

STATE OF NORTH CAROLINA

WARREN COUNTY CLERK OF SUPERIOR COURT

WARRENTON, NORTH CAROLINA

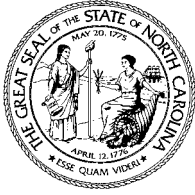
FINANCIAL RELATED AUDIT

SEPTEMBER 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

September 23, 2014

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Richard E. Hunter Jr., Warren County Clerk of Superior Court

This report presents the results of our financial related audit at the Warren 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 a deficiency in internal control and an instance of noncompliance that is considered reportable under *Government Auditing Standards*. This finding is 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 Warren 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 February 28, 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 \$860.04 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 \$33,942.74 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 \$75,895.00 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 a deficiency in internal control and an instance of noncompliance that is considered reportable under *Government Auditing Standards*. This item is described in the *Audit Findings, Recommendations, 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, RECOMMENDATIONS, AND RESPONSES

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.

Auditors examined all 21 estates in the audit period that required an inventory to be filed. Auditors identified 14 estates that the Clerk did not compel timely inventory filings, resulting in an error rate of 67%. The Clerk's orders requiring the inventory filings were issued 24 to 80 days late for these estates. In addition, auditors identified two estates in which fees of \$230 were not collected when the inventory was filed.

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 Response: It is admitted that there has been untimely compelling of estate inventories. In this office I am responsible for the day to day work involved with the estates. The other employees in the office all have other duties that keep them busy. Due to the recent recession and budget cuts by the State, the Clerk's office has lost employees. When and if I am allowed to hire additional staff, that person will focus on the administration of estates. In the meantime, corrective action has been taken in that I have asked the assistant clerk to run a list of delinquent filings on the 15th of each month. I will review the list and have the appropriate notices sent to the personal representatives.

In regards to the two cases without fee collection, it is admitted that sometimes fees are not collected at the time an inventory is filed. In one case, the inventory was filed by out of county/out of State personal representatives. In those type cases the inventory and accounting are signed before a Notary and mailed to the Clerk for filing. The Clerk then calculates the cost and an invoice is mailed to the personal representative for the fees. This may cause a delay in getting the fees at the time of filing.

In the other case it appears from reviewing the register receipts that the fees were paid at the time of filing; however, a copy of the receipt was inadvertently not placed in the estate file to indicate that the fees had been paid.

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ORDERING INFORMATION

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State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
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Bill Holmes
Director of External Affairs
919-807-7513