

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



GUILFORD COUNTY CLERK OF SUPERIOR COURT

GREENSBORO, NORTH CAROLINA

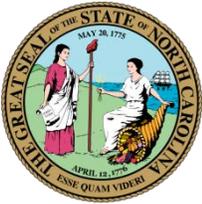
FINANCIAL RELATED AUDIT

NOVEMBER 2016



NC  **OSA**
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

November 30, 2016

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Lisa Johnson-Tonkins, Guilford County Clerk of Superior Court

This report presents the results of our financial related audit at Guilford 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 deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are 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

TABLE OF CONTENTS



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State Auditor

	PAGE
BACKGROUND	1
AUDIT OBJECTIVES AND SCOPE	2
METHODOLOGY	3
RESULTS AND CONCLUSIONS	4
AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES	5
APPENDIX	
AUDITOR'S RESPONSE	7
CLERK'S RESPONSE	10
ORDERING INFORMATION	13

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 Guilford 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, 2015 through February 29, 2016. 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 \$43,255,369 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 \$635,799 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, \$3,956,684 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 as applicable 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 deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are described in the *Audit Findings, Recommendations, 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.

1. Improper System Access Increased Risk of Undetected Errors and Fraud

Staff in the Clerk's Office had the ability to change 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 \$43,255,369 in receipts during the audit period July 2015 to February 2016.

Specifically, nine of 149 (6%) employees had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP) as follows:

- Eight employees had cashier rights in FMS and update access in VCAP. The employees could have potentially misappropriated funds by collecting cash from a civil payment, bypassing receipt entry into FMS, and updating VCAP to indicate all costs have been paid.
- One employee had head bookkeeper rights in FMS and update access in VCAP. The employee could have potentially edited bills of cost and payee amounts in civil cases.

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 system access rights assigned to staff resulted in proper segregation of duties. According to the Clerk, the volume of transactions creates a need for cashiers in multiple locations, making it difficult to achieve proper duty segregation.

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 semiannual reviews of employee system access rights.

Recommendation: The Clerk should reassign system access rights and job duties to properly segregate duties and perform semiannual reviews of employee system access rights in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

Clerk's Response: See page 10 for the Clerk's response to this finding.

2. Cash and Checks Were Not Adequately Safeguarded

The Clerk's Office has not implemented adequate internal controls to safeguard change funds or checks received for estate inventory fees. Inadequate safeguards over assets increased the risk that loss, accidental destruction, and fraud could have occurred and remained undetected.

Auditors observed the cash closeout process and found that change funds totaling \$1,900 were not being verified. The employees could have potentially pocketed the money included in their change funds. Auditors also performed a surprise cash count on April 8, 2016 for all nine cashiers and found one cashier was \$100 short. The cause of the shortage could not be determined.

Additionally, the Clerk's Office was not depositing checks received for estate fees in a timely manner. Auditor's examined 65 of 537 estates in the audit period that required an inventory to be filed and found eight (12%) estates in which fees of \$922 were collected but not receipted and deposited until nine to 44 days after collection of the check.

While no instances of fraud were identified during the audit period, an increased risk of undetected fraud existed because assets were not properly safeguarded.

According to the Clerk, her office was unaware there was a policy requiring change fund verification. The Clerk further stated that it is their practice to collect checks in the Estates Division and deposit with the cashier the following business day. However, during the audit period, checks were not receipted and deposited the following business day.

The *Clerk of Superior Court Financial Policies and Procedures Manual* provides guidance regarding verification of change funds and physical control over assets. The change fund for each cashier should be verified daily at close out by the head cashier. In addition, the head cashier's change fund should be verified daily by either the Clerk or bookkeeper. The manual also requires physical security measures should be in place to protect assets such as checks from physical threat such as accidental destruction, deterioration, or loss.

Recommendation: The Clerk's Office should follow the guidance in the *Clerk of Superior Court Financial Policies and Procedures Manual* and implement controls, such as verifying change funds daily and depositing checks when received, to ensure accuracy and reduce the risk of fraud, loss, or accidental destruction.

Clerk's Response: See page 11 for the Clerk's response to this finding.

AUDITOR'S RESPONSE

The Office of the State Auditor (OSA) is required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of auditor findings.

Generally Accepted Government Auditing Standards state,

“When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditor's recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.”

Audits and reviews often generate emotion; however, readers must stay focused on the issues. Therefore, to ensure the availability of complete and accurate information and in accordance with Generally Accepted Government Auditing Standards, OSA offers the following clarifications:

Improper System Access

In her response, the Clerk made three incorrect assertions about employees who had dual access to the Financial Management System (FMS)¹ and Civil Case Processing System (VCAP)² and whether dual access creates improper segregation of duties.

First, the Clerk incorrectly asserts that a deputy clerk who acted as a temporary cashier did not have dual access until circumstances required it on March 30, 2016.

The Clerk is incorrect because documentation showed that the deputy clerk had dual access during our audit period of July 1, 2015, through February 29, 2016. The Clerk provided auditors with the “Semi-Annual Access Audit” report which lists all employees at the Clerk's office and their assigned access rights to all systems as of December 30, 2015. In that report, the deputy clerk was listed as having full cashier access in FMS and VCAP update access.

