth quarter of each fiscal year, the AO sends GSA rental bills to the courts for verification. If the square footage is not correct, the courts are to notify the AO so it can initiate subsequent billing adjustments to GSA. The AO has not provided the courts with GSA regulations describing how space should be measured.

At the Maryland district court, the last space-measurement survey was conducted in 1982 and showed that the court was occupying 24,000 square feet less than was contained on the court's 1982 GSA bill. As a result, GSA could be overcharging the Judiciary about \$260,000 on the 1982 annual bill of about \$1.5 million. We brought this matter to the attention of an AO official and learned that the discrepancy has not been resolved with GSA. As a result, the 1983 and 1984 rental bills also include this possible overcharge.

The eastern Virginia district court also conducted a space-measurement survey in 1982 and used the results to verify the square footage stated on the 1983 GSA bills. The GSA bills for this court totaled about \$1 million for fiscal year 1983. This court notified the AO that the GSA bills for its locations contained discrepancies. The AO submitted eight billing adjustments to GSA stating that the court was occupying about 17,000 square feet (13 percent) less than contained on the 1983 GSA bill. As a result, during 1983, the overcharge could have been as much as \$127,000. The eight billing adjustments were sent to GSA in September and October 1983. GSA responded to three of the adjustments in November 1983. In two cases, GSA made corrections to the fiscal year 1984 bill. GSA denied the third adjustment because it said that the court's measurement was incorrect. GSA has not responded to the remaining five adjustments, which represent about 84 percent of the potential overcharges. An official told us that the AO has not followed up with GSA to resolve the discrepancies over these five bills. Another AO official told us that because of staff constraints and limited automation capabilities, the AO must rely on GSA to respond.

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## Defender Claims

The AO centrally pays claims of private attorneys who have been selected from a panel of attorneys designated to represent defendants who cannot afford to pay. The CJA authorizes this program. For fiscal year 1985, the AO paid about \$18 million to private attorneys. Our review of internal controls over attorney claims showed that



- the forms used in authorizing appointments and payments of private attorneys are not physically secured;
- controls for detecting unauthorized, fictitious, or altered claims are inadequate; and
- management information for reviewing audited claims at the AO is not available.

The system for controlling attorney claims relies on the preparation and processing of one multipart form. This form serves as the document both for appointing defense counsels and for the counsels to submit claims for payment. When the attorney is authorized to defend an individual, a judge or magistrate signs the multipart form in the designated appointment block. One copy is retained at the court, and a deputy clerk sends another copy to the AO for subsequent matching against the claim. The remaining copies of the form are retained and filled out by the attorney.

After defending his/her client, the attorney itemizes time and expenses on the form and submits the claim to a deputy clerk who forwards it for approval to the judge or magistrate presiding over the case. Attorneys currently receive a maximum of \$60 per hour for in-court time for arraignment, trial, or sentencing and \$40 per hour for out-of-court time spent conducting interviews and conferences and researching the legal issues involved in the case. In addition, attorneys can claim other expenses incurred in representing defendants, such as telegrams and mileage.

The judge or magistrate reviews the claim form as well as documentation supporting out-of-court charges and other expenses. If the claim is reasonable and in compliance with laws and regulations, the judge or magistrate will sign the form. The approved claim form with supporting documentation is then mailed to the AO by the clerk's office. A copy of the approved form is retained at the court.

At the AO, the claim forms are reviewed to ensure that

- approved authorization forms have been submitted,
- certification blocks are signed,
- mathematical calculations are correct,
- out-of-court charges and allowable expenses are supported by documentation, and
- duplicate claims have not been submitted.

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Disbursement Procedures Need to  
Be Strengthened**

After the claims have been reviewed at the AO, checks are sent to the attorneys.

As the process indicates, there are two levels of control—at the court and at the AO—which can detect errors and assess the reasonableness of claims. Table 3.1 shows the weaknesses we observed in the process, their causes, and the risks involved.

**Table 3.1: Weaknesses Noted in the Defender Claims Process**

<b>Control problems noted</b>	<b>Causes</b>	<b>Risks</b>
At the three courts, all court employees have access to blank claim voucher forms.	AO procedures do not require that these documents be physically controlled to limit employee access.	Forms could be stolen and fictitious claims could be submitted.
Matching the appointment document to the claim—both are part of the same form—does not provide independent verification that the claim is authorized.	There is no requirement to maintain a list of approved attorneys at the AO so they can independently verify the claims.	Fictitious claims could be submitted and paid.
Transmittal of claims through the court to AO are not controlled. According to AO officials, court transmittal documents do not always accompany claims.	There are no instructions requiring transmittal documents to accompany claims. There are no instructions at AO for reviewing claims without transmittal forms.	Claims could be altered before transmission to AO.  Claims could be paid on altered vouchers not submitted through the court.
AO review cannot assure certifying signatures are correct.	Signature cards for approving and authorizing officials are not maintained at the AO.	Unauthorized officials could approve and certify payment.
AO review does not determine whether the claim was for a valid criminal case.	The system is not capable of matching claims to case data submitted by the courts.	Fictitious claims could be paid.
AO review for duplicate claims can be overridden.	No management reports are generated to oversee AO review of claims.	Duplicate payments could be made without management review.
Lists of payees are not submitted to courts to verify that payment was for a valid case or claim originally transmitted to AO.	No requirement exists for courts to verify payment to claim submitted.	Fictitious claims and payments could go undetected.

AO and court officials generally agreed with our observations that restricting access to blank claim forms and/or using transmittal documents for processing claims between the courts and the AO would reduce the risk of fictitious or improper claims being paid. The clerk of the Maryland court believed that responsibility for paying CJA claims should be given to the courts. He said that this would expedite payments to the attorneys as well as strengthen controls over these payments, which he said sometimes take the AO several months to pay. He felt that the

courts are in a better position to process the claims in a timely fashion because the source documents to support the claims, such as case files and lists of attorneys designated to represent defendants, are kept at the court. AO officials believe that the idea of court disbursements of CJA claims has merit, and with increased automation at the courts, decentralized disbursements should become possible.

## Jury Payments

Jurors on duty are paid an attendance fee plus expenses, such as overnight lodging and travel. For fiscal year 1985, district courts paid about \$43 million to jurors. This is the largest local disbursement the courts make.

