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LETTER OF TRANSMITTAL

STATEWIDE INTERNAL CONTROL AND COMPLIANCE ISSUES

INDIVIDUAL INTERNAL CONTROL AND COMPLIANCE FINDINGS

RESOLUTION OF PRIOR YEAR AUDIT FINDINGS

AGENCY OFFICIALS

December 6, 1999

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We are pleased to submit the statewide report on the Virginia District Court System. The Supreme Court operates the District Court System subject to the Chief Justice of the Supreme Court's administrative supervision. The Virginia District Court System includes all General District Courts, Juvenile and Domestic Relations District Courts, and Combined District Courts in the Commonwealth of Virginia.

Our audits determined whether court officials have maintained accountability over collections, established internal controls, and complied with state laws and regulations. We used a risk based audit approach for district courts. After assessing risk for each individual court, we limited our audit procedures at certain courts. This allowed us to focus attention on those courts having the highest audit risk, while reducing total audit time.

This report summarizes findings of our audits completed from July 1, 1998 through June 30, 1999, which we have previously communicated to each Clerk of the Court, Magistrate, and Chief Judge. Thirteen of the one hundred and twenty-seven audits resulted in reportable findings.

We identified the following three findings that we consider statewide issues common to several District Courts.

- Reconcile Bank Accounts Promptly
- Strengthen Procedures for Manual Receipts
- Request Additional Training and Strengthen Court Management

A further discussion of these statewide findings is located in the "Statewide Internal Control and Compliance Findings" section of this report.

AUDITOR OF PUBLIC ACCOUNTS

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## **VIRGINIA DISTRICT COURT SYSTEM**

### **STATEWIDE INTERNAL CONTROL AND COMPLIANCE ISSUES**

We identified the following three findings that we consider statewide issues common to several District Courts.

#### **Reconcile Bank Accounts Promptly**

Applicable to:

Loudon Juvenile and Domestic Relations District Court  
Louisa Combined District Court  
Martinsville Juvenile and Domestic Relations District Court  
Petersburg Juvenile and Domestic Relations District Court

These Courts do not reconcile bank accounts promptly upon receipt of the bank statement. Failure to perform prompt complete reconciliations can lead to errors and irregularities going undetected. Courts should reconcile all bank accounts promptly upon receipt of the bank statement. If Courts have difficulty with reconciliations, they should promptly seek assistance from the Supreme Court and request additional training when necessary.

#### **Strengthen Procedures for Manual Receipts**

Applicable to:

Fairfax General District Court  
Hopewell Combined District Court  
Martinsville Juvenile and Domestic Relations District Court

These Courts have weaknesses in procedures to either issue or record manual receipts. The Courts should issue manual receipts to accept payments when the computer system is not operational. When the computer system becomes operational, the Courts should immediately record the manual receipts in the accounting system and deposit the funds promptly. It is very important that Courts have adequate controls in place to ensure the proper use and accountability of manual receipts.

#### **Request Additional Training and Strengthen Court Management**

Applicable to:

Petersburg Juvenile and Domestic Relations District Court  
Portsmouth General District Court  
Stafford General District Court

In these Courts, the Clerks or bookkeepers do not fully understand the Court's accounting system. This lack of understanding resulted in numerous errors going undetected and missing funds in one of the Courts. These Clerks should request training from the Supreme Court for themselves or their bookkeepers to improve their knowledge of the Court's accounting system. It is also very important that the Clerks adequately supervise their staff to ensure that they have the knowledge needed to perform their duties.

# **VIRGINIA DISTRICT COURT SYSTEM**

## **INDIVIDUAL INTERNAL CONTROL AND COMPLIANCE FINDINGS**

### **DINWIDDIE COMBINED DISTRICT COURT**

#### **Improve Security Over System Access**

The Clerk does not adequately control access to the automated case management and accounting system. The Clerk has not deleted the access of three employees terminated 16 to 25 months before our fieldwork. The Clerk has not requested access for three new employees. Currently, they share the Clerk's user identification to access the automated system. Each user should have a separate user identification to properly limit the level of access and to maintain personal accountability. Without personal accountability, should someone make errors or fraudulent entries, the Clerk could not identify the responsible person. Subsequent to audit, the Clerk contacted the Supreme Court to request access for the employees.

