

STATE OF NORTH CAROLINA

FORSYTH COUNTY CLERK OF SUPERIOR COURT

WINSTON-SALEM, NORTH CAROLINA

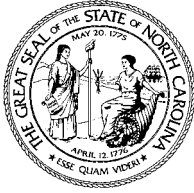
FINANCIAL RELATED AUDIT

SEPTEMBER 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

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AUDITOR'S TRANSMITTAL

September 25, 2014

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Susan S. Frye, Forsyth County Clerk of Superior Court

This report presents the results of our financial related audit at the Forsyth 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 identified a deficiency in internal control that is considered reportable under *Government Auditing Standards*. The item is described in the *Audit Findings, Recommendations, 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 Forsyth 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 OBJECTIVES AND SCOPE

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, 2013 through January 31, 2014. During our audit, we considered internal control related to the following objectives:

Cash – The Clerk’s Office collects various fines, fees, and court costs daily, as well as collections for bonds, judgments, and other matters. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for cash receipts. During the audit period, the Clerk collected \$22,871,225.63 in cash.

Escheats – The Clerk’s Office transfers abandoned property to the State. The transfer results when the person legally entitled to the property fails to make a valid claim on the property within a prescribed period of time. After that time, all abandoned property held by the Clerk is required to be transferred to the North Carolina Department of State Treasurer. We examined internal control designed to ensure that the Clerk properly identifies escheatable funds. We also examined internal control designed to ensure compliance with laws and regulations related to escheating unclaimed funds after a prescribed period of time. During the audit period, the Clerk transferred \$68,932.45 to the State Treasurer.

Estates – The Clerk’s Office ensures all estates are charged an application fee plus an assessment based on the value of the estate’s inventory. An estate inventory is to be filed by the representative of the estate. We examined internal control designed to ensure that the Clerk properly obtains an inventory for each estate in compliance with laws and regulations. We also examined internal control designed to ensure compliance with laws and regulations related to the appropriate assessment and collection of estate fees. During the audit period, the Clerk collected \$536,256.56 in estate fees.

Infractions – The Clerk’s Office is responsible for collecting traffic infraction costs and fines. We examined internal control over the disposition of traffic infractions to ensure that all disposed cases were supported by a receipt of fees or properly authorized court document in compliance with record-keeping laws and regulations. During the audit period, the Clerk collected \$1,238,556.00 in traffic infraction related costs.

METHODOLOGY

To accomplish the audit objectives, auditors gained an understanding of the Clerk's internal control over matters described in the *Audit Objectives and Scope* section of this report and evaluated the design of the internal control. Auditors then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, auditors 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, auditors 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

Based on the results of audit procedures described in the *Methodology* section of this report, auditors identified a deficiency in internal control that is considered reportable under *Government Auditing Standards*. The item is described in the *Audit Findings, Recommendations, 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, RECOMMENDATIONS, 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.

Inappropriate access to the Financial Management System (FMS) was noted for 11 out of 13 employees as follows:

- Nine employees had special cashier rights which allowed the same person to enter receipts, void receipts, and close cashiers. Three of these employees also had head bookkeeper rights to disburse funds and create/post journal entries. Additionally, one had update capability within the Automated Criminal Infractions System (ACIS) to enter and change case information.
- Two employees had head cashier and head bookkeeper which allows the same person to enter receipts, void receipts, close cashiers, disburse funds, and create/post journal entries.

Failure to segregate duties 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.

While no instances of fraud were identified during our audit period, this risk of fraud remains when access rights and duties are not properly segregated.

Recommendation: The Clerk's Office should strengthen internal control by assigning information system access rights to properly segregate duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: I have reviewed the final report where the finding of staff information systems access rights are inconsistent with the proper segregation of duties was the violation. The report found that 11 out of 13 employees were in violation as set out in the Clerk of Superior Court Financial Policies and Procedures Manual. The recommendation for me to strengthen internal control by assigning information system access rights to properly segregated duties in accordance with the guidance contained in the Clerk's Policies and Procedures Manual. I agree with the finding and have made the following changes to be in immediate compliance. On September 23, 2014, I received confirmation from Security that changes were completed for the employees that were not in compliance with information system access as set out in the Clerk's Policies and Procedures Manual. I have identified a bookkeeper who does not have head cashier status to review the daily void receipt journal and deposits. This compliance has been confirmed by George E. Dennis, Financial Services Division-Internal Audit, with the North Carolina Administrative Office of the Courts.

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ORDERING INFORMATION

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