



STATE OF NORTH CAROLINA

PERSON COUNTY CLERK OF SUPERIOR COURT

FINANCIAL RELATED AUDIT

SEPTEMBER 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

PERSON COUNTY CLERK OF SUPERIOR COURT

ROXBORO, NORTH CAROLINA

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THE HONORABLE DEBORAH L. BARKER

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

September 5, 2012

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Deborah L. Barker, Person County Clerk of Superior Court

This report presents the results of our financial related audit at the Person 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 or other matters 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 Person 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 government 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 research and planning 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 control 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 evidence to support compliance with laws and regulations for depositing cash receipts and escheating unclaimed funds after a prescribed period of time. As of June 30, 2012, the Clerk had \$533,799 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 June 30, 2012, the Clerk had \$1,602,947 in trust accounts.

Cash Bonds – We examined internal control and evidence to support compliance with finance-related laws and regulations over forfeited cash bonds. These laws and regulations require the Clerk to remit forfeitures to the county once a final judgment of forfeiture is entered. As of June 30, 2012, the Clerk had \$94,606 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/or instances of noncompliance or other matters 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. FAILURE TO ESCHEAT FUNDS TO THE STATE AND REMIT FINES AND FORFEITURES TO PERSON COUNTY

The Clerk's Office has not remitted abandoned property or fines and forfeitures in accordance with applicable State laws. We identified abandoned property held by the Clerk in the amount of \$31,862 that should have been escheated to the State in accordance with *North Carolina General Statute 116B.53(c)(12)*. We also identified \$1,305 in funds held from fines and forfeitures which should have been remitted to Person County in accordance with *North Carolina General Statute 115C-452*.

We tested funds held in Deposits Payable for cases totaling \$24,864 that were more than one year old and determined that \$24,864 or 100% were improperly held by the Clerk. We determined that \$1,105 should have been remitted to Person County and \$23,759 that should have been escheated to the State.

We tested Cash Bonds for cases that were more than six months old totaling \$24,325 and determined that \$825 or 3% were improperly held by the Clerk. We identified \$625 that should have been escheated to the State and a cash bond in the amount of \$200 that should have been remitted to Person County.

We also identified outstanding checks greater than six months old totaling \$7,478 that should have been escheated to the State.

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 establish internal controls to ensure that funds that should be escheated to the State or remitted to the County are identified timely and properly disbursed.

Agency Response: After the identification of the Failure to Escheat Funds to the State and Remit Fines and Forfeitures to Person County, Management/Elected Clerk of Superior Court has established a method of review of the Aging Report that identifies the issues regarding abandoned property or fines and forfeitures. The Bookkeeper will prepare the Aging Report the first of every month. After the initial review by the Clerk and the Bookkeeper, said report will be distributed to the proper divisions of the Clerk's office for investigation. Once the matter has been researched, the response will be returned to the Clerk and Bookkeeper and the issue or issues will be properly accounted for whether disbursed or escheated.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

2. DEFICIENCIES IN INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The Clerk's Office did not perform timely bank reconciliations as required by the policies and procedures manual. For the audit period beginning July 1, 2011 and ending June 30, 2012, the bank statements were reconciled one month late for seven months and two months late for one month. Failure to perform timely bank reconciliations increases the risk that errors or misappropriation may occur and not be detected timely.

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that bank reconciliations should be performed monthly and in a timely manner. The reconciliation is considered timely if completed and finalized no later than the last day of the following month.

Recommendation: We recommend procedures be established to perform bank reconciliations monthly in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Agency Response: Bank Reconciliations have not been performed regularly and on a timely basis due to several reasons. First, the Person County Clerk's office has lost three deputy clerks in the last four years without being able to replace those vacancies. A shortage of staff means combining duties of the remaining staff and adding more responsibility to each clerk's regular duties. With that being said, the Bank Recons were sometimes completed a month later than required by the Financial Policies and Procedures Manual's suggested monthly time period. Secondly, due the lack of staffing, there was only one clerk that had been trained to complete the reconciliations and her duties in the courtroom had tripled due to the increase in Court sessions and lack of the ability to train someone else for courtroom duty as well as the lack of time to train another clerk.

The Administrative Office of the Courts informed the Clerks across the State that it would be offering the service of Bank Reconciliations for the Clerks so that it might take some of the burden of this task off of the Clerks. This service was offered to the Person County Clerk of Court and was accepted during the time the Audit was taking place. The first Bank Reconciliation was completed on August 16 for the month of July after the Clerk's office had received its information from the Banking Institution and forwarding it to AOC. This procedure is now in place and working well.

3. 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.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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 noted the following deficiencies:

- Four employees with head bookkeeper access or cashier access in the Financial Management System (FMS) had the ability to update case information in the Automated Criminal Infractions System (ACIS) and or/the Civil Case Processing System (VCAP).
- One employee had ACIS system access which was not necessary to perform their job duties.

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.

This issue has been resolved. Subsequent to the audit period ending date, the Clerk took steps to terminate the incompatible and unnecessary access rights.

ORDERING INFORMATION

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