

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NASH COUNTY CLERK OF SUPERIOR COURT

NASHVILLE, NORTH CAROLINA

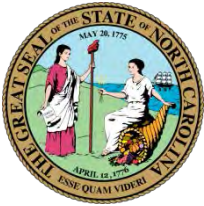
FINANCIAL RELATED AUDIT

DECEMBER 2015



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

December 3, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Rachel M. Joyner
Nash County Clerk of Superior Court

This report presents the results of our financial related audit at the Nash 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*. This 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



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Nash 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.

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, 2014 through February 28, 2015. 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 controls designed to ensure that the Clerk properly safeguards and accounts for cash receipts. We also examined internal controls designed to ensure compliance with laws and regulations related to depositing cash receipts. During the audit period, the Clerk collected \$7,748,657 in cash.

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 controls designed to ensure that the Clerk properly obtains an inventory for each estate in compliance with laws and regulations. We also examined internal controls 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 \$143,372 in estate fees.

Bond Forfeitures – The Clerk's Office ensures that all motions or orders to set aside bond forfeitures meet specified criteria and are supported by required documentation. We examined internal controls designed to ensure compliance with laws and regulations related to the processing of these bond forfeitures. During the audit period, \$1,748,550 in bond forfeitures were set aside.

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, 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.

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*. This 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.

Government Auditing Standards require that we add explanatory comments to the report whenever we disagree with an audit finding response or when the response is inconsistent or conflicts with the finding or recommendation. In accordance with this requirement and to ensure that the nature and seriousness of the finding is not minimized or misrepresented, we have provided an auditor response.

IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED ERRORS AND FRAUD

Staff in the Clerk's office had the ability to change and/or delete information in multiple systems, resulting in inadequate segregation of duties. Improper segregation of duties increased the risk that errors, unauthorized transactions, and fraud could have occurred and remained undetected. The Clerk's office handled \$7,748,657 in receipts during the audit period July 2014 to February 2015.

Specifically, seven out of 32 employees had inappropriate access to the Financial Management System (FMS), the Automated Criminal/Infractions System (ACIS) / Criminal Court Information System (CCIS), and/or the Civil Case Processing System (VCAP) as follows:

- Two employees had head cashier rights in FMS and update access to VCAP, which allowed the same person to potentially enter or divert receipts and enter, change or delete civil case information. Both of these employees also had update capability within ACIS/CCIS to enter, change or delete criminal case information. In addition, there were three employees with cashier rights in FMS with update capability within ACIS/CCIS.
- One employee had head bookkeeper rights in FMS and update access to VCAP, which allowed the same person to potentially edit cost bills and payee amounts and delete civil case information.
- One employee had head cashier and head bookkeeper rights in FMS and update access to VCAP. This allowed the same person to potentially enter or divert receipts, edit cost bills and payee amounts, and delete civil case information.

While no instances of fraud were identified during the audit period, an increased risk of undetected fraud existed because access rights and duties were not properly segregated.

The Clerk's Office did not ensure that the initial system access rights assignments created the proper segregation of duties. Additionally, the Clerk's Office had not properly implemented the procedures prescribed by the North Carolina Administrative Office of the Courts (NCAOC).

Also during the audit period, the NCAOC executed the update functionality within CCIS and in doing so, access rights were automatically assigned within the system based on outdated roles and responsibilities. Appropriate communication between the two parties prior to this system update did not take place to ensure employee access rights were consistent with proper segregation of duties. As a result, the Clerk was unaware of the access rights assignments within the criminal system.

Adequate segregation of duties is required by the *Clerk of Superior Court Financial Policies and Procedures Manual*. Proper segregation of duties involves assigning duties and access to assets and information systems so that one employee's duties automatically provide a cross-check of the work of other employees. The manual also requires semi-annual reviews of employee system access rights.

Recommendations: The Clerk should reassign system access rights to properly segregate duties and perform semi-annual reviews of employee system access rights in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Also, prior to the implementation of, or changes to, computer systems used in the Clerk's Office, the Clerk should be proactive in working with NCAOC to ensure access rights are properly assigned and are consistent with proper segregation of duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Auditor Response:

The Clerk asserts that the procedures currently in place have been in place for more than 47 years without error. Audits are not designed to affirm all management practices, but to evaluate procedures currently in place relevant to the audit objectives. The objective of this audit was to ensure policies and procedures were in place to ensure cash is protected and to report the findings. The audit procedures performed indicated that the NCAOC prescribed procedures were not properly implemented and in place for the audit period.

In the Clerk's response below, the Clerk asserts that due to limited staff, options are limited for employees with head cashier and cashier rights. This finding identified an increased risk for fraud due to inappropriate access between FMS, VCAP, and ACIS/CCIS. NCAOC has procedures to mitigate these risks when staffing is inadequate to properly segregate duties, including a process to document those procedures. However, as noted above, these procedures were not properly implemented and in place for the audit period.

The Clerk's response also indicates the two employees with head bookkeeper rights in FMS and access to VACP has been changed to inquiry only, appropriately minimizing the risk for fraud.

Clerk's Response:

In an effort to portray the inner workings of the two (2) Seats of Court in Nash County an itemized summary is attached hereto to support my position. I have been the Clerk of Court since December 2, 1968 and feel that I have a secure system in place. We are utilizing the time each employee has and recently added one cashier to perform up-dates in the CCIS-CC per August 15 memo from AOC. I question some decisions AOC makes regarding "money handlers" performing other duties. We will see how that works out.

Itemized Summary Attachment

Backup head cashier has access to VCAP because she is the small claims clerk. She also has head cashier rights so she can balance the Nashville cashiers if head bookkeeper / head cashier is out.

Backup head cashiers access to VCAP has been deleted. She has temporary access for head cashier if head cashier is out and needs to balance the Rocky Mount cashiers for one hour. If both head cashier and backup head cashier are out, Nashville head bookkeeper / head cashier is granted access to Rocky Mount as head cashier to close out. Only four people work in this office.

Main cashier in Rocky Mount has access to update cases to help out in the office. Only four people work in this office.

Backup cashier if main cashier is out. Only four people work in this office.

When Nashville head cashier is out temporary cashier fills in.

Head bookkeeper works in the Accounting and Bookkeeping Department. She now only has access to VCAP inquiry only.

Nashville head bookkeeper / head cashier works in the Accounting and Bookkeeping Department she closes out the Nashville cashiers daily. She now only has access to VCAP inquiry only.

- A. Cashiers each total their daily receipts as evidenced by form #AOC-FS-1400 - CSC Daily Cash Balance Report by cashier bearing their signature.
- B. Head bookkeeper / head cashier then adds total receipts for deposit Form #AOC-FS-1410 – CSC Daily Cash Balance Summary.
- C. Head bookkeeper / head cashier takes deposit to the bank.
- D. After deposit made head bookkeeper / head cashier gives deposit slip to head bookkeeper.
- E. This has been procedure for more than (47) years without error. As Clerk of Court, I feel enough checks and balances exist in the process to prevent abuse.
- F. I have personally updated all security levels.

ORDERING INFORMATION

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This audit was conducted in 423 hours at an approximate cost of \$39,762.