

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

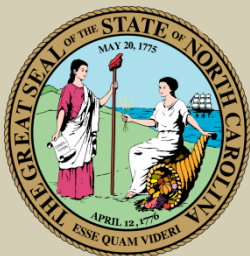


## GREENE COUNTY CLERK OF SUPERIOR COURT

SNOW HILL, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2019



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## **AUDITOR'S TRANSMITTAL**

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable Sandra Beaman, Greene County Clerk of Superior Court

This report presents the results of our financial related audit at Greene 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 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 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 Greene 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, 2018 through February 28, 2019. 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 \$978,548 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 \$22,987 in estate fees.

The Clerk’s Office ensures that all estate guardians are properly bonded based on the value of the annual estate inventory. An annual estate inventory is to be filed by the estate guardian of a minor or incapacitated adult. We examined internal controls designed to ensure that the Clerk properly obtains an inventory for each guardianship in compliance with laws and regulations. We also examined internal controls designed to ensure that bonds assessed and collected are sufficient and in compliance with laws and regulations. During the audit period, auditors examined \$291,802 in estate guardian bonds retained by the Clerk.

*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 controls designed to ensure that the Clerk properly identifies escheatable funds. We also examined internal controls 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 \$2,333 in escheats to the State Treasurer.

*Trusts* – The Clerk’s Office receives, administers, and disburses trust funds for minors and incapacitated adults. We examined internal controls designed to ensure that disbursements from minor and incapacitated adult trust accounts are proper to ensure compliance with laws and regulations. As of February 28, 2019, the Clerk has \$420,172 in trust accounts.

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. This approach was determined to adequately support audit conclusions.

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 the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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. FAILURE TO ASSESS AND COLLECT SUFFICIENT BONDS FOR ESTATES OF MINORS AND INCAPACITATED ADULTS

The Clerk's Office did not assess and collect sufficient<sup>1</sup> bonds to protect wards (minors or incapacitated adults) in accordance with state law.

Auditors examined all nine guardianship estates for wards that required bonds and found three (33%) guardianship estates with insufficient bonds. Assets in the three estates totaled \$26,485 and required \$33,106 in bonds. However, the Clerk only assessed and collected \$3,000 in bonds.

Failure to assess and collect sufficient bonds from guardians could result in financial loss to the ward if the guardian misuses the assets in the estate. Additionally, the Clerk and the State may be liable for the financial loss if bonds are not sufficient.

According to the Clerk, employee oversight led to mistakes in calculating the bond amounts.

*North Carolina General Statutes 35A-1230 and 35A-1231* require the Clerk to assess and collect sufficient bonds before appointing a guardian to the estate. *North Carolina General Statute 35A-1238* states that the Clerk shall be liable for all loss and damages sustained.

*Recommendation:* The Clerk should implement monitoring procedures, such as a continual review of ward assets, to ensure the bond assessed and collected remains sufficient.

*Clerk's Response:* See page 7 for the Clerk's response to this finding.

2. 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. The Clerk's Office handled \$978,548 in receipts during the audit period July 2018 through February 2019.

Specifically, two of six (33%) employees had inappropriate access to the Financial Management System (FMS), the Civil Case Processing System (VCAP), and the Criminal Court Information System (CCIS). Both employees had head cashier rights in FMS and update access in VCAP and CCIS.

As a result, the employees had the ability to misappropriate funds by:

- Voiding civil case receipts in FMS, updating VCAP to indicate all costs had been paid, and deleting civil case information
- Voiding criminal case receipts in FMS, updating CCIS to indicate all costs had been paid, and deleting criminal case information

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<sup>1</sup> *North Carolina General Statutes 35A-1230 and 35A-1231* require bonds for estate guardians to equal 125% of the ward's personal property (if under \$100,000) or 110% of personal property (if over \$100,000). Bond amounts should be reviewed upon the filing of the inventory and each account to ensure sufficiency.



Improper segregation of duties increased the risk that errors, unauthorized transactions, and fraud could go undetected. While no fraud was identified during the audit period, an increased risk of undetected fraud existed because access rights and duties were not properly segregated.

The Clerk did not ensure that system access rights assigned to staff resulted in proper segregation of duties. According to the Clerk, the small staff size makes it difficult to achieve proper duty segregation. Additionally, the Clerk was unaware of monitoring procedures that the North Carolina Administrative Office of the Courts requires Clerks to implement as compensating controls for employees with inappropriate access.

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.

*Recommendation:* The Clerk should reassign system access rights to properly segregate duties 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 7 for the Clerk's response to this finding.



State of North Carolina  
General Court of Justice  
**CLERK OF SUPERIOR COURT**

SANDRA E. BEAMAN, CLERK  
EX OFFICIO JUDGE OF PROBATE

**GREENE COUNTY**  
301 N. GREENE STREET  
P. O. BOX 675, SNOW HILL, NC 28580  
TEL: 252-747-6200 • FAX: 252-747-6201

IMELDA J. PATE  
RESIDENT JUDGE

June 4, 2019

Honorable Beth A. Wood  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699-0600

Re: Greene County Clerk of Court Audit Response

Dear Auditor Wood,

Please accept the responses below to the audit findings for the Clerk of Court of Greene County. This office agrees to proceed as below to comply with the Audit Findings and Recommendations.

1. Failure to assess and collect sufficient Bonds for Estates of Minors and Incapacitated Adults.

As to the audit finding for the above, this office shall begin to review the estate/incompetent files currently held in the Greene County Clerk of Courts office and compel accountings as well as provide the required bond for each matter. Training has begun to have the appropriate staff begin such process and we will work toward having all files in compliance within a six-month period.

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

As to the audit finding for the above, procedures have already been put in place for the bookkeeper to review all financial paperwork completed by the cashiers daily. Due to small staff allowed by the Administrative Office of the Courts, attempts are being made for segregation of duties and I will request assistance from the Administrative Office of the Courts to comply with this finding.

Sincerely,

A handwritten signature in cursive script that reads "Sandra E. Beaman".

Sandra E. Beaman  
Clerk of Court

# ORDERING INFORMATION

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For additional information contact:  
Brad Young  
Director of External Affairs  
**919-807-7513**



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This audit was conducted in 188 hours at an approximate cost of \$18,076.50.