

October 1999

# DC COURTS

## Improvements Needed in Accounting for Escrow and Other Funds



G A O

Accountability \* Integrity \* Reliability





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

Accounting and Information  
Management Division

B-282924

October 29, 1999

The Honorable Thomas M. Davis, III  
Chairman  
Subcommittee on the District of Columbia  
Committee on Government Reform  
House of Representatives

The Honorable Ernest J. Istook  
Chairman  
The Honorable James P. Moran  
Ranking Democratic Member  
Subcommittee on the District of Columbia  
Committee on Appropriations  
House of Representatives

Your offices asked that we look at the District of Columbia Courts' (DC Courts)<sup>1</sup> (1) obligations, (2) spending plan and obligations of funds, (3) payments to court-appointed attorneys, (4) voucher processing procedures, and (5) accounting for the other funds under its control. We recently issued our report on the first four items that related to DC Courts' use of appropriated funds during fiscal year 1998.<sup>2</sup> This report covers the fifth item—accounting for other funds under DC Courts' control—and addresses whether DC Courts (1) properly reconciled its bank accounts, (2) had adequate controls over fines and fees collected, and (3) had authority to retain amounts deposited into the Crime Victims Fund account.

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## Results in Brief

DC Courts did not properly account for the funds in half of its 18 bank accounts during fiscal year 1998, as evidenced by its problems in determining its cash balances and reconciling its accounting records to

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<sup>1</sup>DC Courts is comprised of the Court of Appeals, Superior Court, and the Court System of the District of Columbia. The Joint Committee on Judicial Administration is a policy-making body of the DC Courts and has among its responsibilities accounting and auditing functions.

<sup>2</sup>*District of Columbia Courts: Planning and Budgeting Difficulties During Fiscal Year 1998* (GAO/AIMD/OGC-99-226, September 16, 1999).

supporting documentation. Although DC Courts improved its reconciliation procedures during fiscal year 1999 and was able to reconcile fiscal year-end balances for 15 accounts, it continued to have difficulty in properly accounting for the funds in 3 of its accounts—Child Support, Civil Escrow, and Juror Fees. As a result, DC Courts did not have assurance that funds collected in the Child Support account were properly accounted for and appropriately disbursed, that all payments made for Juror Fees were properly reimbursed with appropriated funds, and that funds held in the Civil Escrow account for payment of claims and settlements were appropriately safeguarded.

In addition, DC Courts did not have adequate controls and procedures in place during fiscal year 1998 to ensure that fines and fees collected were accurately recorded. For example, fines and fees collected were recorded in two different systems without procedures to ensure that both sets of records were in agreement. In addition, accounting and auditing functions were not properly segregated within DC Courts' Financial Operations Division. This situation increased the risk of errors occurring and not being detected and corrected.

Although DC Courts was authorized to deposit fines, fees, and penalties specified in District law into the Crime Victims Fund to provide financial assistance to crime victims, in fiscal years 1998 and 1999 DC Courts also deposited other fines, fees, and penalties into the Fund that should have been deposited in the U.S. Treasury. According to DC Courts' records as of June 30, 1999, the amounts retained in the Crime Victims Fund account without the requisite authority totaled over \$11 million. However, as of October 15, 1999, the Congress was considering legislation that, if enacted, would address this problem.

This report includes recommendations to DC Courts aimed at improving controls over and ensuring accountability of funds in its accounts. In its comments on a draft of this report, DC Courts agreed with and stated it had implemented our recommendations. DC Courts did, however, disagree with our conclusion regarding its retention of certain types of fines and fees, but acknowledged that provisions in the District of Columbia Appropriations Act, 2000, if enacted, would address this issue.

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## Background

Since 1970, the financial operations of DC Courts have been managed by the Financial Operations Division within the Court System. This division is comprised of (1) the Accounting Branch, which is responsible for

maintaining accounting records and processing payments, (2) the Financial Revenue Branch, which processes child support payments; collects all fees, fines, and forfeitures; and accounts for moneys held (escrow funds) in the Registry of the Court, and (3) the Internal Audit Branch, which audits all accounts of the Courts (including moneys collected and deposited in the Registry of the Court, grants, and appropriations).

The Financial Operations Division is responsible for managing DC Courts' 18 different bank accounts, which consist of

- two accounts supporting DC Courts' operations (one checking and one interest-bearing account) that are funded primarily through the annual federal payment to the Joint Committee on Judicial Administration for court operations;
- two imprest accounts<sup>3</sup> (checking accounts) to process juror and witness fees that are funded with amounts transferred from DC Courts' appropriation accounts;
- twelve escrow accounts, which include the child support account and accounts for civil settlements, criminal restitution, probate, and individuals, and
- two accounts supporting the Crime Victims Fund (one checking account and one interest-bearing account).

