

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



RANDOLPH COUNTY CLERK OF SUPERIOR COURT

ASHEBORO, NORTH CAROLINA

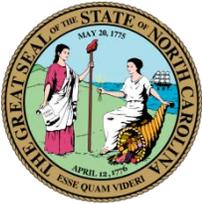
FINANCIAL RELATED AUDIT

JANUARY 2017



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

January 20, 2017

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Pamela L. Hill, Randolph County Clerk of Superior Court

This report presents the results of our financial related audit at Randolph 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 Randolph 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 June 30, 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 \$17,301,964 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 \$285,286 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, \$1,522,350 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.

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 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 \$17,301,964 in receipts during the audit period July 2015 to June 2016.

Specifically, four of 35 employees (11%) had inappropriate access to the Financial Management System and/or the Criminal Court Information System (CCIS) as follows:

- Three employees had cashier rights in FMS and update access in CCIS. These employees could have potentially misappropriated funds by collecting cash from a criminal payment, bypassing receipt entry into FMS, and updating CCIS to indicate all costs have been paid.
- One employee had head bookkeeper and cashier rights in FMS. The employee could have potentially entered receipts, disbursed funds, created/posted journal entries, and edited bills of cost and payee 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 current staff shortage 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.

Recommendation: The Clerk should reassign system access rights to properly segregate duties and 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: See page 9 for the Clerk's response to this finding.

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.

Auditors examined 65 of 400 estates in the audit period that required an inventory to be filed and found that 12 (18%) estates were not compelled or not compelled timely. The Clerk's written requests requiring inventory filings were issued 31 to 72 days after the three-month inventory deadline for 10 estates. In addition, the Clerk failed to issue written requests for two estates.

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, due to a shortage of staff, her office gets behind in the Estates and Special Proceedings Division.

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 send a written request requiring the personal representative to file the inventory or explain why the personal representative should not be replaced.

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: See page 11 for the Clerk's response to this finding.

AUDITOR'S RESPONSE

The Office of the State Auditor (OSA) is required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of auditor findings.

Generally Accepted Government Auditing Standards state,

“When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditor's recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.”

Audits and reviews often generate emotion; however, readers must stay focused on the issues. Therefore, to ensure the availability of complete and accurate information and in accordance with Generally Accepted Government Auditing Standards, OSA offers the following clarifications for finding number 1:

IMPROPER SYSTEM ACCESS

In her response, the Clerk concurs with the finding involving improper system access to the Financial Management System (FMS)¹ and/or the Criminal Court Information System (CCIS)² for four employees in her office. However, the Clerk has made incorrect assertions in her response or has made comments irrelevant to the finding.

First, the Clerk's response refers to a previous audit performed by this Office that was issued in 2012, which reported a finding that also identified a deficiency in segregation of duties. The Clerk asserts that shortly after the 2012 audit, her office initiated the CSC Internal Control Exception form (AOC-FS-0200)³ after confirming with representatives from the Financial Division of the Administrative Office of the Courts (AOC) that this form would prevent any further “findings” involving a Bookkeeper having update access to ACIS now referred to as CCIS.

While there was a segregation of duties finding in 2012, the prior period finding did not consist of the same system access deficiencies as observed and reported in the current audit. Thus, audit results regarding a prior period finding does not clear the Clerk's office from any subsequent findings of a similar nature.

¹ FMS is a computer-based system used to receipt, record, track, and disburse monies related to court proceedings. Monies are receipted for case filing fees, court costs, fines, and restitution.

² CCIS is a web-based criminal case management system that stores and displays information about filings entered for North Carolina infraction and criminal cases for both superior and district courts. The criminal system in place prior to the implementation of CCIS was referred to as the Automated Criminal Infractions System (ACIS).

³ CSC Internal Control Exception form (AOC-FS-0200) documents segregation of duty conflicts within the Clerk offices and mitigating controls to compensate for the lack of segregation of duties.

