

STATE OF NORTH CAROLINA

ASHE COUNTY CLERK OF SUPERIOR COURT

FINANCIAL RELATED AUDIT

MAY 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ASHE COUNTY CLERK OF SUPERIOR COURT

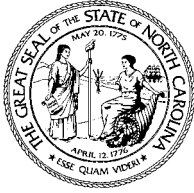
JEFFERSON, NORTH CAROLINA

FINANCIAL RELATED AUDIT

MAY 2013

THE HONORABLE PAM W. BARLOW

CLERK OF SUPERIOR COURT



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

May 16, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Pam W. Barlow, Ashe County Clerk of Superior Court

This report presents the results of our financial related audit at the Ashe County Clerk of Superior Court. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed deficiencies in internal control and instances of noncompliance that are considered reportable under *Government Auditing Standards*. These items are described in the *Audit Findings and Responses* section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Ashe County Clerk of Superior Court. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The voters of each county elect a Clerk of Superior Court for a four-year term. Clerks are responsible for all clerical and record-keeping functions of the superior court and district court. The Clerks' Offices collect, invest, and distribute assets in a fiduciary capacity. For example, the Clerks' Offices collect fines and court costs, hold cash and property bonds, administer estates on behalf of minors, and distribute resources to governmental and private parties as required.

The North Carolina Administrative Office of the Courts (NCAOC) provides statewide support services for the courts, including court programs and management services; information technology; human resources services; financial, legal, and legislative support; and purchasing services. In addition, the NCAOC prepares and administers the court system's budget.

AUDIT SCOPE AND OBJECTIVES

The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period July 1, 2011 through June 30, 2012. During our audit, we considered internal control related to the following accounts and objectives:

Cash - This classification includes cash on deposit with private bank accounts. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for these assets. We also examined internal control designed to ensure compliance with laws and regulations related to depositing cash receipts and escheating unclaimed funds after a prescribed period of time. As of June 30, 2012, the Clerk had \$341,072 in cash on deposit with private banks.

Cash Bonds – We examined internal control designed to ensure compliance with laws and regulations governing the distribution of forfeited cash bonds. These laws and regulations require the Clerk to remit such funds to the county once a final judgment of forfeiture is entered. As of June 30, 2012, the Clerk had \$42,187 in cash bonds.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS AND CONCLUSIONS

The results of our audit disclosed deficiencies in internal control and instances of noncompliance that are considered reportable under generally accepted government auditing standards. These items are described in the *Audit Findings and Responses* section of this report. Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them.

AUDIT FINDINGS AND RESPONSES

1. INAPPROPRIATE INFORMATION SYSTEMS ACCESS

The Clerk's Office has given staff information system access rights that are inconsistent with proper segregation of duties. Proper segregation of duties involves assigning responsibilities such that the duties of one employee automatically provide a cross-check on the work of another employee. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

Failure to segregate duties also represents noncompliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. The manual establishes guidelines to maintain adequate segregation of duties and states that segregation of duties is important enough to be adopted whether efficiency or inefficiency is the consequence.

During our review of the information systems access, we noted the following deficiencies:

- One employee has access to perform head bookkeeping functions in the Financial Management System (FMS) who also has access to perform head cashier functions.
- One employee has access to perform head cashier functions in the FMS who also has access to perform head bookkeeping and cashier functions.
- Three employees have access to perform cashiering functions and two employees have access to perform head cashier and head bookkeeping functions in FMS who also have the ability to update cases in the Automated Criminal Infractions System (ACIS) and update and/or delete in the Civil Case Processing System (VCAP).

Granting unnecessary update capabilities to enter, change, or delete information increases the risk that criminal citations could be inappropriately updated or deleted in ACIS or judgments satisfied in VCAP, resulting in possible misappropriation of assets.

Recommendation: The Clerk's Office should assign information system access rights and segregate duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual* or implement adequate compensating controls.

Agency Response: Due to our staff size and schedules we have had to vary somewhat from the recommended segregation of duties as stated in the *Clerk of Superior Court Financial Policies and Procedures Manual*. We follow "Internal Reliability" that is also found in the *Manual* which recommends rotation of duties and providing a primary and a back-up individual for each area of responsibility. We have to cross-train for our small office to remain open to serve our citizens.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

One finding has already been addressed and corrected. Our cashiers no longer have update capability in ACIS. They have inquiry only access.

We admit there are other noncompliance issues that conflict with the recommended segregation of duties. To address these findings, we have implemented a policy where there are two and sometimes three sets of eyes looking at all VCAP case entry, corrections, and/or deletions. All procedures are tracked by system reports. Any data entered or changed by one clerk, will be checked from a system generated report by another clerk.

2. FAILURE TO TRANSFER ABANDONED FUNDS TO THE STATE OR REMIT FINES AND FORFEITURES TO ASHE COUNTY

The Clerk's Office has not remitted abandoned property or fines and forfeitures in accordance with state laws. We identified abandoned property held by the Clerk's Office in the amount of \$1,436 that should have been transferred to the State (escheated) in accordance with *North Carolina General Statute 116B.53(c)(12)*. We also identified \$6,350 in funds held from fines and forfeitures that should have been remitted to Ashe County in accordance with *North Carolina General Statute 115C-452*.

Our tests for escheats identified \$1,050 of cash bonds and \$386 of judgments that should have been remitted to the State. Funds were improperly held in some instances for more than four years.

Our tests for cash bond forfeitures identified \$6,350 in forfeited bonds that should have been remitted to Ashe County for the benefit of the local school system. Funds were improperly held in some instances for more than two years.

The *Clerk of Superior Court Financial Policies and Procedures Manual* requires aging reports to be reviewed on a monthly basis to identify funds that are required to be escheated. This same review also identifies funds that should be disbursed to the County or rightful owner.

Recommendation: The Clerk's Office should strengthen internal controls to ensure that funds that should be escheated to the State or remitted to the County are identified and disbursed timely. The amounts reported above are relatively small; however, the amounts could be more significant in the future if internal controls are not strengthened.

Agency Response: Due to the shortness of an already overworked staff, and the re-training period of a new hire, this area was addressed in a slow manner but was not disregarded. There is currently an employee being trained to take over the cash bond forfeiture area. The bookkeeper has implemented a new procedure to work with each department when reviewing the monthly aging reports. This new procedure has addressed the abandoned property in a much more judicious manner as well as any cash bonds our office might be holding.

ORDERING INFORMATION

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This audit required 295 audit hours at a cost of \$21,240.