For fiscal year 1998, DC Courts contracted with the General Services Administration (GSA) to provide the payroll and financial-related administrative support services formerly provided by the District government<sup>4</sup> for the two accounts supporting DC Courts' operations. Under this contract, GSA processes financial and budgetary information prepared by DC Courts, records and reports obligations and expenditures, and makes payroll and voucher payments with funds transferred from the two accounts. DC Courts' Financial Operations Division is responsible for all the financial-related administrative support services for the remaining 16 accounts, using a combination of automated financial systems and manual records.

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<sup>3</sup>An imprest bank account makes a specific amount of cash available for a limited purpose. Funds in an imprest account are periodically reimbursed from general funds upon receipt of vouchers supporting disbursements made from the imprest account.

<sup>4</sup>District of Columbia Appropriation Acts for Fiscal Years 1998 (P.L. 105-100, November 19, 1997) and 1999 (P.L. 105-277, October 21, 1998) required DC Courts to contract with GSA to perform payroll and financial-related services.

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## Objectives, Scope, and Methodology

Our objective was to determine whether DC Courts properly accounted for the funds in its 18 accounts. Specifically, we determined whether DC Courts properly reconciled its bank accounts, adequately controlled fines and fees collected, and properly retained amounts deposited into the Crime Victims Fund account. To accomplish these objectives, we

- interviewed the chief judges, DC Courts' Executive Officer, Fiscal Officer, Internal Auditor, financial operations and systems employees, and an official from the District's Office of Corporation Counsel (OCC);
- obtained and reviewed unaudited financial information<sup>5</sup> and correspondence prepared by DC Courts and statements from the banks in which those accounts were maintained;
- obtained copies of DC Courts' reconciliations for 17 of its 18 bank accounts<sup>6</sup> for the month ended September 30, 1998, and for the unreconciled accounts for the month ended April 30, 1999,<sup>7</sup> and traced the book balances and transaction activity to bank statements and subledgers,<sup>8</sup> and traced reconciling items to detailed supporting records; and
- reviewed relevant legislation, including the Crime Victims Act and the Revitalization Act.

We did our work in accordance with generally accepted government auditing standards from December 1998 through July 1999. We requested comments on a draft of this report from the Executive Officer of DC Courts. The Executive Officer, on behalf of the Joint Committee on Judicial Administration in the District of Columbia, provided us with written comments that are discussed in the "DC Courts' Comments and Our Evaluation" section and are reprinted in appendix I.

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<sup>5</sup>On May 19, 1999, DC Courts awarded a contract to perform the first audit of its financial statements for the year ended September 30, 1998, as required by the Revitalization Act.

<sup>6</sup>DC Courts could not provide a bank reconciliation for the Child Support account.

<sup>7</sup>As of July 1999, this was the most recent month that the bank reconciliations were available.

<sup>8</sup>These subledgers reflect detailed transactions that are summarized in general ledger control accounts.

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## Weaknesses in Reconciliation Procedures

During our review of DC Courts' reconciliations of its 18 bank accounts for the month ended September 30, 1998, we noted that DC Courts did not reconcile or had improperly reconciled 9 of the accounts. As a result, DC Courts officials lacked accurate information on account balances and could not provide assurance that it was properly accounting for financial activity in the 9 accounts. Standard accounting practices include performing a monthly reconciliation of the recorded cash balance and the bank balance to assure the accuracy of the cash balances and to correct any bookkeeping errors. Accounting practices also include reconciling the adjusted book balances to the detailed subledgers and supporting documentation to ensure that the cash balance and the related accounting records agree. DC Courts' reconciliation procedures require that all bank accounts be reconciled each month.

Once we notified DC Courts officials of these problems, they properly reconciled the book balances to the bank balances and detailed subledger or supporting documentation for 15 of 18 bank accounts. However, as of July 1999, the Child Support Escrow (Child Support) account had not been reconciled since May 1998, when a new child support system was implemented. Also, the Civil Escrow and Juror Fees accounts were not properly reconciled and included unsupported or inadequately supported differences between the book and bank balances. The results of our review of these three accounts and their status during fiscal year 1999 are discussed below.

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## Child Support Account

Since implementation of a new automated child support system in May 1998, the Child Support account balances and monthly activity had not been reconciled to the related bank account activity. In addition, DC Courts' accounting staff had not received specific training in using the financial component of the new system. Throughout our review, DC Courts officials cited problems with the financial component of the new system and its Checkbook Ledger, which has an automatic reconciliation feature, as the primary reason the account could not be reconciled. However, in the interim, DC Courts did not make use of alternative means of obtaining and reviewing all relevant information to verify collection and disbursement activity against bank transactions and determine the cash balance in the account. Without accurate information on the account balance and all child support activity, DC Courts could not provide assurance that all child support payments collected were being appropriately disbursed and that there were no duplicate payments or misappropriated funds.

DC Courts has responsibility for child support collections and disbursements. It serves as an intermediary between noncustodial and custodial parents to ensure that court-ordered child support payments are made. According to DC Courts' Fiscal Officer, approximately 28,000 child support checks are mailed out by DC Courts each month, representing total monthly payments of over \$4 million.