### **COUNTY OF FAIRFAX GENERAL DISTRICT COURT**

#### **Promptly Receipt and Deposit Collections**

When we started the audit, the Clerk had up to ten weeks of unprocessed mail that included undeposited collections totaling \$58,000. These types of delays in receipting and depositing payments increase the risk of theft and fraud.

In addition, court staff and the collection agent are sending out delinquent payment notices, when in some cases people have already made payments. The lack of sufficient personnel and the high volume of mail received cause a usual processing delay of three to four weeks. The Clerk should prioritize work within all divisions to ensure the prompt receipting, posting, and deposit of collections.

#### **Maintain Accountability Over Manual Receipts**

The Clerk does not maintain proper accountability over manual receipts. While our audit did not detect any missing receipts or inappropriate transactions, we observed conditions that greatly increase the risk of theft or fraud. We tested 16% of the manual receipts used during the audit period.

- There are seven manual receipt books for the four court divisions. The division supervisors do not ensure the accountability of all manual receipts and do not properly record the manual receipt in the automated accounting system when used.
- The Court records manual receipts on the day end register reports. However, the Court does not record or attach manual receipts to the daily financial reports as required by the Financial Management System User's Guide.
- For 8 of 25 manual receipts tested, the cashier recorded inaccurate or incomplete information. The cashier did not date receipts, properly document case numbers and credit proper account codes. In all instances, other staff detected the errors on the manual receipt and corrected them before entering the information into the automated accounting system.

The Clerk should make all court staff aware of the documentation and retention requirements for manual receipts. The Clerk should meet with division supervisors to ensure they have the appropriate training to review, monitor, and track manual receipt activity. Finally, the Clerk should provide proper oversight to the division supervisors. Before completion of our audit, the Clerk implemented a new policy regarding documentation and review of manual receipts. The Clerk should monitor the effectiveness of the new policy.

#### Control Voided Receipts

The Clerk does not properly control voided receipts. Despite a recent alleged irregularity, the Clerk has not implemented adequate controls and provided proper oversight to ensure the proper processing of voided receipts. There is not proper documentation of the voided receipts on daily reconciliation reports and the preparer and approver do not consistently sign and explain the reason for the void. These weaknesses greatly increase the risk of loss or theft of funds. The Clerk should immediately meet with the staff to ensure they understand and follow the proper procedures for voiding receipts. Further, she should provide proper oversight to ensure staff and supervisors are following the appropriate procedures.

### **COUNTY OF FRANKLIN JUVENILE AND DOMESTIC RELATIONS DISTRICT COURT**

#### Separate Accounting Functions

The Clerk does not adequately separate the Court's accounting functions. All three employees receipt, reconcile, and deposit collections, write and record checks, prepare journal vouchers and reconcile the bank account. Further, the clerk does not review and approve the employees' work. For example, the Clerk allows the employees to delete cases and void receipts without supervisory approval. Failure to properly segregate duties could lead to errors and irregularities going undetected. The Clerk should separate these accounting duties and provide adequate oversight to employees.

#### Monitor Partial Payment Accounts

The Clerk does not adequately monitor partial payment accounts. The accounting system generates a deferred and partial payment accounts report daily that lists defendants that do not make payments as agreed. The Clerk does not review this report to identify delinquent accounts and initiate additional collection procedures. As of May 1999, the report included 24 delinquent accounts dating back to May 1998. The Clerk should review these reports and take appropriate action to initiate collection procedures.

#### Properly Record Tax Set-Off Collections

The Clerk does not record Tax Set-Off collections in the general ledger account required by the Supreme Court. Failure to use the proper account hinders the Supreme Court and other state agencies' ability to monitor delinquent account collections. The Clerk should comply with Supreme Court guidelines and record Tax Set-Off collections in the proper account.

### **CITY OF HOPEWELL COMBINED DISTRICT COURT**

#### Properly Organize Financial Records

The Clerk does not maintain financial records in an organized manner, which severely hampers timely retrieval of information when needed. Often staff cannot promptly research and resolve customer inquiries, or provide documentation that supports financial transactions. Financial reports are stored haphazardly on a shelf without any clear indication of the time periods for which they were prepared. Further, support is not maintained with the reports. We recommend that the Clerk store financial reports

systematically in folders or files, which are organized by date with supporting documentation attached. Organizing all relevant financial data clearly and concisely will enhance the Clerk's ability to provide efficient and effective customer service.

