

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



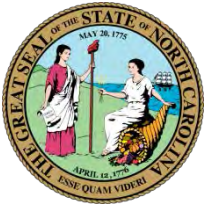
AVERY COUNTY CLERK OF SUPERIOR COURT

NEWLAND, NORTH CAROLINA
FINANCIAL RELATED AUDIT
OCTOBER 2015



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

October 1, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Lisa F. Daniels, Avery County Clerk of Superior Court

This report presents the results of our financial related audit at Avery 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 and/or instances of noncompliance 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 black ink that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor

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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 Avery 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 April 30, 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 \$1,949,636.90 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 \$26,161.70 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, \$43,500.00 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 deficiencies in internal control and/or instances of noncompliance 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 AND SEGREGATION OF DUTIES

Staff in the Clerk's Office had the ability to change and/or delete information in multiple systems and were assigned job duties inconsistent with proper 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 \$1,949,637 in receipts during the audit period July 2014 to April 2015.

Specifically, six out of seven 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:

- One employee had special cashier rights in FMS, which allowed the same person to enter receipts, void their own receipts, and close out their own register. This employee also had update access in ACIS, which allowed the same person to potentially misappropriate funds by collecting cash from a criminal payment, voiding the receipt, and marking the case as paid.
- The Clerk had head bookkeeper rights in FMS and update access in ACIS/CCIS. Further, she performed head cashiering functions through the use of another employee's user name and password who had special cashiering rights. This allowed the Clerk to potentially misappropriate funds by collecting cash, editing cost bills, voiding the receipt, and marking the case as paid. In addition to this fraud risk, the use of another employee's password reduces accountability for any error or misappropriation that may occur.
- One employee had head bookkeeper and head cashiering rights in FMS, and update access in ACIS/CCIS. The employee was also responsible for reviewing the daily void receipts journal, preparing the daily deposit, and taking the daily deposit to the bank, which allowed the same person to potentially misappropriate funds by editing cost bills, voiding receipts, and marking the case as paid.
- Three employees had cashier rights in FMS and update access in ACIS/CCIS or VCAP, which allowed the same person to potentially misappropriate funds by collecting cash from a criminal or civil payment, bypassing receipt entry into FMS, and updating ACIS/CCIS or VCAP to indicate all costs have been paid.

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 or job duty assignments created the proper segregation of duties. According to the Clerk, the small staff size makes 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 quarterly reviews of employee system access rights

Recommendations: The Clerk should reassign system access rights and job duties to properly segregate duties and perform quarterly 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: Assistant Clerk has special cashier rights in FMS as well as update access in ACIS. Access in FMS has been changed from special cashier to cashier only, with temporary access as special cashier when necessary to do close out at the end of the work day. Access in ACIS has been changed from update access to inquiry only. All void receipts performed by this employee will be reviewed by another staff member.

The Elected Clerk had head bookkeeper rights as well as update access in ACIS/CCIS. Status has been changed to Head Cashier in order to do close out when necessary with her password. Head Bookkeeper status will be requested as temporary when the Head Bookkeeper is out of the office.

Head bookkeeper had head bookkeeping and head cashiering rights in FMS as well as update access in ACIS/CCIS. A CCIS report is now being generated by AOC and will serve as a compensating control to be reviewed weekly. The head bookkeeper brings daily deposit slips to be reviewed and signed daily by either the Elected Clerk or an Assistant Clerk.

Assistant Clerk is reviewing all civil reports and her work is being reviewed by another clerk. The CCIS report is being generated weekly and will serve as a compensating control for employees with CCIS access, and the civil report will be used as a compensating control for employees with VCAP access.

2. UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTION

The Clerk's Office did not compel the timely filing of estate inventories or collect estate fees in accordance with state law, resulting in a delay and potential loss in the collection of court costs and fees.

Auditors examined all 24 estates in the audit period that required an inventory to be filed and identified 10 (42%) estates that were not compelled or were not compelled timely to file inventories. The Clerk's written request requiring the inventory filings were issued 12 to 103 days late for five estates and the Clerk failed to issue written requests for five estates. Auditors also identified two estates in which fees of \$202 were not collected when the inventory was filed.

In addition to the delay and potential loss in fee collections, the untimely filing of inventories could delay the family of the deceased from finalizing the estate and could allow unauthorized transactions from the estate not being detected.

According to the Estates Clerk, several factors contributed to the untimely or failure to compel estate inventory filings including limited staff and recent renovations within the Clerk's Office whereas the accessibility to the estate files proved difficult.

North Carolina General Statute 28A-20 and the *North Carolina Clerk of Superior Court Procedures Manual*, Chapter 74, require the filing of an estate inventory within three months after the Clerk's appointment of the estate's personal representative. If an inventory is not filed, the Clerk must send a written request requiring the personal representative to file the inventory or give reason why the personal representative should not be replaced. Additionally, *North Carolina General Statute 7A-307(a)(2)* requires the Clerk to assess and collect the estate fees at the time the inventory is filed.

Recommendation: The Clerk's Office should follow state law and the *North Carolina Clerk of Superior Court Procedures Manual* to ensure appropriate action is taken to compel the timely filing of estate inventories, as well as collect fees at the time inventories are filed.

Clerk's Response: A checklist has been created and will be placed in each new filing. This will ensure that fees will be collected in a timely manner. The estate clerk will make a notation on the check list showing her due diligence concerning the fees, however the file is never closed without all fees being collected.

The Estate clerk is using the AOC report to ensure that notices and orders will be issued at the appropriate time.

I generally agree with the findings and feel like I have made all necessary changes to correct the access issues and segregate the duties in my office as best as I can due to the size of my staff.

ORDERING INFORMATION

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This audit was conducted in 247.5 hours at an approximate cost of \$23,600.