Prior to the implementation of a new child support system in May 1998, information about DC Courts' child support cases was maintained in separate records in different automated systems. DC Courts maintained collection and payment records and operated a financial system that processed the collections and disbursements and accounted for all related financial activity. OCC maintained child support records and the District's Department of Human Services (DHS)<sup>9</sup> maintained paternity records on the same mainframe system. The new child support system was developed to meet new federal guidelines that called for a unified child support system that would consolidate all financial and programmatic records.

With the implementation of the new system, DC Courts would no longer directly receive all child support collection data or process the child support payments. OCC's contractor, which designed and maintained the new child support system, inputted electronically transferred child support payments into the new system that automatically allocated child support check payments, which are printed and mailed by DC Courts. Meanwhile, DC Courts continued to receive and deposit all child support payments made in person and from checks mailed directly to DC Courts and was responsible for inputting this collection data into the new system. In addition, the contractor maintained all collection and disbursement information in the system.

When the new system was implemented as of May 1, 1998, DC Courts' Internal Audit Branch continued the reconciliation procedure it had used for the former system. Daily, an auditor reconciled child support amounts collected by DC Courts cashiers to amounts deposited into the Child Support account. However, this reconciliation was no longer providing a complete picture of collections, since it did not include electronic transfers. To get a sense of how much financial activity this reconciliation was capturing, we reviewed DC Courts' collection report for the month of

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<sup>9</sup>DHS' Office of Paternity and Child Support merged with OCC's Child Support Enforcement Division in April 1998.



June 1999. We discussed this report with the Chief of the Child Support Enforcement Branch who identified the types of payments that DC Courts included in its daily collection reconciliations. These payments represented about \$3.9 million (71 percent) of child support receipts collected by DC Courts in June 1999.

DC Courts and OCC officials told us that the new child support system was intended to allow DC Courts to easily access historical data on amounts collected and paid for each case. They also stated that a Checkbook Ledger feature available in the new system would provide daily child support transactions and bank activity, which would improve accountability of collections and disbursements and automatically reconcile the bank account. As of July 1999, DC Courts officials stated that the Checkbook Ledger feature did not work and accounting staff had not received training in its use.

However, the financial component of the new system provides data that would enable DC Courts to perform manual reconciliation procedures. It contains (1) detailed lists of all checks disbursed with detail on whether they cleared the bank<sup>10</sup> and checks that were outstanding, (2) a monthly summary of collections, and (3) the ability to perform a data search to corroborate certain information on a child support case. Using this information, its daily reconciliations, and the detail provided to DC Courts for all electronic fund transfers, DC Courts should have complete information to verify all collection and disbursement activity against bank statement activity and to determine the cash balance in the account. However, DC Courts' Child Support Branch Chief stated that the accounting staff does not periodically review the information provided by the system for completeness and accuracy, nor do they use this information to report or reconcile amounts. The Child Support Branch Chief also stated that the check register and outstanding check lists do not include checks issued on May 19 and May 28, 1998, because the check numbers used for those 2 days did not appear in the system. Since the disbursement data are not reviewed and the checks with missing numbers have not been tracked to determine whether the amounts cleared the bank, DC Courts does not have complete information on disbursements.

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<sup>10</sup>DC Courts' Child Support Branch Chief stated that the contractor upgraded the system to include the checks cleared by the bank in November 1998.

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As of July 1999, DC Courts had not attempted to reconcile the child support information in the new system with bank activity. DC Courts' Child Support Branch Chief stated that they are waiting for the Checkbook Ledger to automatically perform the required reconciliation. In August 1999, a contractor manager stated that along with OCC and DC Courts, they were trying to resolve DC Courts' outstanding concerns regarding the financial component of the new system. The manager also stated that a contractor employee was trained in the use of the Checkbook Ledger and was preparing to train DC Courts' staff by the end of fiscal year 1999.

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### Civil Escrow Account Funds Loaned to Juror Fees Account

During our review of the Civil Escrow and Juror Fees accounts reconciliations for the month of September 30, 1998, we noted that DC Courts could not determine the correct cash balances or provide adequate documentation to support identified amounts. As a result, DC Courts could not ensure that funds in these accounts were properly collected and disbursed.

The Civil Escrow account holds individual small claims, landlord and tenant settlements, and other civil claims awarded by DC Courts for which the claimant has not yet received payment. As of September 30, 1998, the recorded cash balance was more than \$2.7 million for a total of about 5,000 active escrow subledger accounts, each representing an outstanding settlement or a claim. In reviewing this account, we found that for almost 2 years, portions of the accumulated balance in the Civil Escrow account had been temporarily loaned to the Juror Fees account to pay daily juror fees until amounts could be reimbursed with appropriated funds. This use of escrow funds increased the risk that sufficient funds would not be available to pay all claims and settlements.

