

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## HAYWOOD COUNTY CLERK OF SUPERIOR COURT

WAYNESVILLE, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2017



**NCOSA**  
The Taxpayers' Watchdog

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



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## AUDITOR'S TRANSMITTAL

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June 6, 2017

The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable June L. Ray, Haywood County Clerk of Superior Court

This report presents the results of our financial related audit at Haywood 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**

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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 Haywood 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 \$4,086,676 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 \$96,744 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, \$1,084,750 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.

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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 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 \$4,086,676 in receipts during the audit period July 2016 to February 2017.

Specifically, two of 19 (11%) employees had inappropriate access to the Financial Management System (FMS) and the Criminal Court Information System (CCIS). The employees had cashier rights in FMS and update access in CCIS. The 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.

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 two employees did not use CCIS and she mistakenly authorized the employees' access to the CCIS system.

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.

As a result of our audit, the Clerk corrected the access deficiencies by taking measures to revoke the CCIS access rights for the two employees. The access deficiencies were corrected as of March 14, 2017.

*Recommendation:* The Clerk should continue to periodically monitor employee system access rights in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual* to ensure proper segregation of duties of all employees.

*Clerk's Response:* See page 7 for the Clerk's response to this finding.

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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 delays and potential loss in the collection of estate costs and fees.

Auditors examined all 71 estates in the audit period that required an inventory to be filed. Twelve (16%) estates were not compelled or not compelled timely. Specifically,

- For 6 (8%) estates, the Clerk failed to issue written requests requiring inventory filings.

- For 6 (8%) estates, the Clerk's written requests requiring inventory filings were issued 32 to 61 days after the three-month inventory deadline.

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 are compelled timely. In addition, the Clerk's Office granted undocumented extensions for some estate cases resulting in untimely compelling of estate inventories.

*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 including, but not limited to, a more timely review of the tracking reports. Additionally, the Clerk's Office should document any extensions granted by the Clerk in the estate file.

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

## CLERK'S RESPONSE



*State of North Carolina*  
*General Court of Justice*  
**CLERK OF SUPERIOR COURT**  
**HAYWOOD COUNTY JUSTICE CENTER**

JUNE L. RAY, CLERK  
 EX OFFICIO JUDGE OF PROBATE

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May 19, 2017

Beth Wood  
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Dear Ms. Wood,

I have set forth below a response, regarding the audit findings as described in your letter received by our office May 4<sup>th</sup>, 2017.

**Audit Findings and Recommendations:**

**1. Improper System Access Increased Risk of Undetected Errors and Fraud**

**Recommendation:** The Clerk should continue to periodically monitor employee system access rights in accordance with the Clerk of Superior Court Financial Policies and Procedures Manual to ensure proper segregation of duties of all employees.

**Corrective Action:**

The clerk agrees with the findings and recommendations of the audit regarding this issue. Reports have been review by the auditors to verify that neither of the two employees in question ever accessed CCIS for any reason. These employees were hired for other departments namely, civil and estates. Assigning them access for update in CCIS was an oversite.

Corrective action has already been taken by the Clerk and access for those two employees has been changed to inquiry only for CCIS. To avoid future problems a checklist has been prepared. The Clerk shall use this form at time of hiring an employee to determine appropriate access to different departments and any possible conflicts. The Clerk will also continue to review the semi-annual access audit report.

2. Untimely or Failure to Compel Estate Inventory Filings

**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 including, but not limited to, a more timely review of the tracking reports. Additionally, the Clerk's Office should document any extensions granted by the Clerk in the estate file.

**Corrective Action:**

The Clerk agrees with the findings and recommendations regarding this issue. My office previously used the VCAP tracking system to compel our filings. On March 15, 2017, we converted to the Estate Tracking system.

I have implemented the following actions to correct: My Estate staff, on March 15, 2017 and April 17, 2017 ran the ESPIAF10 Report for Estate Cases with filings due for all categories. We reviewed all files indicated on the report and issued all notices and orders as required. We will modify this by adding a 2<sup>nd</sup> monthly issuance of notices and orders on the 1<sup>st</sup> of each month. We will mark off designated times on our calendar to dedicate to this process, beginning May 15, 2017, and continuing bimonthly on or about the 1<sup>st</sup> and 15<sup>th</sup> of each month. I have instructed my estate staff to place the bimonthly ESPIAF10 Report in a file for my review, to insure that this process is being adhered to. As of April 1, 2017, I implemented a new rule. I informed my Clerk's that all extensions of time for filings must be documented in writing and placed in the file as well and entered into the Estate Tracking system.

Respectfully submitted,

  
June L. Ray, Clerk of Superior Court  
Haywood County

# ORDERING INFORMATION

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