

STATE OF NORTH CAROLINA

WILKES COUNTY CLERK OF SUPERIOR COURT

FINANCIAL RELATED AUDIT

APRIL 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

WILKES COUNTY CLERK OF SUPERIOR COURT

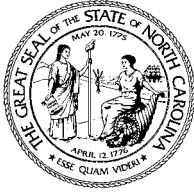
WILKESBORO, NORTH CAROLINA

FINANCIAL RELATED AUDIT

APRIL 2013

THE HONORABLE JANET D. HANDY

CLERK OF SUPERIOR COURT



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

April 12, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Janet D. Handy, Wilkes County Clerk of Superior Court

This report presents the results of our financial related audit at the Wilkes 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 ways 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 Wilkes 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. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that 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, 2012 through January 31, 2013. 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 January 31, 2013, the Clerk had \$488,926 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 January 31, 2013, the Clerk had \$1,639,894 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 January 31, 2013, the Clerk had \$230,806 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 interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. 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: (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 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 two 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 the Civil Case Processing System (VCAP). Update capabilities to enter or change information in the system increases the risk that criminal citations in ACIS or judgments in VCAP could be improperly satisfied or dismissed, resulting in unauthorized entries or possible misappropriation of assets.

Recommendation: The Clerk's Office should assign information systems 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: In reviewing the audit finding it has been determined that the finding is valid. However, with my office being short staffed it is hard to cover all areas needed when my employees only have access to certain systems. Therefore staff is forced to do more with less and each employee wears a different hat on a daily basis.

In an effort to resolve this issue I have contacted the Security Department at the Administrative Office of the Courts. I have requested that the two cashiers be changed from update status to inquiry status only in the ACIS and VCAP systems. This would only allow them to inquiry on cases and not allow any cases to be changed from the original status. I am now going to have my criminal clerks to update all waivers and misdemeanor statement of charges in the ACIS system. This should be a compensating control that would not allow my cashiers to be able to satisfy any cases in which they have receipted the funds.

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This audit required 228 audit hours at an approximate cost of \$16,416. The cost represents .45% of the \$3,649,132 in total assets subjected to audit.