The Juror Fees account was established as a \$100,000 imprest fund to enable DC Courts to pay jurors daily and periodically receive reimbursement with appropriated funds. During fiscal year 1998, the Juror Fees account averaged more than 9,800 transactions totaling about \$136,000 each month. Based upon the imprest level established and monthly activity, DC Courts would have to request reimbursement from GSA every 2 weeks to ensure that sufficient funds were available to pay juror fees. However, we found that rather than promptly reimbursing the Juror Fees account with appropriated funds, DC Courts decided in February 1997 to allow the account to be reduced to a zero balance and arranged for the automatic transfer of funds from the Civil Escrow account to cover cleared Juror Fee checks and prevent checks from being returned

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for insufficient funds. DC Courts linked the two accounts so that the Civil Escrow account would provide overdraft protection to the Juror Fees account. Then, periodically, DC Courts would submit documentation of paid amounts to GSA for reimbursement of the Civil Escrow account, through the Juror Fees account, from appropriated funds.

Some of the specific problems we found in reviewing the Civil Escrow and Juror Fees accounts' September 30, 1998, bank reconciliations were as follows:

- DC Courts' records indicated that the Civil Escrow account had an unreconciled difference between the adjusted book balance and its subledger account of \$2,000, an unsupported difference in the amount of adjustments made to the subledger of almost \$15,000, as well as inadequate detail to support \$286,000 in amounts loaned by the Civil Escrow account to the Juror Fees account that were not reimbursed for a 2 1/2 month period.
- The Juror Fees account's reconciliation had unsupported outstanding checks of \$78,000 and anticipated deposits of over \$465,000 for which reimbursement had not yet been requested and which DC Courts labeled as deposits-in-transit. Of the \$465,000 that DC Courts stated were deposits-in-transits, it had not requested reimbursement for \$146,000 of this amount for over a year. This represented unreimbursed juror fee payments from April 1998 that were not deposited into the Juror Fees account until June 24, 1999. DC Courts officials could not explain why they did not request reimbursement of these amounts from GSA until after the fiscal year ended.

These problems continued into the summer of 1999. As of July 1999, DC Courts' most recent bank reconciliations, which were for the month ended April 30, 1999, still reflected unreconciled amounts and unsupported reconciling items. For example, the Civil Escrow account's reconciliation still reflected a \$2,000 difference and a lack of documentation to support almost \$15,000 of adjustments and the unreimbursed funds loaned to the Juror Fees account. DC Courts could not provide an explanation for these problems. These situations resulted in DC Courts still not being able to support its cash balances in its Civil Escrow and Juror Fees accounts as of July 1999.

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## Other Internal Control Weaknesses

During our review of DC Courts' September 30, 1998, reconciliation process, we identified two additional internal control weaknesses related to (1) inadequate procedures to ensure the accuracy of fines and fees<sup>11</sup> recorded in two different systems and (2) accounting and auditing functions that were not segregated.

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### Inadequate Procedures to Ensure Accurate Accounting of Fines and Fees

DC Courts did not have adequate procedures for accounting for the collection of fines and fees or for maintaining records for the amounts transferred to the Crime Victims Fund account each month from the Register of Wills, Criminal, and Family escrow accounts. DC Courts separately input the fines and fees data into two unconnected (nonintegrated) systems—the DC Courts' Finance and Remittance (CFAR) system, which reported fines and fees collected and an accounting system<sup>12</sup> that maintained the general ledger and was the source of information used to reconcile the cash balance to the bank balance. Because these transactions were entered twice manually, DC Courts should have verified the accuracy of the data in both systems to reduce the risk of data entry errors occurring and not being detected promptly. After we discussed the need for this reconciliation with DC Courts, the Fiscal Officer attempted to reconcile the collection data between the CFAR system and accounting records for fiscal year 1998. At the conclusion of our fieldwork, there was an unresolved difference of about \$2,400. Further, with fundamental problems in DC Courts' reconciliations to bank activity and detailed subledgers, there was a greater risk that errors would not be detected.

During fiscal year 1999, DC Courts had made changes to start addressing these issues raised during our work. The changes included (1) establishing one automated accounting system for all court operations and (2) hiring a contractor to create an interface between the CFAR system and the new accounting system, which would eliminate the need to separately input data and perform monthly reconciliations of collection data each month. In July 1999, DC Courts installed the new accounting system and was developing the interface. DC Courts continued to manually enter collection data into both systems without verifying the accuracy of the data.

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<sup>11</sup>Fines and fees are collected by DC Superior Court's Civil, Criminal, Family, and Probate Divisions and by the DC Court of Appeals.

<sup>12</sup>During fiscal year 1998, DC Courts used several different accounting applications and manual records to account for fines and fees and other nonappropriated funds.

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**Lack of Segregation of Duties**

During fiscal year 1998, DC Courts' audit function was not organizationally separated from its accounting function. Specifically, Internal Audit Branch staff who performed independent audits of accounts and other court operations also performed monthly bank and daily collection reconciliations. This situation resulted in auditors performing accounting tasks that they could also be responsible for auditing, which is an inappropriate mix of operational and oversight roles.