Second, the Clerk incorrectly asserts that a second employee did not have dual access because the Clerk's office requested that the Administrative Office of the Court (AOC) remove the employee's dual access on March 11, 2015. Based on that request, the Clerk states that the employee should not be considered to have had dual access.

The Clerk is incorrect because the employee was listed as having full cashier access in FMS and VCAP update access in the “Semi-Annual Access Audit” report during the audit period. As the Clerk asserts, she requested that the employee's VCAP access be

¹ FMS is a computer-based system used to receipt, record, track, and disburse monies related to court proceedings. Monies are receipted for case filing fees, court costs, fines, and restitution.

² VCAP is a computer-based indexing system that displays information about filings entered for the North Carolina civil districts and superior courts, small claims, estates, special proceedings, judgments, and registrations.

deleted in March 2015. However, the Clerk did not follow up on the request. AOC did not delete the employee's access until a year later on March 4, 2016.

Third, the Clerk incorrectly asserts that the dual access of six other employees did not violate the segregation of duties policy. The Clerk states that her office has segregated duties by department. She states that the duties assigned to each department do not afford individuals the opportunity to commit undetected errors or fraud. The Clerk also states that the supervisory checks and reviews implemented in her office are sufficient compensating measures for the risk of undetected errors or fraud.

The Clerk is incorrect because the dual system access is a direct violation of segregation of duties policy in the "Clerk of Superior Court Financial Policies and Procedures Manual." The employees may be instructed to perform separate duties; however, their system access allows them the opportunity to perform additional duties outside of their regular daily tasks. Thus, the review the Clerk mentions is insufficient to compensate for the risk of errors and fraud.

Additionally, auditors found no evidence that Clerk personnel performed the supervisory checks and reviews that were supposed to compensate for an employee's dual access. Specifically, auditors found:

- No documented review of the daily "Judgment Transaction Audit Reports"³ for entries made by cashiers with dual system access.
- No documented review of the monthly "Security Audit Reports"⁴ for entries made by cashiers with dual system access.
- No "Security Audit Reports" for the months of October 2015 and February 2016.

Cash and Checks Were Not Adequately Safeguarded

In her response, the Clerk also made three incorrect assertions about her office's procedures for safeguarding cash and checks.

First, the Clerk incorrectly asserts that the Greensboro head cashier was verifying the change fund by watching the cashier count the money.

The Clerk is incorrect based on auditor observation of the cash closeout process in the Greensboro location on two occasions. The head cashier and the cashier were in the same room. However, the head cashier did not observe or perform any verification of the change fund during the closeout process. The process was the same for all cashiers on both days observed.

Second, the Clerk incorrectly asserts that "there is no language provided for Clerks of Superior Court as to what the term verification means nor does it set forth a specific or preferred practice for verification."

³ These reports identify changes or deletions made to case files within VCAP by user ID.

⁴ These reports also identify changes or deletions made to case files within VCAP by user ID.

The Clerk is incorrect because the “FMS Financial Cash Receipting Manual” provides guidance on the overall daily cash closeout process. The manual does not specifically reference the change fund verification process. However, the drawer discussed in the manual includes all monies held by the cashier, including the change fund. The manual states:

“Both cashier and head cashier count the money contained in the drawer. The head cashier provides the cashier a signed copy of the summary screen verifying the amount counted.”

Third, the Clerk incorrectly asserts that a \$100 shortage in the change fund was not the result of a failure to verify the fund.

The Clerk is incorrect because the audit demonstrated that the verification of cash was not sufficient to mitigate the risk of errors and fraud. Although the reason for the shortage was not determined, there is a risk that failure to verify the change fund in the days before the surprise cash count allowed the shortage to go undetected.

CLERK'S RESPONSE



State of North Carolina
General Court of Justice

CLERK OF SUPERIOR COURT
GUILFORD COUNTY

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LISA JOHNSON-TONKINS, CLERK
EX OFFICIO JUDGE OF PROBATE

JUDGE JOHN W. SMITH, DIRECTOR
ADMINISTRATIVE OFFICE OF THE COURTS

LINDSAY R. DAVIS, JR.
SENIOR RESIDENT JUDGE

STUART ALBRIGHT
RESIDENT JUDGE

SUSAN E. BRAY
RESIDENT JUDGE

JOHN O. CRAIG, III
RESIDENT JUDGE

PATRICE A. HINNANT
RESIDENT JUDGE

**GUILFORD COUNTY CLERK OF SUPERIOR COURT'S
RESPONSE TO AUDIT FINDINGS**

1. IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED
ERRORS AND FRAUD

I do not concur with the State Auditor's finding that improper access existed and that access increased risk of undetected errors and fraud. Guilford County is the ONLY County in the State of North Carolina that has two (2) FULLY FUNCTIONING COURTHOUSES. The Guilford County Clerk of Superior Court employs 149 employees, 29 are assigned to High Point and 120 are assigned to Greensboro. Auditors from the NC State Auditor's Office visited Guilford County beginning March 28, 2016 and stayed on sight in Greensboro and High Point for a little over two weeks because of its size and unique make up.

