

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



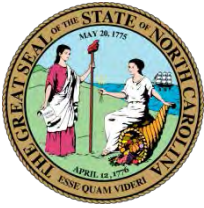
PASQUOTANK COUNTY CLERK OF SUPERIOR COURT

ELIZABETH CITY, 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 18, 2015

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Katherine S. Cartwright, Pasquotank County Clerk of Superior Court

This report presents the results of our financial related audit at the Pasquotank 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 Pasquotank 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 \$ 2,267,480.20 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 \$70,513.02 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, \$284,350.00 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. FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTIONS

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

Auditors examined nine of 42 estates in the audit period that required an inventory to be filed and identified seven (78%) estates that the Clerk did not compel timely inventory filings. The Clerk's orders requiring the inventory filings were issued 10 to 100 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 did not consistently follow the procedures in place to ensure the proper compelling of estate inventory. The Clerk's Office relied on a manual 'Estate Docket Log' to track all estate cases set up, instead of the 'Estate Cases with Filing Due' report that is generated in the Civil Case Processing System (VCAP). The manual log was used to track activity on each Estate case, not to identify cases that were approaching the 90 day inventory due date.

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: I currently have an assistant clerk that is working very hard to have all of the estate files updated. The previous clerk was not using the tracking system in VCAP. My estate clerk has been trained on how to use the tracking system and is sending notices out on the 15th of each month, however, it will take a few months to get all of the open files updated. She is currently doing everything she can, to insure that accountings are filed on a timely basis. We are also requiring all out of state Personal Representatives are to have a NC attorney of record in the estate, to insure that accountings are filed on a timely basis.

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 \$2,267,480.20 during the audit period July 1, 2014 to February 28, 2015.

Specifically, five of the 13 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:

- One employee with head bookkeeper and cashier rights access in FMS, which allowed the same person to enter receipts, disburse funds, and create/post journal entries.
- One employee with head bookkeeper and head cashier rights access in FMS, which allowed the same person, to void receipts, disburse funds, and create/post journal entries.
- Four employees (including one mentioned above) with cashier rights in FMS and update access in ACIS/CCIS, which allowed the same person to improperly modify criminal cases in ACIS/CCIS without properly receipting funds in the FMS system.

While no instances of fraud were identified during our 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*.

Clerk's Response: During the audit period July 1, 2014 to February 28, 2015 the former Clerk of Superior Court was responsible for the System Access assigned to the employees in question. Having taken Office on March 2, 2015, I have steadily been making changes to Security to ensure compliance with the *North Carolina Clerk of Superior Court Procedures Manual*.

- The one employee with head bookkeeper and cashier rights access in FMS has been taken completely out of cashier rights and has only head bookkeeper rights.
- The one employee with head bookkeeper and head cashier rights access in FMS has been taken out of head bookkeeper and given only head cashier rights.
- Security requests have been submitted to remove the one employee mentioned above and two employees from cashier rights in FMS. Plus the one employee that was with cashier rights now does not have the ACIS/CCIS rights.

As current Clerk of Superior Court, I am working diligently to comply with all the proper segregation of duties and will be doing quarterly reviews of the access rights of all employees as the guidelines require. I am working with Security in NCAOC to ensure that the access rights are as requested and that all access rights follow the guidelines given in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

ORDERING INFORMATION

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This audit was conducted in 210 hours at an approximate cost of \$19,740.