

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



HERTFORD COUNTY CLERK OF SUPERIOR COURT

WINTON, NORTH CAROLINA

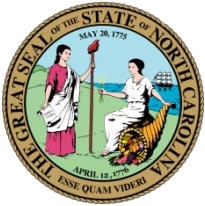
FINANCIAL RELATED AUDIT

OCTOBER 2015



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

October 20, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Shirley G. Johnson
Hertford County Clerk of Superior Court

This report presents the results of our financial related audit at Hertford 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



Beth A. Wood, CPA
State Auditor

Table of Contents

	PAGE
BACKGROUND	1
AUDIT OBJECTIVES AND SCOPE	2
METHODOLOGY	3
RESULTS AND CONCLUSIONS	4
AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES	5
ORDERING INFORMATION	7

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at Hertford 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 \$2,370,763.46 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 \$43,799.47 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, \$130,450.00 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.

Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever an audit finding response is inconsistent or conflicts with the finding or recommendation. In accordance with this requirement and to ensure that the nature and seriousness of the findings are not minimized or misrepresented, we have provided comments to the Clerk's response for finding number 2.

1. FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTION

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

Auditors examined 11 of 26 estates in the audit period that required an inventory to be filed and identified nine (82%) estates that were not compelled to file inventories. The Clerk was not current in compelling the inventory and written requests requiring the inventory filings had only been sent for two estates during the audit period and were 103 and 160 days late.

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 not being detected.

The Clerk's Office was not tracking estate cases to ensure the proper compelling of estate inventories.

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 send a written request 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 follow state law and the *North Carolina Clerk of Superior Court Procedures Manual* to ensure appropriate action is taken to compel the timely filing of estate inventories.

Clerk's Response: According to your report, it was stated that 9 (82%) estates were not compelled to file inventories. Upon investigation I found that 3 of the nine estates cited have since been closed and notices or orders to file have been issued to the remaining 6 estates. As you know, this county has had a dropped in personnel and as Clerk the sole responsibility of interviewing, opening and closing estates which according to statistics of AOC has been on the rise in this county, has been placed on my shoulder in addition to all of the responsibility of being Clerk of Court for this county. However, effectively October 1, 2015, and the 1st of every month thereafter, my Criminal Superior Court, Domestic Violence, Bond Forfeiture Clerk has been assigned the additional duties of pulling all monthly listings of outstanding accountings and ordered to issue notice/order to file citations that are in violation of NCGS 28A-20 so that we can collect

funds in accordance to NCGS 7A-307(a)(2). AS of today, Notice/Order to file have been issued on all outstanding accountings.

2. IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED ERRORS AND FRAUD

Staff in 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 \$2,370,763.46 during the audit period July 1, 2014 to February 28, 2015.

Specifically, four of the 11 employees had inappropriate access to the Financial Management System (FMS) and to the Automated Criminal/Infractions System (ACIS) / Criminal Court Information System (CCIS) as follows:

- Four employees with cashier rights in FMS and update access in the ACIS/CCIS, which allowed the same person to potentially enter, change, or delete criminal case information without properly receipting funds in the FMS system.

While no instances of fraud were identified during the audit period, an increased risk of undetected fraud existed because access rights and duties were not properly segregated.

The Clerk's Office did not ensure that the initial system access rights assignments created the proper segregation of duties. Additionally, the Clerk's Office did not properly perform the quarterly reviews of employee system access rights to identify inadequate segregation of duties.

Also 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 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. The manual also requires quarterly reviews of employee system access rights.

Recommendation: The Clerk should reassign system access rights to properly segregate duties and perform quarterly reviews of employee system access rights in accordance with 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*.

Auditor Response: In the Clerk's response below, the Clerk stated that their office has submitted a CSC Internal Control Exception form for one of the four instances identified, revoked access for two, and took no action on the remaining instance. Other information in the response, while informative and important, does not identify any compensating controls for those employees and completing a CSC Internal Control Exception form without compensating controls does not sufficiently mitigate the access risk existing at the time of the audit.

Clerk's Response: We have been cited for Improper System Access in that 4 out of 11, but with the retirement of one of the then existing clerks our number is 4 out of 10, had inappropriate access to the Financial Management System (FMS), ACIS/CCIS. This has been an issue and a finding since I have been Clerk of Court but no one has provided a remedy. With the retirement of an employee as of June, 2015 this issue has intensified because her position was given to another county.

One of those in violation, Renee Stubblefield serves as a main cashier and a district courtroom clerk which requires her to have access to ACIS in order to close out her court docket. Since the audit earlier this year, I have submitted CSC Internal Control Exception forms in reference to the same. Another one, Leigh Ann Mann who has alleged Cashier rights serves as back-up person to close out cashiers at the end of the day but her main responsibility is to serve as Criminal Superior Courtroom Clerk. The third person, Patricia Keene, serves as a main cashier but needs access to ACIS in order to handle E-pay citation. She was awarded CCIS rights in order to assist the Superior Court Clerk in closing out Voluntary Dismissals but these rights have now been revoked and the Clerk will just have to do the best she can. The fourth and final person Stephanie Cotton serves as the main back-up cashier but was awarded rights to CCIS to close out Northside Court dockets. Her ACIS rights have been revoked.

ORDERING INFORMATION

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This audit was conducted in 170 hours at an approximate cost of \$15,980.00.