In March 1999, DC Courts Executive Officer stated that he had transferred the staff that performed bank reconciliations and other accounting functions from the Internal Audit Branch to another branch of the Financial Operations Division. More importantly, however, as of July 1999, the Internal Auditor continued to have the primary operational responsibility for reviewing monthly reconciliations. While the risk of loss is somewhat less because we did not identify any internal audit staff that handled cash, mixing operational and audit responsibilities has long been viewed as inappropriate from an internal control perspective. Until the Internal Audit Branch is completely segregated from accounting and other operational tasks, the risk of errors or fraud is increased. To the extent that internal audit staff perform operational and accounting functions, they would not be available to perform their central role of performing independent reviews.

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**Unauthorized Deposits to the Crime Victims Fund**

During fiscal years 1998 and 1999, DC Courts deposited some court fines, fees, and penalties in the Crime Victims Fund, rather than in the U.S. Treasury as required. Specifically, DC Courts' records indicated that as of June 1999, over \$11 million in fines and fees were inappropriately retained. As of October 15, 1999, legislation was being considered that would provide DC Courts with the authority to deposit all court fines, fees, and penalties in the Crime Victims Fund, use funds necessary to operate the program, and return any unobligated amounts in excess of a specified level to the U.S. Treasury.

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In April 1997, a District law<sup>13</sup> established the Crime Victims Compensation Program under DC Courts' jurisdiction prior to the enactment of the Revitalization Act.<sup>14</sup> The District law provides that payments of up to \$25,000 from the fund can be made to crime victims for economic loss. Payments can also be made for shelter, burial costs, or medical expenses. The District law also provides that the Crime Victims Fund may be credited with (1) appropriations made to it, (2) fines assessed on persons either convicted of serious traffic or misdemeanor offenses or persons convicted or pleading guilty or no contest to felony offenses, (3) amounts recovered by the District from offenders or third parties by subrogation to the victim's rights as a result of payments of claims to victims, (4) repayments of overpayments or false claims payments from claimants, and (5) amounts received from any source, including grants from the federal government.<sup>15</sup> The authority to deposit specified collections to the Crime Victims Fund was an exception to the general requirement in section 450 of the Home Rule Act that DC Courts deposit collections to the District General Fund.<sup>16</sup>

However, the Revitalization Act, under which the federal government assumed responsibility as of fiscal year 1998 for funding DC Courts, amended section 450 of the D.C. Home Rule Act to change its effect on DC Courts. Instead of being required to deposit moneys in the District's General Fund or in the Crime Victims Fund, the Revitalization Act amended section 450 to provide that all moneys received by DC Courts be deposited in the U.S. Treasury or the Crime Victims Fund.<sup>17</sup> Following passage of the

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<sup>13</sup>The Victims of Violent Crime Compensation Act of 1996, D.C. Law 11-243, 44 D.C. Reg. 1142, 2601 (April 9, 1997), DC Code Ann. Sections 3-421 through 3-438 (1999 Supp.).

<sup>14</sup>National Capital Revitalization and Self-Government Improvement Act of 1997, Public Law No. 105-33, Title XI, 111 Stat. 712 (1997).

<sup>15</sup>DC Code Ann. Section 3-435 (1999 Supp.).

<sup>16</sup>Prior to January 2, 1975, DC Courts' Fiscal Officer was required to deposit all fines, forfeitures, fees, unclaimed deposits, and other money in the U.S. Treasury. P.L. 91-358, Section 111, 84 Stat. 473, 511 (1970), as amended, DC Code Ann. Section 11-1723 (1981). Section 450 was enacted as part of the Home Rule Act and provides in its first sentence that the "General Fund of the District shall be composed of the District revenues which on January 2, 1975, are paid into the Treasury of the United States and credited either to the General Fund of the District or its miscellaneous receipts...." DC Code Ann. Section 47-130 (1981). Accordingly, fines, forfeitures, fees, unclaimed deposits, and other moneys that were DC Courts revenues deposited in the U.S. Treasury before the Home Rule Act became part of the General Fund of the District under Section 450 prior to the Revitalization Act.

<sup>17</sup>DC Code Ann. Section 47-130 (1999 Supp.).

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Revitalization Act, DC Courts began to deposit in the Crime Victims Fund all the money it received from fines, fees, and penalties.

In our opinion, the Revitalization Act's amendment to section 450 did not alter the District law governing the Crime Victims Program and the Crime Victims Fund or otherwise address the authorized sources for funding the Crime Victims Fund identified in the District law. Accordingly, we conclude that the Revitalization Act did not expand DC Courts' authority to deposit collections in the Crime Victims Fund beyond amounts collected from the sources identified in the District law governing the Fund. DC Courts should have deposited collections from other sources in the U.S. Treasury. DC Courts' records indicated that it retained about \$11 million in fines and fees as of June 1999 that should have been deposited in the U.S. Treasury.