For pay purposes, the courts have each juror fill out a card providing, among other things, home address, employment information, and estimated number of miles from residence to courthouse. Regarding employment, the jurors are specifically asked if they work for the U.S. Government, and if so, their working hours and regular days off. This information is needed because federal employees are generally not entitled to an attendance fee unless they were in a nonpay status during all or part of their jury service.

Based on information from the jurors and the jury attendance record kept by courtroom or jury personnel, payment vouchers can be prepared by various court personnel, who submit them to the court's disbursing officer who then prepares and distributes the checks. How often juror fees and allowances are paid is left to the clerk's discretion, subject to whatever guidance is provided by the judges of the court. Thus, jurors may be paid at the end of a case or on a daily, weekly, or monthly basis. Once payments are made, the court clerk sends the payment vouchers to the AO for examination (post audit).

Our review of the jury payment process at the three courts disclosed that adequate controls were not in place to prevent or detect duplicate, erroneous, or fraudulent payments. In addition, the AO's post audit of jury vouchers is not capable of detecting duplicate payments or verifying the propriety of payments. The primary factor contributing to weak internal controls is that neither the AO's guidelines nor the courts' operating procedures give clerks detailed guidance on administering jury disbursements.

To determine whether duplicate or erroneous jury payments occur, we reviewed Schedules of Collections (AO 275) sent by the three courts to

the AO during fiscal year 1985. The AO uses this schedule to credit appropriation accounts for collections made by the courts for travel and payroll advances, overpayments, duplicate payments, and so forth. Our review showed that 18 payments totaling about \$2,200 were returned by jurors. The returned payments were for (1) attendance fees paid to federal employees not entitled to the fee, (2) overpayments for subsistence and mileage, and (3) duplicate payments. In several cases, if the jurors had not inquired about the correctness of their payments, the improper payments might not have been discovered.

To the extent that data was available at the courts, we followed up on the returned payments to determine the cause. Table 3.2 shows that erroneous and duplicate payments occurred because correct procedures were not being followed and the reasons that they were not being followed.

**Table 3.2: Reasons for Erroneous and Duplicate Juror Payments**

<b>Court</b>	<b>Weaknesses</b>	<b>Reasons</b>
<b>Maryland</b>	Certifying officer was not reviewing the accuracy and propriety of completed vouchers before authorizing payments.	AO guides do not provide instructions on how certifying officers should assure accuracy and propriety of vouchers.
	Clerks were not checking documents showing whether (1) juror was a federal employee and not entitled to receive attendance fees and (2) juror received previous subsistence before submitting the voucher for payment.	There is no requirement to maintain a master record of each juror's employment and payments. This record would facilitate voucher preparation and prevent erroneous and duplicate payments.
<b>Eastern Virginia</b>	Clerks were not checking whether attendance fees were previously paid.	There is no requirement to check for duplicate payments.
<b>Central California</b>	Data entered into the courts' automated payment system was not verified by someone other than the clerk entering the data.	There is no requirement to have a supervisor or other court personnel verify attendance data and information entered into the automated payment system.

In addition to the control weaknesses noted in table 3.2, our review showed that there was a lack of separation of duties in taking jury attendance and preparing and certifying jury payment vouchers. Without separation of duties, improper and fraudulent payments could go undetected. For example, at one of the eastern Virginia courts, the jury clerk took jury attendance, prepared the payment vouchers, and certified the vouchers were correct and proper for payment. The jury clerk would then forward the certified vouchers to the disbursing office

for payment. We discussed our observations with court officials, and they agreed to take action to correct the problems.

As previously mentioned, the AO examines jury payments as part of its post audit function covering disbursements. This audit involves, among other things, checking the vouchers for mathematical accuracy and correctness of the attendance, subsistence, and travel rates used. While the audit can detect overpayments, it cannot easily detect erroneous or duplicate payments, which should be one of the objectives of such an audit. The reason erroneous payments, such as attendance fees paid to federal employees, cannot be readily detected is that the audit unit does not have the employment information that the jurors gave the courts nor does it have copies of the jurors' attendance records.

In commenting on this section, AO officials told us that the new automated accounting system being developed for the courts will help alleviate duplicate and erroneous payments as long as effective manual procedures are followed by the courts.

## Other Court Disbursements

Besides jury payments, the courts also disburse funds for various other items. Table 3.3 shows the major categories of local court disbursements for fiscal year 1985.

Table 3.3: Major Local Court  
Disbursement Categories for Fiscal  
Year 1985

Category	Amount (millions)
Furniture and furnishings (goods and services)	\$9.2
Consumable supplies and miscellaneous services	6.8
Office equipment and maintenance	9.3
Travel	6.0
Telephone	7.1
Court reporting and interpreting services	2.3

For the above categories, there are generally six phases in the disbursement process: authorization, purchase, receipt, voucher preparation, examination, and payment. According to AO disbursement guidelines, for some purchases the court clerk must submit a requisition to the AO for approval and/or funds. These can include purchases of major equipment (e.g., micro computers) and refurbishing of court offices. In other instances, the courts have the authority to make the purchases without obtaining the AO's approval. Once the authorization process is completed

(if needed), the court's procurement officer prepares the purchase order listing the items or services to be bought and their prices.

Someone other than the procurement officer is required to receive the goods or verify that the services were performed. This court employee, who the AO guides refer to as the custodial officer or consignee, prepares a receiving report on purchases of furniture and furnishings. For other purchases, such as consumable supplies, AO guidelines do not provide instructions to the clerks on how delivered goods and services are to be certified. This determination is left to the discretion of the court's procurement officer.

Before preparing the payment vouchers for furniture and furnishings, the procurement officer is required, among other things, to verify that all prices and quantities between the invoice and purchase order agree and, if not, to resolve discrepancies. If there are no discrepancies between what was ordered and what was received, the procurement officer prepares the payment voucher certifying that the payment is correct and proper. The completed voucher and supporting documentation are then sent to the disbursing officer for payment.

The disbursing officer is responsible for examining the voucher and supporting documentation to ensure that it is complete—i.e., invoices, bills, and receiving reports (when required) are attached to the voucher. The disbursing officer is not responsible for auditing each voucher to prevent duplicate, improper, or incorrect payments but is instructed to look for obvious errors, to question vouchers supported by copies rather than original invoices, and to stamp vouchers and invoices paid to prevent duplicate payments. Once the voucher examination is completed, the disbursing officer prepares the check, and another clerk is required to record the payment in the disbursement journal. After payment, the completed vouchers are sent to the AO for post audit.