#### Use Manual Receipts

When the automated accounting system is not operating, the Clerk accepts payments only by check and does not issue a receipt. The Clerk believes the payer's cancelled check is a sufficient proof of payment. This policy of accepting payments without issuing a receipt increases the opportunity for fraud or misappropriation of funds.

The Financial Management's User Guide requires the Clerk to issue an official manual receipt for collections received when the system is not available. Further, the Clerk should never refuse cash when presented for payment. The Clerk should immediately begin using the official manual receipts when the system is not operating.

### **COUNTY OF LOUDON JUVENILE AND DOMESTIC RELATIONS DISTRICT COURT**

#### Reconcile Bank Account Monthly

The Clerk does not reconcile the court's checking account. Because the previous Clerk did not reconcile, the Supreme Court assisted the current Clerk in reconciling the June 30, 1998 bank statement. The Clerk performed the reconciliations in July and August 1998 and then discontinued them. The Clerk believes that staffing shortages have forced her to prioritize resources to concentrate on the primary functions of the court. During our audit the Clerk reconciled the account through May 1999. It is an essential internal control that the Clerk reconciles all bank accounts promptly. Failure to reconcile bank accounts can lead to errors and irregularities going undetected. It is very important that the Clerk reconciles the bank account promptly each month.

### **COUNTY OF LOUISA COMBINED DISTRICT COURT**

#### Properly Reconcile Monthly Bank Account

The Clerk does not understand how to reconcile the bank account properly. Each month, the Clerk attempted reconciliation, but she did not understand how to resolve differences. Proper bank reconciliations include identifying and resolving differences between the bank balance and the system's cash balance. Monthly bank reconciliations are essential for determining the proper deposit of all collections and detecting errors. We reconciled the Clerk's bank account through January 1999 and will assist the Clerk with the February reconciliation. In the future, when the Clerk cannot reconcile the account she should promptly seek assistance from the Supreme Court and additional training when necessary.

#### Promptly Research and Resolve Unallocated Receipts

The Clerk has not allocated collection agent and Tax Set-Off receipts from fiscal year 1997. Unallocated amounts represent accounts receivables collections that the clerk should allocated to individual accounts promptly upon receipt. The Clerk's failure to allocate these funds may have caused continuing collection activity on paid accounts. The Clerk must immediately research all remaining unallocated amounts and promptly credit the appropriate defendant's accounts receivable.

## **MARTINSVILLE JUVENILE AND DOMESTIC RELATIONS DISTRICT COURT**

### **Record and Deposit Manual Receipts Daily**

The Clerk does not record manual receipts in the accounting system the next business day or deposit these receipts in the bank promptly as required by the Financial Management System User's Guide. At the end of the day, the deputy clerk deposits an amount equal to the day end register report leaving in the cash drawer the manual receipts not recorded on the accounting system. In 16 of 64 days tested, we found manual receipts ranging from \$12 to \$252 not recorded on the accounting system or deposited in the bank until 2 to 31 days after the receipt date. These delays in recording and depositing manual receipts could lead to a loss of funds. The Clerk should record and deposit manual receipts the next business day to strengthen controls over cash receipts.

### **Reconcile Bank Account Monthly**

The Clerk did not reconcile the bank account from April 1997 through July 1998. In September 1998 at the request of the Clerk, the Supreme Court's Technical Assistance division reconciled the account. It is an essential internal control that the Clerk reconciles the court's bank account promptly. Failure to reconcile the bank account can lead to errors and irregularities going undetected. The Clerk should reconcile the bank account promptly each month. If the Clerk cannot reconcile the account in the future, she should immediately request assistance from the Supreme Court.

## **PETERSBURG JUVENILE AND DOMESTIC RELATIONS DISTRICT COURT**

### **Improve Court Management**

The court's records through June 30, 1998 were inaccurate, incomplete, and unreliable. Our staff and the Technical Assistance staff from the Supreme Court of Virginia spent extensive effort and resources to reconstruct the financial transactions, reconcile the bank statements, and audit the financial records. The former clerk's inability to follow the Supreme Court's standard procedures resulted in significant internal control and financial management weaknesses.