On June 29, 1999, we briefed your offices on this matter. As of October 15, 1999, the Congress was considering legislation that, if enacted, would allow DC Courts to deposit all fines, fees, and penalties in the Crime Victims Fund account to be used to pay crime victim claims.<sup>18</sup> This legislation would be retroactive to April 1997,<sup>19</sup> and would require that all unobligated amounts in the account in excess of \$250,000 as of September 30, 2000, be returned to the U.S. Treasury annually beginning with fiscal year 2000.<sup>20</sup>

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## Conclusions

Without performing regular and proper reconciliations between the recorded cash balances, bank balances, and the related supporting documentation, DC Courts could not properly account for the funds in the Child Support, Civil Escrow, and Juror Fees accounts and increased the risk of these funds being inappropriately spent. Rather than waiting for the new child support system to automatically reconcile the child support account, DC Courts should have manually reconciled the account to thoroughly account for amounts collected and disbursed. In regard to the Civil Escrow and Juror Fees accounts, DC Courts' improper reconciliation procedures and inadequate documentation to support reconciling amounts increased the risk of errors in these accounts. Also, DC Courts' failure to

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<sup>18</sup>Section 160 (c) of H.R. 3064. Identical language was included in Section 160 of H.R. 2587, which was vetoed by the President.

<sup>19</sup>Section 160 (e) of H.R. 3064.

<sup>20</sup>Section 160 (d) of H.R. 3064.

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request the reimbursement of juror fee payments regularly and the lack of detailed documentation to support the amounts loaned from the Civil Escrow account to the Juror Fees account made it more difficult to properly account for financial activity in the two accounts.

Meanwhile, a lack of segregation of duties between DC Courts' Internal Audit Branch and other Financial Operations Division's staff increased the risk of errors occurring and not being detected and corrected and reduced resources available for independent reviews. Improving its accounting for the funds in its accounts would enable DC Courts to provide better assurance to the citizens of the District that moneys entrusted to DC Courts are properly safeguarded and spent for the intended purposes.

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## Recommendations

To improve DC Courts' accounting for and controls over funds it maintains in accounts, we recommend that the Joint Committee direct the Fiscal Officer to do the following:

- Adhere to existing procedures that require that every account be reconciled to the bank statement and supporting detail and/or subledgers each month. These reconciliations should be completed promptly, such as within 30 days of the receipt of the bank statement. In regard to the Child Support account, DC Courts should review all collections and disbursements and perform a manual reconciliation each month, until the automated reconciliation function of the new child support system can be used.
- Request reimbursement of all unreimbursed juror fee payments. Once all amounts are reimbursed, DC Courts should immediately transfer to the Civil Escrow account all amounts that were temporarily borrowed and terminate the overdraft protection relationship between the Civil Escrow and Juror Fees accounts.
- Determine the appropriate level to reestablish the Juror Fees account as an imprest fund and the appropriate time intervals to request reimbursement of juror fee payments to replenish the fund. The established fund level combined with the reimbursement interval should ensure that there are sufficient funds for the Juror Fees account to operate independently.
- Transfer all bank reconciliation responsibilities and related accounting functions from the Internal Audit Branch to other branches within the Financial Operations Division in order to appropriately segregate duties.



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## DC Courts' Comments and Our Evaluation

DC Courts acknowledged its difficulties in properly accounting for financial activity in three of its accounts. DC Courts stated that our observations and recommendations made during this review have assisted it in identifying areas of its financial operations that needed improvement and in taking measures to address each of these areas. DC Courts stated that it has implemented all recommendations. It did, however, disagree with our conclusions regarding its retention of certain types of fines and fees. Following our discussion of this issue with the House Appropriations Committee, Subcommittee on the District of Columbia, provisions were added to the District of Columbia Appropriations Act, 2000, which, if enacted, would address DC Courts' retention of fines and fees. DC Courts acknowledges that these provisions, if enacted, would address this issue.

We are sending copies of this report to Representative Eleanor Holmes Norton, Ranking Minority Member, Subcommittee on the District of Columbia, House Committee on Government Reform; Senator Kay Bailey Hutchinson, Chairwoman, Subcommittee on the District of Columbia, Senate Committee on Appropriations; Senator Richard Durbin, Ranking Minority Member, Subcommittee on the District of Columbia, Senate Committee on Appropriations and Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs; and Senator George Voinovich, Chairman, Subcommittee on Oversight of Government Management, Restructuring and the District of Columbia, Senate Committee on Governmental Affairs. We are also sending copies to the Honorable Annice Wagner, Chairwoman, Joint Committee on Judicial Administration, DC Courts; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and Grace Mastelli, Deputy Assistant Attorney General, Department of Justice. Copies will be available to others upon request.

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If you have any questions, please contact me or Steven Haughton at (202) 512-4476. Key contributors to this assignment were Marcia Washington, Lou Fernheimer, Jeffrey Jacobson, and Richard Cambosos.