In addition, the Clerk incorrectly asserts that completion of the CSC Internal Control Exception form would prevent any further findings. Completion of a CSC Internal Control Exception form without compensating controls in place, such as a documented review of the CCIS Update by Cashier Report⁴ and VL Disposition Report⁵, does not sufficiently mitigate the access risk that existed at the time of the audit for those employees with both cashier rights in FMS and update access in CCIS, nor did this form address the risk for the employee with head bookkeeper and cashier rights in FMS. In the Clerk's response, she acknowledges there was no documented review of the monitoring reports for the last five months of the audit period covering February to June 2016 as pertains to the employees with both cashier rights in FMS and update access in CCIS. The Clerk also acknowledges that as a result of the 2016 audit, she has since initiated corrective action to discontinue cashier rights of the employee who has head bookkeeper access. As the Clerk has acknowledged the compensating controls were not operating effectively and has provided a corrective action plan to address the improper system access, all other information, while informative, is irrelevant to the finding.

Second, the Clerk incorrectly states that the CSC Internal Control Exception form (AOC-FS-0200) was not requested by the State auditors. The Clerk is incorrect as the auditors submitted a written request for the CSC Internal Control Exception forms on two separate occasions, March 8, 2016 and July 5, 2016. The auditors did obtain and review these forms while on site, but, as previously stated, completion of these forms alone, without the implementation of effective controls to address the risk associated with the system access deficiencies, does not sufficiently mitigate the risk of errors and fraud.

Third, the Clerk incorrectly asserts that a policy has been in place prior to the 2016 State Audit and remains in place for future situations that prevents the Bookkeeping Clerk and other backup Clerks having CCIS update access from performing various functions/duties the following day after cashiering to avoid fraudulent acts. The employees may be instructed not to perform various functions/duties the following day after cashiering; however, their system access allows them the opportunity to perform additional duties outside of their regular daily tasks. Thus, the policy the Clerk mentions is insufficient to compensate for the risk of errors and fraud.

⁴These reports identify changes or deletions made to cases within CCIS by cashier user ID.

⁵These reports identify dismissals made to cases within CCIS by user ID.

CLERK'S RESPONSE



State of North Carolina
General Court of Justice
CLERK OF SUPERIOR COURT
RANDOLPH COUNTY
 176 East Salisbury Street, Suite 201
 Asheboro, NC 27203

PAMELA L. HILL, CLERK
 EX OFFICIO JUDGE OF PROBATE

V. BRADFORD LONG,
 SENIOR RESIDENT JUDGE

November 14, 2016

Beth Wood
 State Auditor
 Office of the State Auditor
 2 South Salisbury St.
 20601 Mail Service Center
 Raleigh, NC 27699

Dear Ms. Wood,

I have set forth below a response, regarding the audit findings, as described in your letter received by our office August 24, 2016.

Audit Findings and Recommendations

1. *"IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED ERRORS AND FRAUD"*

As stated in the audit findings for the Clerk of Superior Court, Randolph County, involving the 2012 audit, our Clerks' Office continues to be adversely impacted by a staff shortage, despite the fact that filings with our Clerks' Office have increased, along with receipting more money from daily transactions with the public than four years ago in 2012.

Due to Randolph County being a midsize county, it is an essential need for our Clerks' staff to be cross-trained to perform multiple job duties in order to ensure optimum work performance with a variety of job duties, maximizing our employee workforce. Due to a continued staff shortage in our office a Clerk cannot be dedicated to performing the duties of a back-up cashier; therefore Clerk's who have update access do continue to serve as a back-up cashier.

CORRECTIVE ACTION PLAN FOR SEGREGATION OF DUTIES:

Shortly after the 2012 State Audit, our Head Bookkeeper began initiating the AOC-FS-200 form "CSC Internal Audit Control Exception" after confirming with representatives

from the Financial Division of AOC that this form would prevent any further “findings” involving a Bookkeeper having update access to ACIS now referred to as CCIS.

AOC Finance Department explained to our Head Bookkeeper the purpose/intent of this form was to notify AOC Finance Department of Clerks who were performing the duties as a backup cashier who had update access to ACIS/CCIS and VCAP. The Head Bookkeeper has remained vigilant by submitting changes or additions involving this form, thus allowing AOC to identify every Clerk having “update access” to the ACIS/CCIS and VCAP systems, and also serve as a backup to the Cashiers Office. Pursuant to an AOC Memo, sent to all N.C. Clerks of Superior Court, dated April 8, 2014, regarding “New Compensating Controls,” this AOC Memo directly relates to the Segregation of Duties policy but states it was “developed as an optional tool” by AOC for Clerks’ offices whose Clerks have both update access for CCIS and VCAP and also function as a cashier.

