

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ORANGE COUNTY CLERK OF SUPERIOR COURT

HILLSBOROUGH, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2017



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

June 28, 2017

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable James C. Stanford, Orange County Clerk of Superior Court

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

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
AUDIT OBJECTIVES AND SCOPE	2
METHODOLOGY	3
RESULTS AND CONCLUSIONS	4
AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES	5
APPENDIX	
CLERK’S RESPONSE	7
ORDERING INFORMATION	9

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at Orange 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 January 31, 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 \$6,252,551 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 \$194,081 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, \$336,250 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 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 \$6,252,551 in receipts during the audit period July 2016 to January 2017.

Specifically, three of 28 (11%) employees had inappropriate access to the Financial Management System (FMS), the Criminal Court Information System (CCIS), and/or the Civil Case Processing System (VCAP).

- All three 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.
- One of the three employees also had update access in VCAP. Consequently, the employee could have altered civil case information.

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 properly segregate duties.

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 and job duties to ensure proper duty segregation. 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 7 for the Clerk's response to this finding.

2. UNTIMELY OR FAILURE TO COLLECT ESTATE INVENTORY FEES

The Clerk's Office did not collect estate fees in accordance with state law, resulting in delays and potential loss in the collection of estate costs and fees.

Auditors examined all 58 estates in the audit period that required an inventory to be filed. There were nine (16%) estates for which a total of \$1,267 in estate costs and fees was not collected when inventories was filed. Specifically,

- Fees totaling \$748 for three estates were not collected until 23 to 35 days after the inventory was filed
- Fees totaling \$519 for six estates were not collected by the time of our audit.

Additionally, there was no evidence in the file to support fee collection attempts and/or reasons for collection delays.

According to the Clerk, the Office occasionally delays the collection of fees until the assets in the estate are sold or the final inventory is submitted. In these instances, the staff was not keeping adequate documentation of their efforts to collect estate fees when the inventories were filed.

North Carolina General Statute 7A-307(a)(2) requires the Clerk's office to calculate, assess, and collect the estate fees at the time the inventory is filed.

Recommendation: The Clerk should follow state law to ensure appropriate action is taken to collect estate costs and fees each time an inventory is filed. In addition, the Clerk should maintain documentation in the file to support fee collection attempts at the time of the inventory filing.

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
ORANGE COUNTY

JAMES C. STANFORD, CLERK

106 E. MARGARET LANE
 HILLSBOROUGH, N.C. 27278

EX OFFICIO JUDGE OF PROBATE

June 6, 2017

Agency Audit Finding Responses

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

OSA Recommendation: The Clerk should reassign system access rights and job duties to ensure proper duty segregation. 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 concern raised in the Finding is valid. First and most importantly the Finding indicates that no actual fraud was identified. This continues to be a staffing issue in that we are not provided with an adequate number of staff to segregate system access rights and job duties appropriately. Moreover we are called upon routinely to staff two locations which results in more job responsibilities on fewer staff. It is not possible with the current staffing levels to both maintain and carry out our varied and many job responsibilities and maintain the proper desired segregation of duties; reassignment of access rights and job duties as recommended to achieve proper duty segregation is therefore not possible.

This office will attempt to implement a compensating control that has recently been made available to it by the NCAOC. The activity of the cashiers that possess both update CCIS capability and access to the financial management system will be monitored to reduce the risk of errors and fraud.

Implementation is currently underway and will be the responsibility of the Criminal Division Assistant Clerk and the bookkeeping department

Agency Audit Finding Responses
June 6, 2017
Page Two

2. Untimely or Failure to Collect Estate Inventory Fees

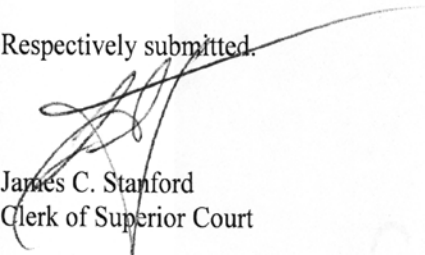
OSA Recommendation: The Clerk should follow state law to ensure appropriate action is taken to collect estate costs and fees each time an inventory is filed. In addition, the Clerk should maintain documentation in the file to support fee collection attempts at the time of the inventory filing.

Agency Response: The concern raised in the Finding is valid; this agency did not always collect inventory filing fees according to NC law.

This office has and will continue to collect estate fees in a timely fashion and minimize the failure to collect the associated fees at the time of filing. It is and remains this agency's position that under certain fact-based circumstances it is more appropriate and beneficial to the proper administration of the subject estate to collect the information contained within the inventory notwithstanding an inability to pay the associated fee at the time of filing. This position is supported by The Rules of Recordkeeping (Rule III, Civil) as promulgated by the NCAOC. Said Rule states "[T]he clerk should not refuse to accept any filing not accompanied by all appropriate fees. The clerk should notify the filer or the filer's attorney and the court of any costs that are due. The clerk should note that costs are due in the court's file." This office will maintain documentation of the reason for not collecting any fee due at the time of filing, and of its efforts to collect any such delinquent filing fees.

Immediate implementation by the Estates Division Assistant Clerks.

Respectively submitted.


James C. Stanford
Clerk of Superior Court

ORDERING INFORMATION

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