*Gloria L. Jarmon*

Gloria L. Jarmon  
Director, Health, Education and Human Services  
Accounting and Financial Management Issues

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# Comments From the District of Columbia Courts



*Ulysses B. Hammond*  
Executive Officer

*District of Columbia Courts*  
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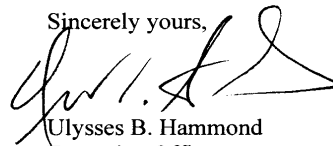
October 12, 1999

Ms. Gloria L. Jarmon  
Director, Health, Education & Human Services  
Accounting and Financial Management Issues  
Accounting and Information Management Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Ms. Jarmon:

On behalf of the Joint Committee on Judicial Administration in the District of Columbia, I submit herewith the response of the District of Columbia Courts to the Draft Report of the United States General Accounting Office to Congressional Requesters on the "D.C. Courts: Improvements Needed in Accounting for Escrow and Other Funds." It is our understanding that the response, in its entirety, will be made an attachment to GAO's final report. Please let us know if anything further is required.

Sincerely yours,



Ulysses B. Hammond  
Executive Officer

Attachment

**RESPONSE OF THE D.C. COURTS  
TO THE DRAFT REPORT OF THE U.S. GENERAL ACCOUNTING OFFICE  
ON THE DC COURTS  
ACCOUNTING FOR FUNDS DURING FISCAL YEAR 1998**

**INTRODUCTION**

This submission responds to the draft report of the General Accounting Office (GAO) entitled, "D.C. Courts: Improvements Needed in Accounting for Escrow and Other Funds" (Draft Report). In this second report, the GAO focuses its findings on three issues: (1) bank reconciliation; (2) internal control issues; and (3) the amount of funds deposited into the Crime Victims Fund. We agree with the GAO that the Fiscal Office of the D.C. Courts experienced difficulties in reconciling three of the Courts' eighteen accounts during FY 1998 and that some of the practices in that office and reliance on manual processes made it more difficult to account for financial activity. The GAO's findings and recommendations during this period of review have assisted the Courts in identifying areas of its financial operations which needed improvement and in taking measures to address each of these areas. In the following section, we outline how the Courts have addressed the recommendations made by the GAO in its Draft Report. In the final section, we provide additional information on the three areas upon which GAO focused its findings.

**RESPONSES TO GAO'S RECOMMENDATIONS**

**Recommendation 1.**

Adhere to existing procedures that require that every account be reconciled to the bank statement and supporting detail and/or sub-ledgers each month. These reconciliations should be completed on a timely basis, such as within 30 days of the receipt of the bank statement. In regard to the Child Support account, DC Courts should review all collections and disbursements and perform a manual reconciliation each month, until the automated reconciliation function of the new child support system can be used.

**Court's Action on Recommendation 1.**

The Courts have implemented this recommendation. The Courts agree that existing procedures for bank reconciliation should be adhered to by the Fiscal Office's reconciliation staff. To assure that staff in the Fiscal Office fully understand the tasks and responsibilities associated with the reconciliation process, new written procedures, *Bank Reconciliation Guidelines*, were developed which the Fiscal Officer was directed to implement and distribute on April 8, 1999.

With respect to the child support account, the Courts have relied on the representations of the District of Columbia's IV-D Agency, the Office of the Corporation Counsel, that an automated system would perform reconciliations. Since the IV-D agency still does not have an automated reconciliation function, the Courts agree that a monthly manual reconciliation is appropriate. By memorandum dated October 4, 1999, the Director of the Family Division and the Child Support Program managers in Superior Court were directed to begin immediate manual reconciliations of the child support account.

**Recommendation 2.**

Request reimbursement of all unreimbursed juror fee payments. Once all amounts are reimbursed, DC Courts should immediately transfer to the Civil Escrow account all amounts that were temporarily borrowed and terminate the overdraft protection relationship between the Civil Escrow and Juror Fees accounts.

**Court's Action on Recommendation 2.**

The second recommendation has been implemented. On September 17, 1999, the Courts' Fiscal Office terminated the zero balance, overdraft protection relationship between the Civil Escrow and Juror Fees accounts for Superior Court. As recommended by GAO, the original imprest fund was returned to the Juror Fees account, and all amounts temporarily borrowed from the Civil Escrow account were returned. The Civil Escrow account and Juror Fees account are now stand alone accounts.

**Recommendation 3.**

Determine the appropriate level to reestablish the Juror Fees account as an imprest

fund and the appropriate time intervals to request reimbursement of juror fee payments to replenish the fund. The established fund level combined with the reimbursement interval should ensure that there are sufficient funds for the account to operate the Juror Fees account independently.

**Courts' Action on Recommendation 3.**

**In accordance with GAO's recommendation, on September 17, 1999, the Courts reestablished the Juror Fees account as an imprest fund. The Fiscal Office has determined that the fund should be replenished weekly and is proceeding accordingly.**

**Recommendation 4.**

Transfer all bank reconciliation responsibilities and related accounting functions from the Internal Audit Branch to other branches within the Financial Operations Division in order to appropriately segregate duties.