Our review of local disbursements at the central California district court disclosed no separation of duties problems in the purchasing of goods and services. Table 3.4 summarizes the weaknesses found at the other courts.

**Table 3.4: Control Weaknesses Noted  
 Over Local Disbursements**

<b>Location</b>	<b>Weaknesses</b>	<b>Risks</b>
<b>Eastern Virginia</b>	Procurement officer did not use purchase orders to buy supplies and services from commercial sources (8 of 10 disbursements tested).	Court could pay for goods and services not requested or pay more than necessary.
	No receiving reports were prepared for purchased supplies and services (6 of 10 disbursements tested).	Unordered or excessive quantities of goods or inadequate services could be paid for.
	Procurement officer authorized purchases and ordered and received goods. This is a stated practice of the court.	Fraudulent payments could occur.
	No supporting documentation was attached to the payment vouchers (9 of 10 disbursements tested).	Duplicate, erroneous, and improper payments would go undetected by post audit.
<b>Maryland</b>	Receiving reports were not used to support vouchers (6 of 10 disbursements tested).	Unordered or excessive quantities of goods could be paid for.
	Procurement officer ordered and received goods. This is a stated practice at the court.	Fraudulent payments could occur.
	No supporting documentation was attached to the payment vouchers (4 of 10 disbursements tested).	Duplicate, erroneous, and improper payments would go undetected by post audit.

Many of the weaknesses described above can be attributed to incomplete AO guidelines for purchasing consumable supplies and other services. For example, AO guidelines do not instruct the courts that

- separation of duties should be maintained between the ordering and receiving of consumable supplies and services;
- certain documentation, such as the purchase order, receiving report, and invoices or bills, needs to be attached to the voucher for examination prior to check preparation;
- the procurement officer should verify that all prices and terms, such as discounts and shipping charges, between the invoice and purchase order agree; and
- before accepting the delivery, the clerk(s) assigned responsibility for receiving goods should verify that the quantities delivered agree with those requested on the purchase order.

To illustrate what can go wrong when internal control practices are weak, we found by reviewing the Schedules of Collections (AO 275) at one of the courts that the disbursing officer paid a bill for a purchase made by another government agency and, in another case, paid twice for

the same purchase. We could find no purchase order or receiving reports on these erroneous and duplicate payments. If the proper documentation had accompanied the voucher, these errors might not have occurred. We discussed our findings with court officials who informed us that they were taking actions to improve controls over disbursements.

## Results of Internal Audits

Based on our review of the financial audits made between July 1982 and February 1985 by the AO's Office of Audit and Review, 10 of the 25 reports reviewed (40 percent) discussed the inadequacy of the courts' controls over disbursements. Our review of the auditors' guidelines on disbursement controls showed that the audit objectives in this critical area focused primarily on separation of duties and physical security over blank checks. We discussed this matter with the Director of the Office of Audit and Review, who told us that the audits over disbursements were limited because it is difficult for the auditors to convince the courts to adopt sound internal procedures and practices when AO guidelines do not specifically tell them how to control disbursements.

## Disbursement Timing

The courts we visited did not schedule disbursements to coincide with invoice due dates or ensure discounts were taken within the time prescribed, as recommended by AO guidelines. As a result, payments were sometimes made too early or too late, and discounts were either not taken or taken after the discount date.

Our judgmental sample of 36 payments at the three courts showed that 23 payments were paid an average of 13 days earlier than the invoice due date. Nine payments were paid an average of 13 days past the due date. Discounts were taken on two of these late payments due to a verbal agreement with the vendor but were lost on two other cases because the discount period had expired. Four payments were made on time, and a discount was taken in one case.

We discussed our findings with court officials. At the central California district court, they agreed to improve the timing of disbursements. At eastern Virginia, the clerk believed that when goods are delivered, the local vendors are entitled to be paid in advance of the bills' due dates so as not to disrupt the services they are providing. At Maryland, the clerk told us that he has instructed his staff to take advantage of available vendors' discounts. He did not agree that bills should not be paid in advance of their due date.



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## Conclusions

Our review of major disbursements made by the AO and three district courts showed that internal controls need to be strengthened to prevent and/or detect unauthorized or improper payments. We believe that controls over AO and court disbursements could be enhanced through more specific guidelines, compliance with existing procedures, and improved management oversight. It is important that the AO, in concert with circuit councils, work with court managers to ensure that they understand, establish, and maintain adequate systems of internal controls over disbursements.

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## Recommendations

To strengthen disbursement practices in the Judiciary, we recommend that the Director of the Administrative Office of the United States Courts:

- develop a time and attendance record that courts can maintain to support the hours worked by their employees, such as the time and attendance record used at the central California district court;
- require payroll certification for judges' staffs to be performed by officials in a position to observe or know the hours being worked by these employees;
- develop a follow-up system to resolve rental discrepancies with GSA;
- require the courts to restrict access to blank defender claim vouchers;
- require the courts to use transmittal documents when submitting defender claims to the AO for processing;
- require that a CJA report be generated listing payments made to private attorneys and that it be sent to the courts for verification that the payments were authorized;
- require that an exception report be generated when computer program edits identify possible duplicate payments for CJA claims and direct AO managers to review the report and verify that no duplicate payments occurred;
- develop control procedures for the courts to follow when processing juror payments which provide for separation of duties and verification of key data elements used to pay jurors;
- develop control procedures for the courts to follow when making local procurements for consumable supplies and miscellaneous services which cover separation of duties and documentation needed to support payments; and
- require court managers to develop a scheduling system to ensure that timely disbursements are made.

## Agency Comments

The AO concurred with our recommendations, and the district courts agreed that many of the problems identified needed attention. Eastern Virginia did not believe that time and attendance records were necessary for judges' staff. The clerk of this court said that the judges' staff work more than the minimum 40-hour work week and that there was no need to question the hours worked. Eastern Virginia also indicated that their scheduling system for paying local vendors was adequate and that it was highly unlikely that fictitious attorney claims could be submitted and forwarded to the AO for payment. The clerk said that comparisons are made of the attorney's claim with a copy kept in the subject criminal case file. He further stated that an attorney's claim for time-in-court charges is compared with court records in order to detect any unusual differences. Finally, the clerk said that his employees are familiar enough with signatures of judicial officers and attorneys to assure only authorized signatures are placed on the claim. The clerk of the Maryland district court said that he has instructed his staff to take advantage of vendors' discounts and to pay bills in advance of their due date in order to maintain good relations with vendors.

