

STATE OF NORTH CAROLINA

BURKE COUNTY CLERK OF SUPERIOR COURT

FINANCIAL RELATED AUDIT

APRIL 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

BURKE COUNTY CLERK OF SUPERIOR COURT

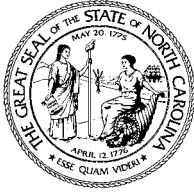
MORGANTON, NORTH CAROLINA

FINANCIAL RELATED AUDIT

APRIL 2013

THE HONORABLE MABEL H. LOWMAN

CLERK OF SUPERIOR COURT



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

April 19, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Mabel H. Lowman, Burke County Clerk of Superior Court

This report presents the results of our financial related audit at the Burke 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 disclosed a deficiency in internal control and instance of noncompliance that is considered reportable under *Government Auditing Standards*. This finding is described in the *Audit Findings 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 ways 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

	PAGE
BACKGROUND	1
AUDIT SCOPE AND OBJECTIVES	2
METHODOLOGY	3
RESULTS AND CONCLUSIONS	4
AUDIT FINDINGS AND RESPONSES	5
ORDERING INFORMATION	6

BACKGROUND

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

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, 2012 through January 31, 2013. During our audit, we considered internal control related to the following accounts and objectives:

Cash – This classification includes cash on deposit with private bank accounts. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for these assets. We also examined internal control designed to ensure compliance with laws and regulations related to depositing cash receipts and escheating unclaimed funds after a prescribed period of time. As of January 31, 2013, the Clerk had \$285,908 in cash on deposit with private banks.

Trusts – This classification includes funds held by the Clerk for minors, incapacitated adults, and others according to the terms of a court order, will, or deed. We examined internal control designed to ensure that distributions from the accounts are proper, including internal control designed to ensure compliance with laws and regulations governing distributions where applicable. As of January 31, 2013, the Clerk had \$1,835,368 in trust accounts.

Cash Bonds – We examined internal control designed to ensure compliance with laws and regulations governing the distribution of forfeited cash bonds. These laws and regulations require the Clerk to remit such funds to the county once a final judgment of forfeiture is entered. As of January 31, 2013, the Clerk had \$93,270 in cash bonds.

METHODOLOGY

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

RESULTS AND CONCLUSIONS

The results of our audit disclosed a deficiency in internal control and instance of noncompliance that is considered reportable under generally accepted government auditing standards. This finding is described in the *Audit Findings 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 AND RESPONSES

FAILURE TO ESCHEAT FUNDS TO THE STATE IN A TIMELY MANNER

The Clerk's Office has not remitted abandoned property in accordance with state laws. We identified abandoned property held by the Clerk's Office in the amount of \$49,412 that should have been transferred to the State (escheated) in accordance with *North Carolina General Statute 116.B53(c)(12)*.

Our tests for escheats identified \$52 of jury payments, \$1,944 of estate funds, and \$47,416 of foreclosure funds that should have been remitted to the State. Funds were improperly held in one instance for more than five years.

Recommendation: The Clerk's Office should strengthen internal controls to ensure that funds that should be escheated to the State are identified and disbursed timely.

Agency Response: The Clerk's Office has made every attempt to find the rightful owners of the funds that were escheated. We have tried to distribute any funds to responsible parties, funeral homes and/or heirs without escheating them to the State of NC.

The Clerk's Office will implement procedures to comply with the North Carolina escheats law and AOC policy by strengthening internal controls to ensure that funds that should be escheated to the State are identified and disbursed timely.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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