The former clerk had not performed many basic accounting functions including preparing bank reconciliations, reviewing recorded financial transactions for accuracy, and documenting her review of daily and monthly system reports. These weaknesses resulted in the following problems in the court's financial records and compliance:

- As of June 30, 1998, the court's bank account had an apparent \$3,429 shortage when comparing the bank balance to the court's financial management system (FMS). The major difference was \$2,360 in returned checks the Clerk did not record in FMS.
- In addition, we could not locate two days' collections totaling \$720 that went undeposited. Not recording checks, bank service charges, voids, and deposits caused the remaining variance. Further, the former clerk made or approved several erroneous journal entries in the system throughout the year. In addition to the missing daily collections, there is a missing \$50 change fund.

- The former clerk did not make daily bank deposits, as required. Our test found 14 of the 22 deposits tested went to the bank 1 to 4 days late. We found the January 20, 1998 collections totaling \$704 deposited on July 2, 1998.
- The former clerk wrote checks, but did not record them for 5 months or more. Further, the former clerk then left checks in the checkbook and never mailed them to the payees. The existence of so many uncashed checks hid the cash shortages and made reconciling the accounts and finding the true balances more difficult.
- The former clerk did not properly supervise the staff, review their transactions, and monitor their work. Among other obvious weaknesses, the former clerk did not review and approve the daily financial reports and accompanying worksheets.

The lack of proper internal controls and inadequate financial management in this court requires immediate correction. Adequate internal controls help reduce the risk of loss or misappropriation of funds. The Judge and the Interim Clerk have worked with the Supreme Court staff to compute a current cash balance, improve standard procedures, and promptly review financial records.

Both the Judge and the Interim Clerk must also assess the capability of the current staff to determine the extent to which they may have contributed to this problem and their ability to correct their potential performance deficiencies. The Judge must continue to work closely with this court's clerk to ensure the court follows the standard procedures of the Supreme Court, prepares complete and prompt bank reconciliations, and makes intact and prompt deposits. The Judge must help ensure that the individuals who perform, approve, and record all financial management transactions are competent and trustworthy.

#### Report Unclaimed Property

The former clerk did not report and submit unclaimed property to the State Treasurer as required by §55-210.12 of the Code of Virginia. We found 24 items totaling \$711 that the former clerk should have reported in November 1997. The Interim Clerk should review all liabilities and outstanding checks annually and report amounts over one year old to the State Treasurer.

#### Properly Submit Delinquent Receivables

The former clerk did not submit monthly reports of delinquent receivables to the Commonwealth's Attorney. However, since the Department of Taxation is the court's collection agent, the Supreme Court sends the delinquent accounts directly to Taxation for collection. Section 19.2-349 of the Code of Virginia still requires the Clerk to submit a monthly report to the Commonwealth's Attorney regardless of the collection method. The Clerk should immediately begin sending these monthly reports to the Commonwealth's Attorney.

### **CITY OF PORTSMOUTH GENERAL DISTRICT COURT**

#### Ensure Accounting Staff are Properly Trained

The bookkeeper did not fully understand the accounting procedures for the court's automated financial management environment. Therefore, procedural errors affected several accounting areas, including revenue, journal vouchers, unclaimed property, and bank reconciliations. For example, we found the following types of problems.

- The bookkeeper did not maintain adequate control over revenue accounts for special funds. Accounting activity was inconsistently performed and had minimal documentation. We noted a total of \$504 in an unspecified funds account, which the court should have either escheated to the state or credited to other accounts.
- The bookkeeper did not fully understand the journal voucher process. We found each month unusually high number of “reversing” or “void” journal vouchers. “Reversing” or “void” journal vouchers generally correct prior mistakes.
- The bookkeeper failed to properly review the outstanding liabilities report as part of the process in preparing the annual Unclaimed Property Report. During the last audit, we discussed in detail this procedural omission with the bookkeeper.
- The bookkeeper did not reconcile the bank account or resolve reconciling differences timely. We found reconciliations done up to two months late for five of the twelve reconciliations tested. Further, we found reconciling items totaling \$181 left unresolved for ten months.
- The bookkeeper did not perform comprehensive reviews of financial management system reports, which resulted in her failure to find accounting procedural errors. Examples include an individual account not receiving credit for a full payment made through the collection agent; personnel in the criminal division did not transfer escrow funds for bond forfeitures to civil revenue accounts; and mismatched fine accounts which had been identified on an error report remained unresolved.
- The bookkeeper improperly discarded Individual Account Purge Reports each time the system generated a new report. The purge reports detail all financial transactions for closed accounts. The Supreme Court requires the retention of these reports for a period of six months after the issuance of an audit report.