With regard to time and attendance records, we believe that without documentation supporting the time worked by judges' staff, the certifying officers are verifying the accuracy of subsequent payments without knowing whether services were performed. The keeping of time and attendance records is a standard practice in executive branch agencies. Regarding defender claims, we agree with eastern Virginia that the court's review of defender claims would detect erroneous claims processed through the court. However, our concern is that blank voucher forms could be stolen and submitted directly to the AO for payment. Because the AO does not have mechanisms in place for detecting fictitious claims, we believe that tighter controls are needed over blank voucher forms and that transmittal documents between the courts and the AO are necessary. Without these controls, the AO cannot assure that valid payments are made. We agree with Maryland and eastern Virginia that the courts should take advantage of vendors' discounts, but we do not believe they should pay their bills any earlier than necessary. Early payments unnecessarily accelerate cash flow and result in increased interest costs to the government.



# Stronger Controls and Security Are Needed Over Court Resources

The courts are accountable for controlling various resources in their custody, such as registry funds, furniture and furnishings, and equipment. They are also accountable for safeguarding cash, negotiable instruments, and other valuable court documents. We found that the courts visited were generally complying with AO guidelines in receiving, investing, and disbursing registry funds. However, two of the courts visited were not maintaining proper inventory controls over furniture, furnishings, and equipment, and were not always restricting employee access to cash and/or other court documents.

As of December 1985, the AO had not developed data input and security controls for the courts' financial automated system. The responsibility for developing these controls will be left up to court personnel in the 50 individual district courts. AO officials told us they will instruct and train court personnel regarding input and security controls.

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## Registry Fund Practices

Registry funds are those monies placed in the courts' custody until cases are settled. Such funds can include criminal cash bail, deposits in land condemnation cases, bankruptcy money, and funds held in trust. As of June 30, 1985, the courts had about \$1.1 billion in their custody.

Judicial Conference policies and AO guidelines require the clerks of the courts to deposit registry fund monies based on approved court orders which must specify the place and type of account to be used (passbook savings, insured money funds, and Treasury bills). In addition, since our 1976 report,<sup>1</sup> Judicial Conference policy requires that registry funds, which are contested among the parties to litigation, shall be invested in interest-bearing accounts or instruments. The intent of this policy was to avoid the unnecessary placement of large sums of money in interest-free accounts which would represent a loss to the ultimate beneficiary. Disbursements of registry funds also require court orders which must specify the party/parties to receive these monies and any interest earned.

The three courts we visited were generally depositing, investing, and disbursing registry funds in accordance with Judicial Conference policies and AO guidelines. Also at these courts, all registry funds placed with commercial banks were invested in interest-bearing accounts or

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<sup>1</sup>Further Improvements Needed in Administrative and Financial Operations of the U.S. District Courts (GGD-76-67, May 10, 1976).

instruments. We also noted that since the Judicial Conference established this policy, the courts' use of commercial interest-bearing accounts had increased from 37 percent on June 30, 1976, to 96 percent on June 30, 1985.

## Inventory Control Practices

AO officials told us that as of December 31, 1984, which is the latest information available, the courts possessed furniture and furnishings costing \$55 million. They also said that as of December 1, 1985, the courts had at least \$50 million in equipment (typewriters, calculators, word processors, etc.). The AO's property management guidelines require that perpetual inventory records on furniture and furnishings be kept by the courts to assure that items purchased are properly identified, utilized, transferred, and disposed of. The AO's guidelines also require the courts to take a physical inventory of furniture and furnishings once every 3 years to ensure property records are accurate and to resolve any discrepancies found. With regard to equipment, the property management guidelines do not require that the courts maintain perpetual records or take a periodic physical inventory.

At the central California district court, perpetual records were kept on furniture and furnishings and equipment. The eastern Virginia district court kept perpetual records on furniture and furnishings but not on equipment. The Maryland court kept records on equipment assigned to court employees but not on furniture and furnishings. All three courts had taken a physical inventory of furniture and furnishings within the past 3 years. In addition, central California had conducted an equipment inventory in 1984. The other two courts had not taken a physical inventory of equipment.

In addition to the courts we visited, the AO internal auditors reported inadequate inventory controls over furniture, furnishings, and equipment in 10 of the 25 reports (40 percent) we reviewed. As a result, the AO's property management records on the value of the courts' property investment may not be accurate. Without adequate property management records, items could be lost, disposed of improperly, stolen without any means of detection, or purchased needlessly.

## Security Over Cash and Court Documents

Currency, disbursement vouchers, blank checks, and court documents, such as naturalization certificates, are susceptible to theft, improper conversion, or loss. To prevent this, AO guidelines require, among other things, that the courts secure currency at all times by not leaving it

unattended or in unlocked drawers; by limiting personnel accessibility to vaults, safes, and cash registers; and by securing checks received by using restricted endorsements, i.e., stamping them "For deposit only."

Table 4.1 shows the weaknesses we observed over cash and court documents. We discussed our observations on physical controls with court officials who agreed to take corrective actions where possible.

**Table 4.1: Physical Control Weaknesses Noted Over Cash and Court Documents**

Location	Weaknesses observed
<b>Maryland and Eastern Virginia</b>	Cash and checks were unsecured during work hours and accessible to employees. At one court (Maryland), an employee was held accountable for the loss of about \$200 which occurred in 1984.
<b>Eastern Virginia</b>	Cash register was accessible to at least 16 deputy clerks.
<b>All</b>	Checks were not always restrictively endorsed upon receipt.
<b>Maryland and Eastern Virginia</b>	All deputy clerks had access to naturalization certificates.

Based on the results of the AO's self-assessment questionnaire and internal audits made at the courts, physical security over cash and negotiable instruments was also a problem at other district courts. For example, 36 out of 74 district courts<sup>2</sup> (49 percent) reported that cashiers did not have their own individual cash register drawer or locking cash box. Thirteen district courts (18 percent) reported that they were not restrictively endorsing checks received over the counter, and 16 district courts (22 percent) were not restrictively endorsing mail receipts. The internal audit reports we reviewed cited 18 out of the 25 courts (72 percent) for inadequate physical safeguards.

