

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



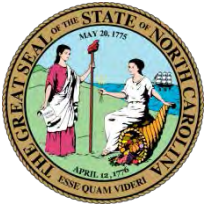
CLEVELAND COUNTY CLERK OF SUPERIOR COURT

SHELBY, NORTH CAROLINA
FINANCIAL RELATED AUDIT
SEPTEMBER 2015



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

September 15, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Mitzi M. Johnson, Cleveland County Clerk of Superior Court

This report presents the results of our financial related audit at the Cleveland 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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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 the Cleveland 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 February 28, 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 \$6,784,782.35 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 \$105,135.48 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, \$689,850.00 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 INCREASED THE RISK OF UNDETECTED ERRORS AND FRAUD

Staff within the Clerk's office had the ability to change and/or delete information in multiple systems, resulting in inadequate segregation of duties. Improper segregation of duties increased the risk that errors, unauthorized transactions, and fraud could have occurred and remained undetected. The Clerk's office handled \$6,784,782 in receipts during the audit period of July 1, 2014 to February 28, 2015.

Specifically, four employees had access to the Financial Management System (FMS) and to the Criminal Court Information System (CCIS) and/or the Civil Case Processing System (VCAP) as follows:

- One employee had cashier rights in FMS and update access to CCIS, which allowed the same person to potentially enter or divert receipts and enter, change, or delete criminal case information.
- Two employees had cashier rights in FMS and update access in VCAP, which allowed the same person to potentially enter or divert receipts and enter, change, or delete civil case information.
- One employee had head bookkeeper rights in FMS and update access to VCAP, which allowed the same person to potentially edit cost bills and payee amounts and delete civil case information.

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 the individuals to misappropriate funds by collecting cash for a criminal or civil payment, bypassing the receipt entry in FMS, and updating CCIS or VCAP to indicate that the costs have been paid.

Per the Clerk, the removal of conflicting accesses has not been made due to the limited number of staff in the Clerk's office. Additionally, the Clerk's office failed to fully implement the procedures prescribed by North Carolina Administrative Office of the Courts (NCAOC) to compensate for incompatible access between FMS and VCAP.

Also, during the audit period, the 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 her 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.

Recommendations: The Clerk should ensure that 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*.

Also, 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: Due to the reduced staff members, from the budget cuts over the past six years, there were several employees who had to perform numerous duties in the office. These employees were the only people trained to perform the duties, because there was not a sufficient number of employees in the office to be cross-trained. This meant that several employees had to work in several different departments to be able to perform duties on a daily basis. I am now using the CSC Internal Control Exception Form to justify the employees having access in FMS and VCAP.

Another finding was that a former employee still showed access in CCIS, but was no longer employed. This employee has not been employed with our office in over eight years and her name has not showed up on the Security Audit Report that we receive from the AOC twice a year. Therefore, I was not aware of the employee still showing up in the system.

We are now printing and signing the Compensating Control Report daily, which is another tool for checking to see if things are processed correctly.

2. UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS

The Clerk's Office did not compel the timely filing of estate inventories in accordance with state law, resulting in a delay and potential loss in the collection of court costs and fees.

Forty-two of the 101 estates requiring an inventory to be filed during the audit period were examined. Twenty-eight of the 42 estates (67%) were not compelled or not compelled timely to file the required inventories as follows:

- The Clerk's office did not take action to compel the person representative to file the inventory for nine (21%) estates. The inventories were filed 36 to 92 days after the 90 day due date.
- The Clerk's written request requiring the inventory filings were sent 32 to 92 days late in 19 (45%) estates.

In addition to the delay and potential loss in fee collections, the untimely filing of inventories could delay the family of the deceased from finalizing the estate, and could allow unauthorized transactions from the estate to not be detected.

During the audit period, the Clerk had identified procedures to use the Civil Case Processing System (VCAP) to identify estate cases with filings approaching the three-

month due date; however, the Clerk failed to enforce these procedures. According to the Clerk, the Estates Division does not have sufficient staff to ensure that estates are compelled in a timely manner.

North Carolina General Statute 28A-20 and the North Carolina Clerk of Superior Court Procedures Manual 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.

Recommendation: The Clerk's Office should follow state law and the *Clerk of Superior Court Financial Policies and Procedures Manual* to ensure appropriate action is taken to compel the timely filing of estate inventories.

Clerk's Response: This is solely due to the reduction in staff and one of the two staff members in the Estate's department was on medical leave for an extended period. Since the audit, the Estate's department is using the tracking system and that department is making very good progress in getting notices issued and inventories filed in a timely manner.

ORDERING INFORMATION

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