In the High Point office, we have two deputy clerks that are dedicated cashiers who only have Financial Management Systems (FMS) access and only inquiry to other systems. We also have deputy clerks that work in our Civil Division, in High Point, that serve as "Temporary" cashiers in instances where one or both of our dedicated cashiers are unavailable. In the State Auditor's findings, the finding indicates that "*Eight employees had cashier rights in FMS and update in VCAP...*" The Auditor included in the eight count the "Temporary" cashier in High Point. Prior to the auditor's visit, we learned that this employee could have temporary status by contacting Administrative Office of the Courts (AOC) to let them know that they need to be allow access temporarily to FMS. Prior to that, the employee did have access to both systems but our office had measurers in place to detect against fraud. During the Auditor's visit, we incurred a situation on March 30, 2016 where we had a need to active the deputy clerk's "temporary" cashier status. We followed AOC procedure when we "activated" the "temporary" cashier status by emailing AOC's Security Access Administration Department and notified them that we needed the deputy clerk to be allowed temporary

FMS access via email. The email was received and our office confirmed with that department that the deputy clerk's access to VCAP would be suspended. This email was presented to the Auditor. AOC is reviewing this and therefore, there should have been no finding and that employee should not be considered as having cashier rights in FMA and update access in VCAP since she was a "Temporary" cashier.

In addition, in Greensboro, we only had six (6) employees, not seven (7), with both cashier rights in FMS and update access in VCAP. One of the employees that the auditors list as having dual access was deleted prior to their arrival. However, our office requested AOC to delete the VCAP access of said employee on March 11, 2015. After discovering that the employee had not been deleted, our office requested on March 2, 2016 that said employee be deleted and the request was granted on March 4, 2016.

I concur that we had employees, six to be exact, with dual access, and we continue to have six (6) employees with dual access, but this is not a violation of the segregation of duties policy set forth by the *Clerk of Superior Court Financial Policies and Procedures Manual*. The Greensboro office is a large office and as a result we have segregated duties based on departments. The six (6) cashiers within our Civil Department only ring up and validate (1) new filings; (2) copy costs and (3) cash and rent bonds. These cashiers are unique in that they work within our Civil/New Filings Department and not in our regular Bookkeeping/Cash Receipting Department. In addition, **they do not accept judgment payments**, which is done in our Bookkeeping/Cash Receipting Department, nor do they enter judgment information whatsoever. Therefore, the practice in Greensboro complies with the segregation of duties and therefore is not an increased risk of undetected errors or fraud. In addition, our practice was and continues to be to check the Judgment Transaction Audit report daily. In addition to reviewing it as a compensating measure, we are now also signing it to confirm that it was checked. As a further measure of oversight, the supervisor and assistant clerk for the Civil Judgments Department checks to make sure that no cashier in the Civil Department, has entered anything or any type of judgment into the system that might lead to undetected errors or fraud.

I concur with the final finding that "*one employee had head bookkeeping rights in FMS and update access in VCAP*," although there is not a provision disallowing a "Head Bookkeeper" from having dual access only that "Bookkeepers" should not have access, we have deleted that employee's access to be allowed to have update access in VCAP.

2. CASH AND CHECKS WERE NOT ADEQUATELY SAFEGUARDED

I do not concur with the State Auditor's finding that the change fund was not being verified. At the time of the audit, they visited both the High Point and Greensboro locations. In Guilford County, we have two Bookkeeping Departments which is unique in NC because we have two *fully functioning courthouses*. When the Auditors visited the High Point location they reviewed the practice of how they count the change fund. It was determined that after the cashier counted their change fund, and then the Head Cashier would *verify* the change fund by physically counting the money again. In Greensboro, the Head Cashier did *verify* the change fund, however, the Head Cashier was not physically counting the money but rather would watch while the cashier counted the money in her presence (Note: this is done in the small office where the Head Cashier is located and can visibly see the cashier as well as the money and cashiers actions), to *verify* that she had counted the change fund and it was accurate. The practice was that if the count was off, the Head Cashier would then physically count it to see if the error

could be readily detected. In both instances, there was a *verification* process in place. (Note: There is no language provided for Clerks of Superior Court as to what the term verification means nor does it set forth a specific or preferred practice for verification.) When the auditor suggested that a physical count was a better practice, the process was immediately changed in the Greensboro location to conduct a physical count of the money.

I do concur that the auditor did conduct a surprise cash count and that one cashier was short \$100. However, that was not as a result of a failure to verify the change fund. This occurred on the last day the Auditor's visit. In fact, on the date in question, the change fund was *verified* by the Head Cashier using the method proscribed by the NC State Auditors earlier in their visit. While it is correct that "the cause of the shortage could not be determined," it is believed that the cashier miscounted money received from a customer and the cashier was required to pay the money back.

I concur that at the time of the audit, checks were not being deposited timely. However, we have adjusted our procedures to ensure that checks accepted in the estates division are entered immediately and deposited shortly thereafter.

Sincerely,

Lisa Johnson-Tonkins /s/

Lisa Johnson-Tonkins

Clerk of Superior Court – Guilford County

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