## Automated Financial System Controls

The courts' automated financial system, which is being tested in 3 courts, is scheduled to become operational in 50 courts during the next 5 years (10 courts each year). However, at the time of our review, the AO had not built in all of the controls necessary to ensure that accurate financial data would be entered into the court's decentralized accounting system. For example, the AO has not established how operator password codes will be assigned to individuals, how often they will be changed, and how they will be kept confidential. Presently, the system design does not provide for any management reports showing who is entering data into the system so that managers can identify unauthorized attempts to access the system. Furthermore, the AO has not developed

<sup>2</sup>Total number of district courts responding to the self-assessment questionnaire was 77. We did not include in our calculations the responses from the three courts we visited.

procedures for the courts to follow in validating the accuracy and completeness of disbursement information being entered into the system. On the other hand, the AO has developed some procedures for the courts to follow in verifying the input of receipts from the cash register to receipts recorded in the automated system.

We asked the AO officials responsible for developing and implementing the ADP financial system why they had not designed controls for the courts to follow in inputting data and safeguarding access. They told us that when the systems are installed at each court, court personnel will be instructed on what input controls will be needed to comply with the principles of internal controls set forth in the AO's financial guidelines. They also told us that court personnel will receive training on how to control access to the automated systems and that automated logs will be kept showing who entered data into the system.

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## **Conclusions**

Our review of controls and security over court resources and documents showed that existing procedures need to be complied with and in some areas strengthened to prevent (1) unnecessary purchases and/or loss of court property, such as equipment; (2) lost or stolen cash, checks, and critical documents; and (3) unauthorized access to restricted areas. We believe that the AO needs to strengthen its inventory controls over court equipment and to require that perpetual inventory records be maintained. Furthermore, as discussed in chapter 2, we believe that the AO needs to work with the circuit councils to ensure that court managers comply with generally accepted internal control procedures with regard to securing valuable court documents.

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## **Recommendations**

We recommend that the Director of the Administrative Office of the United States Courts incorporate in the office's property management guidelines a requirement for the courts to periodically take a physical inventory of equipment as is currently required for furniture and furnishings and to maintain perpetual inventory records of this property. We also recommend that the Director, in concert with the circuit councils, emphasize to court managers the need to maintain adequate security over valuable court documents and property.

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## **Agency Comments**

The AO concurred with the recommendations. The district courts also agreed to take corrective actions to improve physical controls. The clerks of the three district courts said in their written comments

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(eastern Virginia and Maryland) or oral comments (central California) that checks are now restrictively endorsed upon receipt. In addition, the eastern Virginia district court clerk said that all cash and checks are now secured during work hours and that naturalization certificates will be secured once additional space becomes available and a combination safe is purchased. With regard to court property, the eastern Virginia district court clerk said that a complete inventory of equipment has now been taken and that the court is in the process of updating its inventory of furniture and furnishings.





# Advance Comments From the Administrative Office of the United States Courts

L. RALPH MECHAM  
DIRECTOR

JAMES E. MACKLIN, JR.  
DEPUTY DIRECTOR

ADMINISTRATIVE OFFICE OF THE  
UNITED STATES COURTS

WASHINGTON, D.C. 20544

March 5, 1986

Mr. William J. Anderson, Director  
General Government Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Anderson:

We have reviewed your draft report entitled "The Judiciary: Stronger Financial Internal Controls Needed Over Court Resources," and consider it to be not only informative but extremely helpful in identifying problems which must be addressed by this office in improving our financial operations so as to minimize the potential for waste, loss, unauthorized use and misappropriation of funds or assets. All of your recommendations are constructive and we shall make every effort to comply.

With particular reference to collateral forfeitures in misdemeanor and petty offense cases, we have a task force currently reviewing the system and will address the internal control weaknesses outlined in your report. Any major changes resulting from this evaluation will be implemented upon the approval of the Judicial Conference of the United States. We will certainly explore the feasibility of utilizing lockboxes as a means of facilitating the deposit of forfeiture payments and reducing the level of clerical effort being expended by court personnel. We also shall explore with the Department of Justice the possibility of entering into agreements with the states for assistance in notifying violators of outstanding traffic tickets.

In those areas where you have identified the need for some improvement in our guidelines and administrative procedures, we shall take remedial action as soon as possible. As the report indicates, there is a need for more extensive training of court personnel with respect to establishing and maintaining adequate internal controls, which is a matter that comes under the jurisdiction of the Federal Judicial Center. I shall discuss this matter with the Director of the Center, and I am confident he will provide such training to the extent that funds are available. As for your recommendation that we utilize public accounting firms to assist the courts in

Mr. William J. Anderson  
Page two

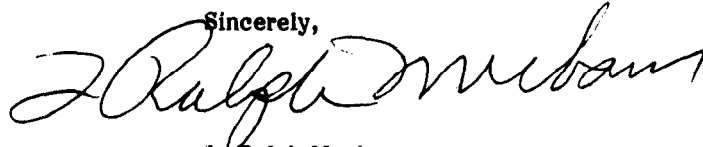
developing sound internal control procedures and practices, this also would be subject to the availability of funds. As I am sure you can appreciate, we have very limited resources with respect to training and/or contractual services as a result of the sequestration of funds pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

With respect to weaknesses noted in the processing of claims by court-appointed attorneys under the Criminal Justice Act, we shall adopt your recommendations for procedural changes. We also have under consideration the possibility of decentralizing payments as a means of expediting the settlement of claims and to strengthen controls. This, however, is a matter that must be addressed by the Judicial Conference Committee to Implement the Criminal Justice Act.

The recommendation that we establish a financial management team in the circuits to assist court clerks in implementing the recently developed model operating procedures has considerable merit. The involvement of circuit executives and the circuit councils would be very helpful in promoting compliance with generally accepted internal control principles, Judicial Conference policy, and the procedures and guidelines issued by this office.

In closing, I want to express my appreciation for the time and effort expended by members of your staff and want to reassure you that we shall, to the extent that it is feasible, implement all of your recommendations.

Sincerely,



L. Ralph Mecham  
Director

# Advance Comments From the United States District Court, Eastern District of Virginia

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF VIRGINIA  
ALEXANDRIA, VIRGINIA 22313

CHAMBERS OF  
ALBERT V. BRYAN, JR.  
DISTRICT JUDGE


February 18th, 1986

Mr. William J. Anderson, Director  
General Government Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Anderson:

Your letter of January 31 asked for my review and comments of the draft report entitled "The Judiciary: Stronger Financial Internal Controls Needed Over Court Resources." I am sorry that I did not meet your February 14 deadline, but I asked my clerk to review the report and I attach his comments. I have nothing to add to what he has stated.

Very truly yours,

  
Albert V. Bryan, Jr.