The Clerk has ultimate responsibility for the office’s accounting operations. If the Clerk is going to rely on the bookkeeper to perform this work, he must ensure that he and the bookkeeper possess an appropriate understanding of the financial management system and the accounting procedures.

The Clerk should help the bookkeeper receive training to increase her knowledge and understanding of accepted accounting practices and the court’s automated systems. The Clerk should review all of the bookkeeper’s work to determine that she is following accepted accounting practice, performing the work timely, and regularly resolving all differences.

## **COUNTY OF PRINCE GEORGE COMBINED DISTRICT COURT**

### **Properly Update Financial Records**

The Clerk does not update the financial records promptly after reconciling the bank account. Monthly the Clerk reconciles the bank account to the checkbook and accounting system. However, when she identifies reconciling items, she does not post adjustments to the accounting system. Proper bank reconciliations include not only identifying but also resolving differences between the bank balance and the system’s cash balance promptly. We audited the June 1998 bank reconciliation and noted reconciling items two months to four years old. Once the need for adjustments is known, the Clerk should promptly update the accounting system to properly reflect available cash balances.

## **COUNTY OF ROANOKE JUVENILE AND DOMESTIC RELATIONS DISTRICT COURT**

### **Properly Record Tax Set-Off Collections**

The Clerk does not record Tax Set-Off collections in the general ledger account required by the Supreme Court. Failure to use the proper account hinders the Supreme Court and other state agencies' ability to monitor delinquent account collections. The Clerk should comply with Supreme Court guidelines and record Tax Set-Off collections in the proper account.

## **COUNTY OF SOUTHAMPTON COMBINED DISTRICT COURT**

### **Improve Record Keeping Procedures**

As previously reported, Magistrate Alldaffer does not maintain the official records properly. Of the three receipts tested, two did not have the necessary documentation and the third receipt was transmitted to the court four days late. Further, the bank account was not reconciled at all during the year. Magistrate Alldaffer reconciled the bank account a day before we began our audit. The Chief Magistrate should ensure that Magistrate Alldaffer maintains official records properly and promptly reconciles the bank account in accordance with Chapter X of the Magistrates Manual.

## **COUNTY OF STAFFORD GENERAL DISTRICT COURT**

### **Continue Training to Properly Record Accounting Transactions**

In our last audit, we reported that the Clerk had not received proper training and experienced difficulty using the court's financial management system (FMS). The Clerk has now obtained some training from the Supreme Court, but continues to have difficulty processing routine accounting transactions. We noted that the Clerk made numerous errors when processing journal vouchers. In processing returned checks, the Clerk delayed processing them for up to two weeks and then debited the wrong account code when entering the journal voucher. For voids, the Clerk does not document the reason for the void or attach documentation to support the void. We noted several instances in which the Clerk failed to maintain all three copies of a voided receipt. Additionally, the Clerk does not always assign a proper reason code to the journal voucher.

The Clerk should request further training from the Supreme Court. Once the Clerk has the appropriate level of knowledge to properly record accounting transactions, she should keep abreast of changes affecting the financial system and other court operations. To accomplish this, the Clerk should ensure that she attends the semi-annual FMS User Group Meetings, the Fall Regional Conferences and other training classes as provided by the Supreme Court. In addition, the Clerk and the staff should perform a self-review of all financial entries prior to posting them to the general ledger system. A proper review will greatly decrease careless errors and omissions and provide more accurate financial information.

## **VIRGINIA DISTRICT COURT SYSTEM** **RESOLUTION OF PRIOR AUDIT FINDINGS**

We found that the following Courts have not taken adequate corrective action for the prior year findings listed below. Accordingly, we include these findings in this report.

<b><u>Court Type</u></b>	<b><u>Prior Year Finding</u></b>
<b>Southampton Combined District Court</b>	Maintain Official Records
<b>Stafford General District Court</b>	Obtain Training to Manage the Court

The audits of the following Courts with prior year findings were not completed during the period covered by this report. We will include the resolution of these findings in next year's report.

Alexandria General District	Essex Combined District
Arlington General District	Fauquier General District
Buckingham Combined District	Lee Combined District
Charles City Combined District	City of Richmond General District Court-Criminal
Chesterfield General District	Waynesboro General District

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