

STATE OF NORTH CAROLINA

ROCKINGHAM COUNTY CLERK OF SUPERIOR COURT

WENTWORTH, NORTH CAROLINA

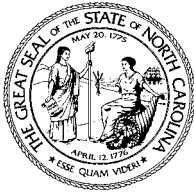
FINANCIAL RELATED AUDIT

NOVEMBER 2014

OFFICE OF THE STATE AUDITOR

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AUDITOR'S TRANSMITTAL

November 21, 2014

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable J. Mark Pegram, Rockingham County Clerk of Superior Court

This report presents the results of our financial related audit at the Rockingham 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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BACKGROUND

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

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, 2013 through April 30, 2014. During our audit, we considered internal control related to the following objectives:

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 control designed to ensure that the Clerk properly identifies escheatable funds. We also examined internal control 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 \$39,791.93 to the State Treasurer.

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 control designed to ensure that the Clerk properly obtains an inventory for each estate in compliance with laws and regulations. We also examined internal control 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 \$161,431.96 in estate fees.

Infractions – The Clerk’s Office is responsible for collecting traffic infraction costs and fines. We examined internal control over the disposition of traffic infractions to ensure that all disposed cases were supported by a receipt of fees or properly authorized court document in compliance with record-keeping laws and regulations. During the audit period, the Clerk collected \$737,680.75 in traffic infraction related costs.

METHODOLOGY

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, auditors 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

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.

AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

1. INAPPROPRIATE INFORMATION SYSTEMS ACCESS

The Clerk's Office has given a staff member information systems access rights that are inconsistent with proper segregation of duties. Proper segregation of duties involves assigning responsibilities such that the duties of one employee automatically provide a cross-check on the work of other employees. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

Auditors identified an employee with head bookkeeper and cashier rights access in the Financial Management System (FMS). This access allows the same person to enter receipts, disburse funds, and create/post journal entries.

Failure to segregate duties represents noncompliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. The manual establishes guidelines to maintain adequate segregation of duties and states that segregation of duties is important enough to be adopted whether efficiency or inefficiency is the consequence.

While no instances of fraud were identified during our audit period, this risk of fraud remains when access rights and duties are not properly segregated.

Recommendation: The Clerk's Office should strengthen internal control by assigning information system access rights to properly segregate duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: We concur with the Audit Finding. During the time period for the audit, our office was going through a transition period in our Financial Division. At times, we were short staffed by fifty (50) percent within that division. We had staff member(s) (supervisor) out for extended periods of time for medical reasons as well as training new personnel which caused a tremendous hardship and strain on our ability to not only serve the citizens but prevented proper segregation of duties. Since then our Financial Division is once again full staffed and steps have been implemented to properly segregate duties to eliminate any further issues.

2. UNTIMELY COMPELLING OF ESTATE INVENTORIES 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 loss or delay in the collection of court costs and fees.

Out of a population of 161, auditors examined 33 estates in the audit period that required an inventory to be filed. Auditors identified 11 estates that the Clerk did not compel timely inventory filings, resulting in an error rate of 33%. The Clerk's orders requiring the inventory filings were issued 10 to 107 days late for these estates. In addition, auditors identified nine estates in which fees of \$3,279 were not collected when the inventory was filed.

AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES (CONCLUDED)

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 issue an order 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 strengthen internal control over estates to ensure appropriate action is taken to compel the timely filing of estate inventories, as well as collect estate fees in accordance with state law and the *North Carolina Clerk of Superior Court Procedures Manual*.

Clerk's Response: We concur with the finding. Our office strives to handle estates in an efficient manner and to comply with statutory requirements, while being mindful that the person handling the estate has just lost a loved one. We will take actions to ensure that appropriate actions are taken to compel timely filing of inventories. We will implement tracking measures to ensure more timely compelling actions.

I agree that the Clerk's office should ensure that appropriate action is taken to enforce the timely filing of estate inventories. G.S. § 28A-20-2 requires the Clerk of Superior Court to issue an order requiring the personal representative or collector to file an inventory within the time specified in said order. Estate matters are sensitive, and circumstances beyond the personal representative's control may cause a personal representative to delay actions in order to obtain information to accurately reflect the assets of the decedent's estate. Once again, appropriate documentation will be placed in the file to show extensions granted or actions taken. We will implement measures to collect these fees as soon as practical.

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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