Enclosure

**UNITED STATES DISTRICT COURT**

FOR THE  
EASTERN DISTRICT OF VIRGINIA  
OFFICE OF THE CLERK  
ALEXANDRIA 22313

February 14, 1986

The Honorable Albert V. Bryan, Jr.  
Chief Judge  
United States District Court  
for the Eastern District of Virginia  
Alexandria, Virginia 22313

Dear Judge Bryan,

To respond to the report of the United States General  
Accounting Office, I submit the following.

P. 11 Table 2.1:

**Control Weaknesses Noted Over  
Collection of Administrative Fees**

Our offices experimented with the logging in of fees received  
through the mail but the volume of checks received through the  
mail was not of such significant quantity to warrant the keeping of  
logs. The fees and funds we do receive through the mail are in  
the form of checks and money orders.

The Central Cashier location is not possible in any division  
primarily because of the limited space. In none of the divisions do  
we have the personnel available to designate a deputy to the sole  
function of cashier. Delayed deposits are non-existent. When a  
large sum of cash is received it is deposited immediately and all  
other receipts are deposited on a daily basis.

The Naturalization fees are received from the Immigration  
and Naturalization Service in the form of money orders and are  
deposited the same day, if received in time to make the bank  
opening time, and at the latest, the morning following their receipt  
in our office.

Now on p. 15.

See comment 1.

Judge Bryan  
Page Two  
February 14, 1986

Now on p. 19.

P. 17 Table 2.3

Control Weaknesses Noted Over  
Petty Offense Collections

See comment 2.

Petty Offense payments are now being placed under immediate accounting controls and all cash, checks and money orders are separated from the violator's copy of the ticket upon receipt, restrictively endorsed and delivered to the Financial Deputy for deposit.

Now on p. 21.

At p. 21

See comment 3.

According to officials at the Virginia Division of Motor Vehicles, an abstract of a conviction of the offense must be received before they can withhold vehicle registrations.

Now on p. 26.

P. 25 Disbursement Procedures Need to  
Be Strengthened

See comment 4.

At p. 26

Payroll Certification - The Staff of our judges work far more than the minimum 40-hour pay week and I submit no clerk in the Country need to question the correctness of the hours shown for judges' staffs.

Now on pp. 29 and 30.

P. 30 Rent Payments

See comment 5.

At p. 31

The space occupied by the Court on a rental/re-imbusement basis will again be surveyed upon completion of the construction projects in the Richmond, Alexandria and Norfolk Divisions and compared with the GSA billings under its Standard Level Users Charge (SLUC). The findings will be forwarded to the Administrative Office.

Now on p. 32.

P. 35 Table 3.1

Weaknesses Noted in the  
Defender Claims Process

It's highly unlikely that fictitious claims would be submitted and forwarded for payment as the Criminal Deputies and Courtroom Deputies compare the attorney's copy requesting compensation

Judge Bryan  
Page Three  
February 14, 1986

with the copy kept in the subject criminal file. Also, the time-in-court figure kept by the Courtroom Deputies is compared with that on the CJA form submitted by the appointed attorney. Any unusual time difference is reconciled with the attorney or brought to the Judge's or Magistrate's attention at the time the voucher is presented to the judicial office for approval and authorization for payment.

As to the certification of the signature of the attorney or the judicial officer, the deputies in each division are familiar enough with the respective signatures of our judges and magistrates and with that of the attorney submitting the claim to assure that only authorized signatures are affixed.

P. 36 Jury Payments

At p. 38

Records are now reviewed to assure that duplicate payments for attendance fees are not made.

In our Court, we only have one jury clerk in each division. Each voucher is prepared by one deputy, reviewed by a separate deputy, with the payment for services and expenses being made by the financial section. Payments are made on no more than a bi-weekly basis.

P. 42 Table 3.4

Control Weaknesses Noted  
Over Local Disbursements

Purchase orders were not prepared in advance for miscellaneous small orders, but the delivery invoice or bill is compared with the items delivered to assure that what was delivered was what was ordered and at the cheapest price obtainable. The delivery invoice or bill is screened for completeness and correctness, then attached to the voucher authorizing payment.

P. 44 Disbursement Timing

At p. 45

Judge Mackenzie reviewed our procedures and concurred in our approach that when the goods were delivered the vendor was entitled to be paid. Our court has not missed a discount except when the payment invoice was retained by another segment of the Court system preventing the payment in time to take advantage of any discount.

See comment 6.

Now on pp. 33 and 34.

See comment 7.

Now on p. 37.

See comment 8.

Now on p. 38.

See comment 9.

Judge Bryan  
Page Four  
February 14, 1986

Now on p. 43.

P. 48 Inventory Control Practices

At. p. 49

See comment 10.

A complete inventory of all equipment has now been taken and as soon as the construction is completed in Richmond and Norfolk, the inventory of our furniture and furnishings will be updated and corrected.

Now on p. 44.

P. 50 Table 4.1  
Physical Control Weaknesses Noted

At p. 50

See comment 11.

All cash and checks are now secured by financial deputies during work hours.

The cash register in Alexandria is accessible to our deputies and having not enough people to appoint a cashier, must necessarily be accessible for the deposit of cash and checks and for the issuance of receipts for payment.

Checks and money orders are immediately restrictively endorsed upon receipt.

Regarding the Naturalization certificate -- in Richmond and Norfolk divisions, they are secured; in Alexandria, once the additional space is available, a separate four-drawer-combination safe will be purchased in order to segregate the Naturalization certificates from the present vault in which they are stored.

I apologize for the delay in forwarding to you my comments, but wanted the comments of the Deputy-in-Charge of each of our divisional offices. If there are any questions, please let me know.

Respectfully,



W. Farley Powers, Jr., Clerk

cc: The Honorable John A. Mackenzie,  
Senior Judge



The following are GAO's comments on the Eastern Virginia District Court letter dated February 18, 1986.

## GAO Comments

1. Clerk's comments restate points made in the report on page 15 and describe action taken to ensure prompt deposit of naturalization fees discussed on p. 15.
2. Clerk's comment states actions taken to correct control weaknesses noted over petty offense collections discussed on page 19.
3. Clerk's comment restates point made in the report on page 21.
4. Clerk's comment and GAO's evaluation included on page 40.
5. Clerk's comment provides additional information on space-measurement survey. No change to the report is needed.
6. Clerk's comment and GAO's evaluation included on page 40.
7. Clerk's comment states action taken to correct control weaknesses discussed on page 34.
8. Without a purchase order which establishes the goods and services to be purchased and the agreed upon prices and terms, the court can pay for goods and services not requested or pay more than necessary. No change to the report is needed.
9. Clerk's comment and GAO's evaluation included on page 40.
10. Clerk's comment included on pages 45 and 46.
11. Clerk's comments included on pages 45 and 46.

