



STATE OF NORTH CAROLINA

ORANGE COUNTY CLERK OF SUPERIOR COURT FINANCIAL RELATED AUDIT

FEBRUARY 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ORANGE COUNTY CLERK OF SUPERIOR COURT

HILLSBOROUGH, NORTH CAROLINA

FINANCIAL RELATED AUDIT

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THE HONORABLE JAMES C. STANFORD

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

February 1, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable James C. Stanford, Orange County Clerk of Superior Court

This report presents the results of our financial related audit at the Orange 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 finding 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 Orange 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 November 1, 2011 through October 31, 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 October 31, 2012, the Clerk had \$1,059,452.64 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 over disbursements from these accounts to ensure proper safeguards are in place. We also examined evidence to support compliance with finance-related laws and regulations that set guidelines for disbursements from these accounts. As of October 31, 2012, the Clerk had \$1,815,129.96 in trust accounts.

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 October 31, 2012, the Clerk had \$188,828.93 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 a deficiency in internal control and/or instance of noncompliance that is considered reportable under generally accepted government auditing standards. This finding 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

INAPPROPRIATE INFORMATION SYSTEMS ACCESS

The Clerk's Office has given 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. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

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.

During our review of the information system access, we identified four employees with cashier access in the Financial Management System (FMS) who also had the ability to update case information in the Automated Criminal Infractions System (ACIS) and or/the Civil Case Processing System (VCAP). Update capabilities to enter, change, or delete information increases the risk that criminal citations could be inappropriately waived in ACIS or judgments satisfied in VCAP, resulting in unauthorized entries or 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 alternative compensating controls.

Agency Response: The concern raised in the Finding is valid. In a perfect circumstance this office would be supplied with a sufficient number of staff to address the concern and to allow for a complete segregation of the duties in question. Sadly this is not the case; in fact as a result of a relatively recent reduction in workforce our situation has not improved but rather has worsened (to my knowledge, prior to the staff reduction this office has not in the past had a finding based on a lack of segregation of duties). Staff is therefore forced to do more with less which results in employees having to fulfill more than one role within the office organization. Moreover we are routinely required to provide staff for more than one location (a Chapel Hill courtroom in addition to the Hillsborough courthouse) which on those days requires even more staff responsibilities on fewer staff. It is not possible to have a complete segregation of duties given the varied and numerous responsibilities of this office based on current staffing levels.

Given the foregoing and in an effort to maintain an on-going compensating control this office has and uses the majority of the time one staff member as its sole cashier. This cashier is on duty eight hours a day and receipts the great majority of funds flowing into this office; she does not have update access to the Automated Criminal Infractions System (ACIS) or the Civil Case Processing System (VCAP). There are times (e.g. lunch break, vacation, illness, etc.) when some other staff member must substitute for this cashier in a cashiering capacity, and this results in the inability to segregate the duties in question. However this compensating control does allow for a greatly reduced exposure to errors or fraud. Not all four employees cited in the Finding as having update access are allowed to take monies routinely; they do so on an as-needed basis.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Another less palpable but nevertheless important compensating control within our office's organization is the trust placed in its employees by management, including those staff that interact with funds receipting. My staff is relatively small and I personally observe and constantly interact with them. All discovered discrepancies are reviewed by me personally and discussed with the staff involved. Moreover the nature of the office's physical layout lends itself to constant interaction and observation between and among employees and management. And needless to say staff understands that malfeasance on their part will result in swift, effective and permanent correction.

In an effort to address the Finding and to reduce the risk set forth therein this office has removed one cited employee as a cashier from the Financial Management System (FMS). Further I intend to institute a policy concerning cases in which a cashier receipts funds that might involve their update capabilities. These cases will be updated by another staff member, not the staff member who took in the funds. Verification of same will be done using FMS receipting reports generated by Bookkeeping as a control for the cases in question. Verification of the update credentials of those same cases will be performed by the Criminal Assistant Clerk as not having been performed by the cashier receipting the funds. Daily records of this compensating control will be maintained by Bookkeeping.

ORDERING INFORMATION

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