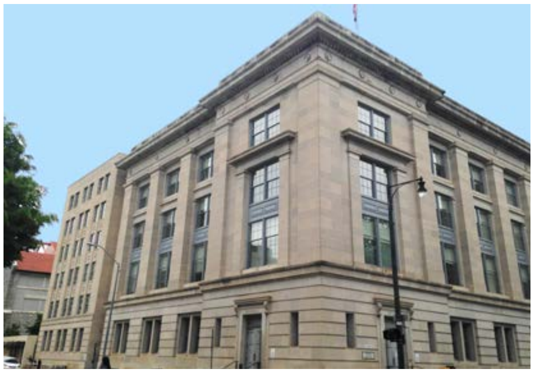
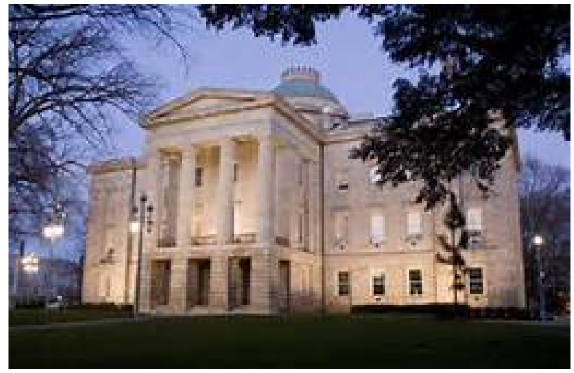
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA





Pamlico County Clerk of Superior Court

Bayboro, North Carolina

Financial Related Audit

July 2016

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

July 22, 2016

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Steven E. Hollowell, Pamlico County Clerk of Superior Court

This report presents the results of our financial related audit at the Pamlico 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.

Beth A. Wood

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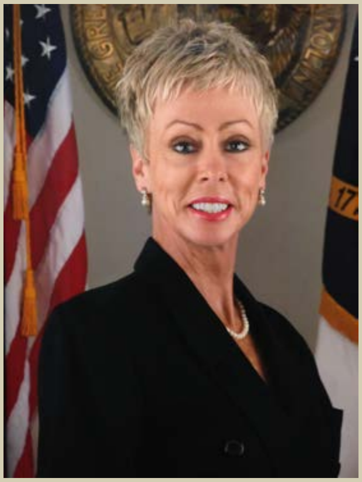
State Auditor



Beth A. Wood, CPA
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 Pamlico 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 $545,937 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 $22,619 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, $151,539 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.

Results and Conclusions

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 RISK OF UNDETECTED ERRORS AND FRAUD

Staff in the Clerk's Office had the ability to change and/or delete information in the Financial Management System (FMS), 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 $545,937 in receipts during the audit period.

Specifically, one of seven (14%) employees was assigned both head bookkeeper and cashier rights in FMS. The employee could have potentially collected money, edited bills of cost, and posted journal entries to change the payee and/or the amounts.

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 assigned to staff resulted in proper segregation of duties. According to the Clerk, the head bookkeeper was on medical leave during the majority of the audit period and the backup head bookkeeper during this time also had cashiering access within FMS. The Clerk's Office attempted to remove the cashiering access within FMS in October 2015 by filling out the necessary North Carolina Administrative Office of the Courts (NCAOC) access request form. However, NCAOC did not remove the access and the Clerk's Office failed to follow-up with NCAOC to ensure the access was removed as originally requested.

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 deficiency by taking measures to remove the cashiering access within FMS for the employee in question. The access deficiency was corrected as of May 13, 2016.

Recommendation: The Clerk should be proactive in working with NCAOC to ensure that changes to access rights that are initiated and authorized by his office due to staff reassignments are properly and timely updated in the system.

Clerk's Response: The Clerk concurs with the audit finding. A Deputy Clerk with Cashier access had to take over Bookkeeping duties unexpectedly due to a medical emergency. The Clerk requested the removal of her Cashier access but did not follow up to make sure the change was made. The fact that the change was not made was not discovered until the audit. As a result of this finding, the Clerk took immediate action by contacting the North Carolina Administrative Office of the Courts and having them remove the Deputy Clerk's cashiering access. The Clerk has also communicated with his Financial Management Analyst about working together to review any system access impropriety, making changes to access, and following up to ensure future compliance.

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

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 15 of 30 (50%) 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 49 to 154 days after the three-month inventory deadline for 11 estates. In addition, the Clerk failed to issue written requests requiring inventory filings for four estates. For 19 estates where an inventory had been filed, auditors found three (16%) estates in which fees of $213 were not collected 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, the employee responsible for handling estates was on extended medical leave during a majority of the audit period. This fact, along with the limited staff, contributed to the untimely and/or failed compelling of estate inventory filings.

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 fees at the time inventories are filed.

Clerk's Response: The Clerk concurs with the audit finding regarding both the failure to send notices to compel inventories and the failure to collect fees when the inventory was filed. The new Deputy Clerk responsible for estates received training on the Estate's Tracking System from the Administrative Office of the Courts in January of this year. The Clerk strives to 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 fees at the time the inventories are filed.

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For additional information contact:
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This audit was conducted in 159 hours at an approximate cost of $15,773.