# Advance Comments From the United States District Court, District of Maryland

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES DISTRICT COURT  
DISTRICT OF MARYLAND  
OFFICE OF THE CLERK  
101 W. LOMBARD STREET  
BALTIMORE, MARYLAND 21201-2691

Joseph A. Haas  
Clerk

(301) 962-2600  
FTS 922-2600

March 13, 1986

Mr. William J. Anderson  
Director  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Anderson:

Enclosed are my comments to the draft General Accounting Office report entitled "The Judiciary: Stronger Financial Internal Controls Needed Over Court Resources" (GAO/GGD-86-45). I have discussed these comments with Mr. John Noto and am providing this letter as a follow-up to that conversation.

My response to the draft report is very short because in general I agree with most of the GAO comments. Financial accountability is of great concern to all Clerks of United States District Courts and constructive suggestions are much appreciated. The fact that my comments are so limited is a credit to the reporting team in that they spent a considerable amount of time discussing their proposed findings with members of the court staff and have indicated areas where we disagree with the recommendations of the auditors. We, in the District of Maryland, found the visit of this audit team to be a very constructive process and thank you for making them available for this project.

For ease of review I will set forth my comments page-by-page.

Page No. 4: On page 4 there is an indication that the Administrative Office has specifically provided "established internal control guidelines for the courts." While the statement is technically correct, it implies that the Administrative Office has provided specific guidelines designed for specific courts of different sizes. Actually, these guidelines would more properly be characterized as generic "model policies." The Administrative Office does not even approve specific guidelines developed by individual courts that are presented to them. Such approval by the Administrative Office would put the court in a position where it could be confident that if it followed the guidelines approved by the Administrative Office that accountable officials would be indemnified for loss.

Now on p. 10.

See comment 1.

Mr. William J. Anderson  
March 13, 1986  
Page Two

Page No. 11: In Table 2.1 there is an indication that in Maryland a reconciliation was not performed for fees received through the mail. The report indicates that this could create errors or omissions that may go undetected. The narrative following the table indicates that the court clerk in the District of Maryland told the team that he would take action to ensure prompt deposit and accountability of funds. In fact, as Clerk I had a lengthy discussion with the members of the team and with the Judges of this district regarding the cost and benefit of establishing rigorous financial controls over the administrative fees received through the mail.

During the time since the GAO study began and the present no cash has been received for payment of administrative fees through the mail. The receipt, therefore, has entirely included payment by check. These checks are restrictively endorsed upon receipt, but at present no rigorous reconciliation is undertaken. As Clerk, with ultimate financial accountability, I feel that a recommendation such as this puts me in a position where I have to exercise poor management practices.

When legislation was passed to convert the government to self-insurance, the ultimate result was not only a savings of bond premiums but a shift in the burden of proof. Under a bond situation, when a loss occurs the bonding company initially makes payment and then investigates the possibility of being reimbursed from an employee who is found to have been negligent. In order to collect from that employee the bonding company must show that it was more likely than not that the individual was negligent. While the legislation to make the government self-insured was merely designed to eliminate the payment of a bond premium and to follow the lead of many large businesses in becoming self-insured, the ultimate result, however, was more far reaching. Under the present "self-insurance" system, when there are financial losses, there is a presumption that the employee was negligent unless that employee can prove that he or she was not negligent. As we all know, it is very difficult to carry such a burden in these situations. When a GAO audit team recommends that the District Court undertake a complex and time-consuming reconciliation process, they put me, as ultimate financial accountable officer, in a position of undertaking significant personnel expense to protect against an unlikely small personal loss. Even if adding a reconciliation process were only to increase the amount of effort in the mail room by one hour per day, the total cost over a year when considering the cost of a JSP-8 employee leads to a cost estimate in excess of \$2,500.00 per

ow on p. 15.

see comment 2.

see comment 3.

See comment 4.

Mr. William J. Anderson  
March 13, 1986  
Page Three

year. A study in this district shows that the money received through the mail for the payment of these administrative fees is entirely in the form of checks which are restrictively endorsed upon receipt. Even if it was possible for an employee to divert one of these checks to their own use, the service that has been paid for would not be received by the person forwarding the check. This failure to receive the requested services would prompt that person to contact the court and their copy of the endorsed check could be reviewed in an effort to determine who and how this check was diverted. Upon such an occurrence the Clerk could then impose a more rigorous fund accountability system if appropriate. Clearly, the expense of \$2,500.00 per year is not justified. Any control system should be viewed from the standpoint of its costs and its benefits. Unfortunately, because of the shift in the burden of proof, in many instances a considerable sum of government money must be spent in order for the individual accountable officer to protect himself from being held personally accountable for a small loss. This is a poor business practice.

Now on p. 17.

Page No. 14: On this page the General Accounting Office audit team has listed a number of reasons for a general lack of compliance with the AO's collection guidelines. Pursuant to my comments related to page 11, I suggest that they add one additional factor. "On some occasions the cost of implementing the Administrative Office collection guidelines outweighs the benefit to the government of doing so."

See comment 5.

Now on p. 38.

Page No. 44: The Clerk discussed the question of disbursement timing at length with members of the audit team and would like to clarify the statement that has been made on this page. The last sentence on this page begins "At the Maryland and central California courts, they agreed to improve the timing of disbursements." As Clerk of this district, I have asked the individuals involved with this payment process to ensure that we take full credit for all available discounts. I have asked them also to ensure prompt payment to vendors in an effort to maintain good relations with those vendors. I understand the position of the General Accounting Office that bills should not be paid in advance of their due date, but feel that this concern has been over emphasized in this report.

See comment 6.

Now on p. 44.

Page No. 50: In Table 4.1 there is an indication that "at one court (Maryland) about \$200 was stolen in 1984." I believe a more accurate description would indicate that "in 1984 an employee in the District of Maryland was held accountable for a loss of \$200.00."

See comment 7.

Mr. William J. Anderson  
March 13, 1986  
Page Four

Again, I would like to express my appreciation for the very professional efforts of the audit team that visited this district. As accountable officer, I am always interested in finding new ways to improve the financial controls in this district. If I can provide any further information in this area, please do not hesitate to call on me.

