

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



CLAY COUNTY CLERK OF SUPERIOR COURT

HAYESVILLE, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2017



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

June 20, 2017

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable J. Tim Barrett, Clay County Clerk of Superior Court

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



Beth A. Wood, CPA
State Auditor

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As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at Clay 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, 2016 through February 28, 2017. 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 \$721,206 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 \$14,311 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, \$92,250 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. This approach was determined to adequately support audit conclusions.

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 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 \$721,206 in receipts during the audit period July 2016 to February 2017.

Specifically, one of six (17%) employees had inappropriate access to the Financial Management System (FMS) and the Criminal Court Information System (CCIS). The employee had cashier rights in FMS and update access in CCIS. The employee 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.

While no fraud was 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. Additionally, while the Clerk was aware of procedures put in place by the NC Administrative Office of the Courts to serve as compensating controls for employees with inappropriate access, the Clerk did not ensure these monitoring procedures were consistently performed by his staff.

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.

Recommendation: The Clerk should reassign system access rights to properly segregate duties 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 8 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 delays and potential loss in the collection of estate costs and fees.

Auditors examined all 15 estates in the audit period that required an inventory to be filed. Six (40%) estates were not compelled or not compelled timely. Specifically,

- For 4 (27%) estates, the Clerk's written requests requiring inventory filings were issued 35 to 67 days after the three-month inventory deadline.
- For 2 (13%) estates, the Clerk failed to issue written requests requiring inventory filings.

In addition to the delays and potential loss in fee collections, the Clerk's failure to compel the timely 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. It could also delay the family of the deceased from finalizing the estate.

The Clerk's Office did not review the tracking reports from the North Carolina Court Information System frequently enough to ensure filings were compelled timely. In addition, for the cases with no written requests, verbal extensions were granted but not documented.

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 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. Additionally, the Clerk should conduct a more timely review of the tracking reports, as well as document any extensions granted.

Clerk's Response: See page 8 for the Clerk's response to this finding.

3. DEFICIENCY IN SAFEGUARDING CASH

The Clerk's Office has not implemented adequate internal controls to safeguard change funds for cashiers. Inadequate safeguards over assets increased the risk that loss or fraud could have occurred and remained undetected.

Auditors observed the cash closeout process and found that change funds totaling \$300 were not being verified. The employees could have potentially pocketed the money included in their change funds as there was no independent verification of these funds.

While no fraud was identified during the audit period, an increased risk of fraud existed because assets were not properly safeguarded.

According to the Clerk, he was unaware there was a policy requiring change fund verification.

The *Clerk of Superior Court Financial Policies and Procedures Manual* provides guidance regarding verification of change funds. The change fund for each cashier should be verified daily at close out by the head cashier.

Recommendation: The Clerk should follow the guidance in the *Clerk of Superior Court Financial Policies and Procedures Manual* and implement controls, such as verifying the cashiers' change funds daily, to ensure accuracy and reduce the risk of loss or fraud.

As a result of our audit, the Clerk implemented procedures to verify the change funds on March 22, 2017.

Clerk's Response: See page 9 for the Clerk's response to this finding.

CLERK'S RESPONSE



State of North Carolina
General Court of Justice
CLERK OF SUPERIOR COURT

J. TIM BARRETT, CLERK
 EX OFFICIO JUDGE OF PROBATE

CLAY COUNTY
 261 COURTHOUSE DRIVE, SUITE 1
 HAYESVILLE, NC 28904
 (828) 389-2300

WILLIAM H. COWARD
 SENIOR RESIDENT JUDGE

BRADLEY B. LETTS
 RESIDENT JUDGE

June 14, 2017

Beth Wood
 State Auditor
 2 South Salisbury Street
 20601 Mail Service Center
 Raleigh, NC 27699

Dear Ms. Wood,

Please find a response below regarding the audit findings as described in your letter received by our office May 17, 2017.

Audit Findings and Recommendations:

1) Improper System Access Increased Risk of Undetected Errors and Fraud

Recommendation: The Clerk should reassign system access rights to properly segregate duties 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.

Agency Response:

The Clerk agrees with this finding and recommendation. It is not practical to segregate all incompatible duties in this small office and that additional monitoring procedures above those previously assigned are necessary. The previously assigned assistant clerk now prints the monthly report which is then reviewed by the Clerk on a monthly basis.

2) Untimely or failure to compel Estate Inventory Filings

Recommendation: The Clerk 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. Additionally, the Clerk should conduct a more timely review of the tracking reports, as well as document any extensions granted.

Agency Response:

The Clerk agrees with this audit finding and recommendation.

In regards to the untimeliness to compel inventories. This office policy was to print/review the estate tracking report as provided by the Administrative Office of Courts on the first business day of the month which does not always reveal those inventories due until the next month's printing/review.

In regards to the failure to compel inventories. Notices were not sent in the two files cited due to verbal communication that had taken place with the attorney(s) representing the personal representative(s) who informed this office that the inventories were in the final stages and soon to follow. It should be noted that inventories were received and filed prior to this audit for each file.

In response to this finding this Clerk has revised and instituted a policy that the estate tracking report will be printed/reviewed twice per month by the Clerk and/or bookkeeper who assists in estates. Further, this office will send written notices as they appear on the tracking report unless a written request for extension has been filed.

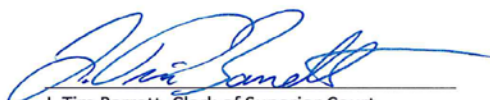
3) Deficiency in Safeguarding Cash**Recommendation:**

The Clerk's Office should follow the guidance in the *Clerk of Superior Court Financial Policies and Procedures Manual* and implement controls, such as verifying the cashiers' change funds daily, to ensure accuracy and reduce the risk of loss or fraud.

Agency Response:

I would agree with the audit finding that this office was unaware of the recommended policy regarding the daily counting of the "Change Fund" and that no fraud or abuse was found. The change funds are now verified daily at close out by the head cashier.

Respectfully submitted,



J. Tim Barrett, Clerk of Superior Court
Clay County

ORDERING INFORMATION

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