



STATE OF NORTH CAROLINA

MARTIN COUNTY CLERK OF SUPERIOR COURT

FINANCIAL RELATED AUDIT

NOVEMBER 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

MARTIN COUNTY CLERK OF SUPERIOR COURT

WILLIAMSTON, NORTH CAROLINA

FINANCIAL RELATED AUDIT

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THE HONORABLE TONYA C. LEGGETT

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

November 9, 2012

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Tonya C. Leggett, Martin County Clerk of Superior Court

This report presents the results of our financial related audit at the Martin 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 a deficiency in internal control and/or instance of noncompliance that is considered reportable under *Government Auditing Standards*. This is 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 Martin 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 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 \$77,271 in cash on deposit with private banks.

Trusts - This classification includes funds held by the Clerk for minors, incapacitated adults, and others according to the terms of a court order, will, or deed. We examined internal control designed to ensure that distributions from the accounts are proper, including internal control designed to ensure compliance with laws and regulations governing distributions where applicable. As of June 30, 2012, the Clerk had \$796,384 in trust accounts.

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 a deficiency in internal control and/or instance of noncompliance that is considered reportable under generally accepted government auditing standards. This is described in the *Audit Findings and Responses* section of this report. Management's response is presented after the audit finding. We did not audit the response, and accordingly, we express no opinion on the response.

AUDIT FINDINGS AND RESPONSES

Government Auditing Standards require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement and to ensure that the nature and seriousness of the finding is not minimized or misrepresented, we have provided a comment to the Clerk's response.

DEFICIENCIES IN THE SAFEGUARDING OF CASH

The Martin County Clerk of Superior Court does not have proper procedures for voiding incorrect cash receipts and has granted information systems access rights that are inconsistent with proper segregation of duties. As a result, cash is not safeguarded because there is an increased risk that errors or misappropriations could occur and not be detected in a timely manner.

The Clerk's Office does not follow the *Clerk of Superior Court Financial Policies and Procedures Manual* which states that incorrect receipts should be voided immediately and the head cashier should oversee the correction process. The head cashier is the only employee who has the ability to void receipts in the Financial Management System (FMS). We identified the following deficiencies:

- The head cashier does not oversee the cashier's correction process.
- The head cashier does not void incorrect receipts timely. In a test of 16 voided receipts from the period of July 1, 2011 through June 30, 2012, we found 75% of the items tested were not immediately voided.

The Clerk's Office has also given the staff information systems 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 other employees. We identified three employees with cashier access in the Financial Management System (FMS) who also had the ability to update or delete case information in the Civil Case Processing System (VCAP) and one could also update information in the Automated Criminal Infraction System (ACIS). Granting staff who handle and receipt cash update capabilities to enter, change, or delete case information increases the risk that criminal citations could be inappropriately waived and/or deleted in ACIS or judgments satisfied or deleted in VCAP, resulting in unauthorized entries or possible misappropriation of assets.

Failure to segregate incompatible 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.

Recommendation: The Clerk's Office should ensure incorrect receipts are voided timely. A head cashier or qualified backup should be available so that voids can be processed immediately and the correction process monitored. In addition, the Clerk's Office should grant access rights to the information systems in accordance with guidance contained in the

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Clerk of Superior Court Financial Policies and Procedures Manual or implement alternative compensating controls.

Clerk Response: As to findings of improper procedures for voiding receipts we are limited in the number of personnel within my office, that makes it at times impossible to follow AOC policy, but we do have the inherent controls built within the close out procedure of cash receipting and we do have the void procedure in place in my office even though we can't always void receipts as soon as they are needed. The head cashier reviews each void and determines if the actions by the cashier were appropriate before she actually initiates the void and the next day the bookkeeper verifies the void was re-receipted on the Daily Voids Receipts Journal and the Void Authorization was properly completed. Additionally, each cashier daily counts their cash and completes the top portion of the "Daily Cash Balance by Cashier" report and signs the form to verify their count of cash receipted for the day, the head cashier completes the bottom portion of this report and signs the report, verifying their agreement with the cashiers' count and completes the CSC Daily Cash Balance Summary and signs the form verifying the total cash to be deposited for the day, and the bookkeeper agrees the stamped daily deposit slip from the bank with the closeout reports listed above.

Segregation of duties as recommended is impossible with a staff of ten employees. Every staff member must perform multiple jobs duties just to be able to keep the office running. You can not effectively keep this office in working order, when you have multiple courts running and hearings being conducted by the assistants and myself on daily basis. So to compensate for the inability to comply with the policy the assistant clerks' or I review the case entry and disposition reports on a daily basis. I also review the monthly Security Audit Report, which indicates any changes made and by whom. In addition, as to an employee's access to multiple systems, I have requested a change to the level of access; that request was made on October 11, 2012.

Auditor Comment: The compensating controls described in the response reduce the risk to some extent but not sufficiently. The purpose of the AOC policy is to have more than one person involved with the void transaction as it is taking place to help ensure all activity is valid. The lack of timely involvement of the head cashier in the void process, combined with the incompatible access rights provides an opportunity for a misappropriation to occur and be concealed. The daily case entry and disposition reports the Clerk mentions do not relate to the Automated Criminal Infraction System (ACIS), and thus, the review of such reports would not necessarily detect a misappropriation.

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