Sincerely yours,



Joseph A. Haas

JAH:lep

cc: Mr. John Anderson, Group Director  
Mr. John Noto  
Mr. Robert Pellicoro

The following are GAO's comments on the Maryland District Court letter dated March 13, 1986.

## GAO Comments

1. We agree that the Administrative Office guidelines are not day-to-day operating procedures which are designed for specific courts. We state on page 17 that guidelines do not provide detailed procedures outlining internal controls for each phase of financial operation. No change needed.
2. Report amended. See page 15.
3. Clerk's comment included on pages 15 and 46.
4. Clerk's comment provides information regarding his liability as an accountable officer. Cost and benefit considerations have been added on page 15.
5. Clerk's comment added on page 15. We recognize that judgments by management are needed to assess the costs and benefits of implementing control techniques.
6. Clerk's comment and GAO's evaluation included on page 40.
7. Report amended, see page 44.

# Advance Comments From the United States District Court, Central District of California

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA  
312 N. SPRING STREET  
LOS ANGELES, CALIFORNIA 90012

CHAMBERS OF  
MANUEL L. REAL  
CHIEF JUDGE

TELEPHONE:  
688-9267

March 20, 1986

Mr. William J. Anderson  
Director, General Government Division  
United States General Accounting Office  
Washington, D. C. 20548

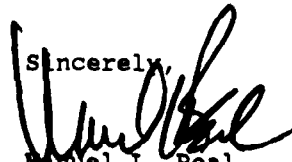
Dear Mr. Anderson:

I have received and reviewed your draft report entitled "The Judiciary: Stronger Financial Internal Controls Needed Over Court Resources" (GAO/GGD-86-45). I understand that the Clerk of our Court, Mr. Brosnan, has passed our oral comments on to Mr. John Noto of your staff.

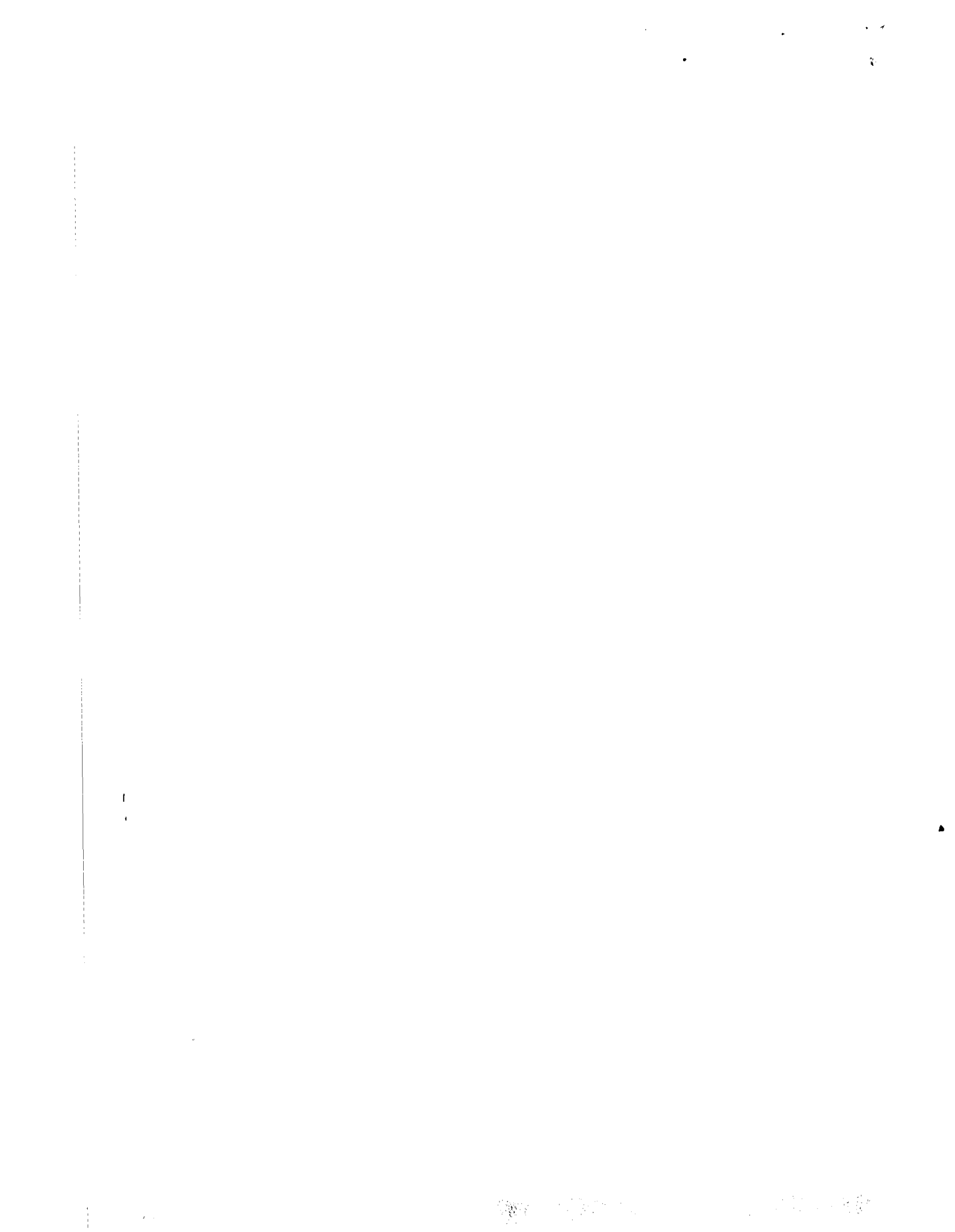
The areas identified as internal control weaknesses in this Court are currently being reviewed by the Clerk. Those which had not been modified during the GAO study are being reviewed to determine the impact of the additional work associated with the controls on current staffing levels. We believe that stronger internal controls are desirable and definitely worth pursuing. However, additional staff resources may have to be allocated to this Court in order to achieve that objective and to put in place some of the controls recommended in your report.

We appreciate the opportunity to review and comment on the proposed report. I would like to commend the General Accounting Office staff for a job well done. I would particularly like to commend Mr. John Noto and Mr. Thaddeus Rytel. Both of these gentlemen are a credit to your organization.

Sincerely,



Manuel L. Real  
Chief Judge





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