

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



CASWELL COUNTY CLERK OF SUPERIOR COURT

YANCEYVILLE, NORTH CAROLINA

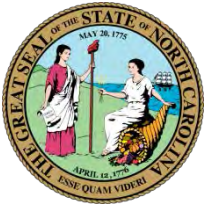
FINANCIAL RELATED AUDIT

SEPTEMBER 2015



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

September 3, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable John I. Satterfield, Caswell County Clerk of Superior Court

This report presents the results of our financial related audit at Caswell 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 Caswell 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 March 31, 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 \$2,444,550.94 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 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 \$30,004.24 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, \$81,000.00 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

System access rights that are inconsistent with proper segregation of duties were assigned to employees. Two employees had cashier rights in the Financial Management System (FMS) and update access in the Criminal Court Information System (CCIS). In addition, a former employee had update access within CCIS even though the employee was no longer employed by the Clerk's Office.

While no instances of fraud were identified during the audit period, the access rights assigned to the employees could have allowed an individual to misappropriate funds by collecting cash from a criminal payment, bypassing receipt entry into FMS, and updating CCIS to indicate all costs have been paid.

During the audit period, the North Carolina Administrative Office of the Courts (NCAOC) executed the update functionality within CCIS and in doing so, access rights were automatically assigned within the system based on outdated roles and responsibilities. Appropriate communication between the two parties prior to this system update did not take place to ensure employee access rights were consistent with proper segregation of duties. As a result, the Clerk was unaware of the access rights assignments within the criminal system until it was brought to his attention by the auditors.

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.

As a result of our audit, the Clerk corrected the access deficiencies by taking measures to revoke the CCIS access rights for those employees in question. All access deficiencies were corrected as of June 9, 2015.

Recommendation: Prior to the implementation of, or changes to, computer systems used in the Clerk's Office, the Clerk should be proactive in working with NCAOC to ensure access rights are properly assigned and are consistent with proper segregation of duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: The Office of the State Auditor (OSA) revealed improper system access in CCIS to the Clerk on June 5, 2015. Upon being notified by the OSA, the Clerk immediately began conversations with the North Carolina Administrative Office of the Courts (NCAOC) to determine how the Clerk should be notified of any computer system changes that would affect the Clerk's internal control policies and segregation of duties.

The Clerk was proactive in expressing the need for increased communication between the Clerk and the NCAOC when there are system updates and changes by NCAOC's Technology Services Division (TSD) that may affect internal controls such as segregation of duties. On June 30, 2015 the NCAOC provided the Clerk with additional tools to review any improper system access and make changes to access as a result of any system updates by TSD.

As stated in the improper system access finding, corrective action was taken by the Clerk to remove CCIS update access for the employees who were cashiers in FMS and for the separated employee.

2. UNTIMELY COLLECTION OF ESTATE FEES

The Clerk's Office did not collect fees on estate inventories in accordance with state law resulting in a delay in the collection of court costs and fees.

Auditors examined 24 estates in the audit period that required an inventory to be filed and identified eight (33%) estates in which fees of \$1,370 were not collected when the inventory was filed nor was there evidence in the file that the Clerk's Office sought collection of these fees at the time of the inventory filing by the personal representative. Fees were collected 37 to 64 days after the inventory was filed for four of the eight estates, while the inventories for the four remaining estates had been filed but estate fees had not been collected at the time of our audit.

According to the Clerk, it is their procedure to collect fees at the time of the inventory filing; however, the documentation in the file did not support any evidence of collection attempts and/or reasons for collection delays.

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 to ensure appropriate action is taken to collect estate fees at the time inventories are filed. In addition, documentation should be maintained in the file to support that the Clerk's Office sought collection of the estate fees from the personal representative at the time of the inventory filing.

Clerk's Response: The practice of the Clerk to not refuse a filing if costs are not in hand is guided by The Rules of Recordkeeping (Rule III, Civil) as promulgated by the NCAOC. Said Rules state, "The clerk should not refuse to accept any filing not accompanied by all appropriate fees. The clerk should notify the filer or the filer's attorney and the court of any costs that are due. The clerk should note that costs are due in the court's file."

While the clerk makes the request for costs at the time of the filing, there may be times when the Inventory is filed and the filer is not prepared to pay costs at the time of filing or the filing may have been made by mail and not accompanied by the appropriate costs. Whereas the Clerk could not produce evidence in questioned files that collection was being pursued, the Clerk does concur with the OSA finding; and as of May 29, 2015 the Clerk has now implemented additional procedures to show evidence in the case files that the Clerk is pursuing the collection of estate costs as required by the General Statutes.

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This audit was conducted in 189 hours at an approximate cost of \$17,993.50.