Assistant Clerks in our Civil and Criminal Divisions have been reviewing the CCIS Update by Cashier Report/VL Disposition Reports monthly, since the inception of this requirement, with the exception of a five month period, February through June of 2016. AOC notified all Clerks by email early in 2016 that the CCIS Update by Cashier Report/VL Disposition Reports would no longer be automatically sent by AOC to the Clerks unless requested by the Clerks Offices via email.

Due to an oversight regarding this email, a request was not sent to AOC for five consecutive months, and the CCIS Update by Cashier Report/VL Disposition Reports were not completed by our office during this time frame.

During the 2016 State Audit, the five months of missing reports regarding CCIS Update by Cashier Report/VL Disposition Reports were requested by the auditors for review. The Assistant Criminal Clerk realized at the time of this request that these reports had not been reviewed by our office due to the reports not being sent by AOC. Prior to the end of the audit, the reports were obtained by our office and properly reviewed by the Assistant and audited, with no fraudulent impropriety being found.

While the AOC-FS-200 form was not requested by the State auditors on any back-up cashiers having update access to CCIS or VCAP systems, this form had been completed and sent to AOC, per AOC Finance Division policy prior to employees performing any back-up cashier duties.

In regards to the 2016 State Audit “Finding”, involving a Bookkeeping Clerk having cashier access, the AOC Finance Division directed our Head Bookkeeping Clerk to contact them in the event a Bookkeeping Clerk was needed as a backup cashier with cashier access when no other staffing alternative was available. When unforeseen shortage situations arise AOC grants verbal access immediately after receiving the appropriate paperwork from our office, but getting cashier computer access for the Bookkeeping Clerk has taken AOC hours, and in some situations a day or longer, preventing the cashiers office from operating. It was due to this delay on multiple occasions that I approved the Bookkeeping Clerk, cashier access for an extended period. Since the 2016 State Audit the Head Bookkeeping Clerk initiated a corrective action plan submitting an AOC-A-151 form discontinuing cashier access for the Bookkeeping Clerk. In addition to AOC policy requiring access approval for both the Bookkeeping Clerk and backup cashiers having CCIS access, our office policy, which has been in place prior to

the 2016 State Audit, remains in place for future situations involving these employees. This policy prevents the Bookkeeping Clerk and other backup Clerks having CCIS update access from performing any of the following functions/duties the following day to avoid fraudulent acts: printing checks, signing or voiding check reports, and keying data or processing daily reports.

It is important to note that while I concur with the "Findings" involving "Improper System Access" regarding the Bookkeeping Clerk and Clerks with CCIS update access functioning as backup cashier, there were **"no instances of fraud or impropriety identified during the 2016 audit"**.

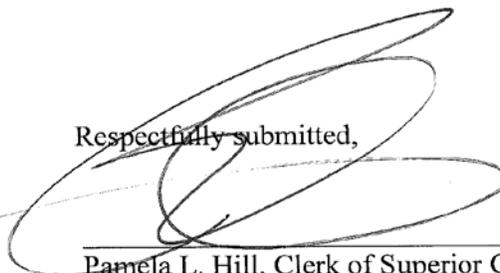
2. *"UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS"*

While "Findings" were made involving Estate inventories not being sent in a timely manner, pursuant to NCGS 28A-20, there were no audit "Findings" involving loss of fee collections or unauthorized transactions involving removal of Estate assets without the knowledge of qualified heir(s) as a direct result of an untimely order being entered for failure of a PR to file an inventory.

CORRECTIVE ACTION PLAN FOR ESTATE INVENTORIES:

Beginning October 2016, the Estates Division initiated a policy of sending a courtesy Notice to File an Inventory sixty (60) days from the time an Estate is opened, instructing a Personal Representative to file an Inventory within thirty (30) days. If at the end of ninety (90) days from the time the Estate is opened an Inventory has not been filed, the Estates Division will enter an Order requiring the Personal Representative to file Inventory within 20 days from the date Personal Representative is served.

Respectfully submitted,



Pamela L. Hill, Clerk of Superior Court
Randolph County

cc: Representatives Pat Hurley and Alan McNeil
Senator Jerry Tillman
AOC Director Marion Warren

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