**Courts' Action on Recommendation 4.**

**The Courts agree that the operations of the Fiscal Office should be separate from the audit functions. On February 19, 1999 the Fiscal Officer transferred the Audit Technician position, which is responsible for performing bank reconciliation, from the Internal Audit Branch to the Office of the Fiscal Officer. Subsequently, the Internal Audit Branch's only involvement in reconciliation was to assist staff when there was difficulty reconciling an account, which occurred infrequently. However, to assure the independence of the audit function, the Acting Fiscal Officer, by memorandum dated September 29, 1999, terminated the involvement of the Internal Audit Branch in account reconciliation, and directed that all account management and bank reconciliation was the responsibility of the Accounting and Financial Revenue Branch staff. Recognizing the importance of an independent audit function, in a March 29, 1999, memorandum from the Executive Officer to the Fiscal Officer, the Courts' Internal Audit Branch was directed to perform internal audits in accordance with the *Government Auditing Standards* followed by the U.S. General Accounting Office and to be guided by the *Standards for the Professional Practice of Internal Auditing* developed by The Institute of Internal Auditors, Inc.**

**ADDITIONAL RESPONSES TO GAO DRAFT REPORT**

According to the Draft Report overview, the Congressional Requesters were interested in how the D.C. Courts accounted for funds under their control. The GAO focused their findings in this report on: (1) bank reconciliation, (2) internal control issues, and (3) amounts deposited into the Crime Victims Fund. As detailed in the foregoing sections, the Courts agree with the recommendations made by the GAO and have implemented them. Although the Courts disagree with the GAO's conclusions related to the Courts' authority to retain amounts deposited into the Crime Victims Fund account, the GAO and the Courts are in agreement that this issue will be mooted by enactment of Section 160(c) of H.R. 2587, the FY2000 D.C. Appropriations Bill.

**Reconciliation Procedures**

Although, as GAO reported, the Courts had some difficulties reconciling three of its eighteen accounts, GAO reported no financial mismanagement or irregularities. The discrepancies cited by the GAO in the Superior Court's civil escrow and juror fees accounts were minor and were due, in large part, to the manner in which the accounts were linked to provide overdraft protection. This procedure went into effect when the Courts received its appropriation through the District of Columbia government. At that time, the District was not providing reimbursements for the juror fund in a timely manner. The Courts have made improvements in this area. **The civil escrow and juror accounts are no longer linked, and the Courts' Fiscal Office submits weekly requests to GSA for reimbursement from appropriated funds.**

Additional information is essential to an understanding of the GAO's findings related to the Superior Court's child support account. Specifically, the Courts are not able to perform automated reconciliations because the District of Columbia's child support computer system lacks an automated checkbook ledger function. The Courts have been promised by the IV-D Agency (D.C. Corporation Counsel's Office) that the checkbook ledger will be operational soon. **The Courts recently issued a directive to the staff responsible for the Superior Court's Child Support Program to initiate immediately manual reconciliations on a weekly basis until the District's automated checkbook ledger function is operational.**



**Internal Control Issues**

**\* Integrated Accounting System**

During fiscal year 1999, the Courts contracted for the development and installation of an integrated accounting system which resolves the weaknesses identified by the GAO. For instance, data on fines and fees will no longer be entered in two unconnected systems. The Courts are in the final testing stages of an automated interface between the cash register collections system (CFARS) and the accounting system.

**\* Separation of Duties**

In February 1999 the staff member who performed bank reconciliations was transferred from the Internal Audit Branch to the Fiscal Officer's staff. The Internal Auditor remained responsible for reviewing any monthly reconciliations which were problematic, or which did not balance. The Courts believed there was no risk of loss with such an arrangement, and GAO pointed out that the risk is minimal because internal audit staff members do not handle cash (Draft Report, p. 15). Nevertheless, in accordance with GAO's recommendation, the Courts have transferred these responsibilities from the Internal Auditor to Accounting and Financial Revenue Branch staff. Internal Audit staff no longer have any accounting functions and are only responsible for conducting independent reviews.

**Deposits to the Crime Victims Fund**

The GAO Draft Report asserts that section 450 of the Home Rule Act<sup>1</sup> did not authorize the DC Courts to deposit court fines, fees and penalties into the Crime Victims Fund during fiscal years 1998 and 1999. In a previous written submission to GAO, the Courts explained why, to the contrary, the Courts indeed had the authority to make those deposits. It is unnecessary to restate that position here because GAO and the Courts are in agreement that section 160(c) of H.R. 2587, the FY 2000 D.C. Appropriations Bill, once enacted, will moot this issue as to both past and future deposits.

**CONCLUSIONS**

The GAO found that the D.C. Courts' performance in the identified areas *made it more difficult to properly account for financial activity and increased the risk of errors occurring and not being detected and corrected.* (Draft Report, p. 19) Four recommendations were proposed by the GAO to improve the Courts' operations in these areas. The Courts agree with GAO's recommendations for improvements in its system and have implemented them as above described.

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<sup>1</sup> P.L. 91-358, Sec. 111, 84 Stat. 473, 511 (1970).

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