

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## SURRY COUNTY CLERK OF SUPERIOR COURT

DOBSON, NORTH CAROLINA

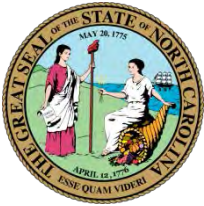
FINANCIAL RELATED AUDIT

JULY 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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July 15, 2016

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
The Honorable Teresa O'Dell, Surry County Clerk of Superior Court

This report presents the results of our financial related audit at Surry 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, reading "Beth A. Wood".

Beth A. Wood, CPA  
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 Surry 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 January 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 \$3,265,790 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 \$55,471 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, \$467,935 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 INCREASED RISK OF UNDETECTED ERRORS AND FRAUD**

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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 \$3,265,790 in receipts during the audit period July 2015 to January 2016.

Specifically, six of 23 (26%) employees had inappropriate access to the Financial Management System (FMS), the Criminal Court Information System (CCIS), and/or the Civil Case Processing System (VCAP) as follows:

- Three employees had cashier rights in FMS and update access in VCAP. The employees could have potentially misappropriated funds by collecting cash from a civil payment, bypassing receipt entry into FMS, and updating VCAP to indicate all costs have been paid. Two of these employees had additional access in CCIS where they could have potentially misappropriated funds in the same manner for criminal payments.
- Three employees had head bookkeeper rights in FMS and update access in VCAP. The employees could have potentially edited bills of cost and payee amounts for civil cases. One of these employees had additional access to delete civil case information.

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 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.

*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:* I concur with your findings and will be implementing compensating controls that will allow for the independent review of any VCAP/CCIS cases by cashiers and bookkeepers. The applicable reports will be reviewed by someone other than a bookkeeper or cashier with VCAP/CCIS update access. The reviewer will sign the reports indicating the review was properly completed and date completed. These reports will be retained for the current fiscal year and one year prior to the current fiscal year.



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### 2. UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS

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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 80 estates in the audit period that required an inventory to be filed and found that 38 (58%) estates were not compelled or not compelled timely. The Clerk's written requests requiring inventory filings were issued 34 to 129 days after the three-month inventory deadline for 21 estates. In addition, the Clerk failed to issue written requests for 17 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 Estates Assistant Clerk, the untimely compelling of inventory filings was due to the Clerk's Office being understaffed.

*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.

*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:* The Clerk of Court has spoken to the estate clerks about the audit as it pertains to the 58% of estates requiring 90-day inventories to be compelled timely. My corrective plans include the following: My part-time estate clerk will make this a priority and print a daily report listing of those estates requiring a 90-day inventory notice. Notices will be issued in a timely manner as a result of this segregated duty.

# ORDERING INFORMATION

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For additional information contact:

Bill Holmes

Director of External Affairs

**919-807-7513**



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This audit was conducted in 220 hours at an approximate cost of \$21,792.