

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## GATES COUNTY CLERK OF SUPERIOR COURT

GATESVILLE, NORTH CAROLINA  
FINANCIAL RELATED AUDIT  
AUGUST 2016



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## AUDITOR'S TRANSMITTAL

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August 17, 2016

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
The Honorable Nell F. Wiggins, Gates County Clerk of Superior Court

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



**Beth A. Wood, CPA**  
**State Auditor**

# TABLE OF CONTENTS

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	<b>PAGE</b>
BACKGROUND .....	1
AUDIT OBJECTIVES AND SCOPE .....	2
METHODOLOGY .....	3
RESULTS AND CONCLUSIONS .....	4
AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES .....	5
ORDERING INFORMATION .....	8

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 Gates 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, 2015 through March 31, 2016. 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 \$708,047 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 controls 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 \$11,565 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, \$39,280 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 as applicable 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.

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## 1. IMPROPER SYSTEM ACCESS AND SEGREGATION OF DUTIES

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Staff in the Clerk's Office had the ability to change and/or delete information in multiple systems and were assigned job duties inconsistent with proper 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 \$708,047 in receipts during the audit period July 2015 to March 2016.

Specifically, three of 6 (50%) employees had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP) or had been assigned conflicting job duties as follows:

- One employee had head cashier and head bookkeeper rights in FMS. The employee could have potentially voided receipts and edited bills of cost. The same employee also had update access in VCAP. The employee could have potentially voided receipts and deleted civil case information.
- One employee had head cashier rights in FMS and update access in VCAP. The employee could have potentially voided receipts in FMS and deleted civil case information.
- One other employee had head bookkeeper rights in FMS and was responsible for the daily cash closeout functions including counting cash, preparing the daily cash summary, and preparing the deposit. As head bookkeeper, the employee also performed duties including entering payment authorizations, generating checks, and preparing/posting journal entries. The employee could have potentially misappropriated assets and concealed it in the 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 system access rights or job duties assigned to staff resulted in proper segregation of duties. According to the Clerk, the small staff size makes it difficult to achieve proper duty segregation.

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 semiannual reviews of employee system access rights, and states that in order to achieve good internal control in the financial area, one person should not be able to perform more than one of the following tasks:

- Receipt money.
- Make the final count and deposit of money.
- Enter payment authorization forms.
- Reconcile the bank statements.

*Recommendation:* The Clerk should reassign system access rights and job duties to ensure proper duty segregation. In addition, the Clerk should perform semiannual reviews of employee system access rights in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

*Clerk's Response:* I concur with this finding. I have implemented changes in the daily close out procedure where cashiers are counting their own drawers and completing the top portion of the Daily Cash Balance Report by Cashier, then handing same off to CSC to re-count and complete bottom portion of said Report. CSC is then preparing the Daily Cash Summary and preparing, along with the bookkeeper the deposit. As a compensating control CSC prints the Daily Judgment Transaction Audit Report by Source, Daily Bond Forfeiture Report as well as the Monthly Security Audit Report and Affirmation Statements furnished by AOC and audits each report.

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2. UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTION

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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 delay and potential loss in the collection of court costs and fees.

Auditors found that three of 13 (23%) estates in the audit period that required an inventory to be filed were not compelled or not compelled timely. The Clerk's written requests requiring inventory filings were issued 43 to 51 days after the three-month inventory deadline. For 12 estates where an inventory had been filed, auditors found three (25%) estates in which fees of \$130 were incorrectly calculated when the inventory was filed.

In addition to the delay and potential loss in fee collections, the Clerk's failure to timely compel the filing of inventories could result in unauthorized transactions from the estate including, but not limited to, the removal of estate assets without the knowledge of qualified heirs. The untimely compelling could also delay the family of the deceased from finalizing the estate.

According to the Clerk, one of the employees was out for an extended period of time during the audit period and due to the small staff size, other job duties took precedence.

*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 explain 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, as well as collect appropriate fees at the time inventories are filed.

*Clerk's Response:* There were three estates found not to have notices to file sent in a timely manner, please make note that all filings are now up-to-date and in fact two of the three cases have final accounts filed and approved. During this period of time a main criminal clerk was out for an extended period of time due to surgery. With such a small office it was all our office could do to keep our heads above water and focus on the work that was more pressing at that time.

# ORDERING INFORMATION

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This audit was conducted in 147 hours at an approximate cost of \$14,609.