

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## WASHINGTON COUNTY CLERK OF SUPERIOR COURT

PLYMOUTH, 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 Brian K. Phelps, Washington County Clerk of Superior Court

This report presents the results of our financial related audit at Washington 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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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 Washington 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 \$575,578 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 \$17,513 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, \$36,100 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.

## RESULTS AND CONCLUSIONS

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 \$575,578 in receipts during the audit period July 2016 to January 2017.

Specifically, two of six (33%) 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 small staff size makes it difficult to properly segregate duties and during the audit period compensating controls were not being performed.

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 7 for the Clerk's response to this finding.

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**2. FAILURE TO COLLECT ESTATE INVENTORY FEES**

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

Auditors examined all 18 estates in the audit period that required an inventory to be filed. There were nine (50%) estates for which a total of \$2,289 in estate costs and fees was not collected when the inventory was filed. Additionally, there was no evidence in the file to support fee collection attempts and/or reasons for collection delays.

According to the Clerk, it is their policy to allow the personal representatives to wait to pay fees until the final inventory is filed.

*North Carolina General Statute 7A-307(a)(2)* requires the Clerk 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 from the personal representative at the time of the inventory filing.

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

## CLERK'S RESPONSE



*State of North Carolina*  
*General Court of Justice*  
**CLERK OF SUPERIOR COURT**  
**WASHINGTON COUNTY**

BRIAN K. PHELPS, CLERK  
 EX OFFICIO JUDGE OF PROBATE

P.O. BOX 901  
 PLYMOUTH, NC 27962

WAYLAND J. SERMONS, J  
 RESIDENT JUDGE

**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 \$575,578 in receipts during the audit period July 2016 to January 2017. Specifically, two of six (33%) 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 small staff size makes it difficult to properly segregate duties and during the audit period compensating controls were not being performed.

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.**

**Response: I agree with the finding and recommendation. The small staff size makes it difficult to properly segregate duties. In light of this, I will contact and work with the NC AOC to determine and implement effective monitoring procedures to reduce the risk of errors or fraud, as soon as possible.**

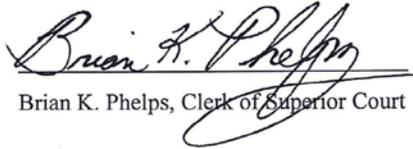
**FAILURE TO COMPEL ESTATE INVENTORY FEE COLLECTION**

The Clerk's Office did not collect or compel estate inventory fees in accordance with state law, resulting in a delay and potential loss in the collection of estate costs and fees. Auditors

examined all 18 estates in the audit period that required an inventory to be filed. There were nine (50%) estates for which a total of \$2,289 in estate costs and fees was not collected when the inventory was filed. Additionally, there was no evidence that the Clerk compelled collection of the fees. According to the Clerk, it is their policy to allow the personal representatives to wait to pay fees until the final inventory is filed. North Carolina General Statute 7A-307(a)(2) requires the Clerk to calculate, assess, and collect the estate fees at the time the inventory is filed.

**Recommendation:** The Clerk's Office should follow state law to ensure appropriate action is taken to collect estate costs and fees each time an inventory is filed.

**Response:** I agree with the finding and recommendation. Fiduciaries, i.e., Personal Representatives, Collectors by Affidavit, Guardians, etc., will be notified, by either myself or a staff member, at the time of their qualification/appointment that fees must accompany the Inventory or Final Affidavit (in Collection by Affidavit cases) when same is filed, as required by the North Carolina General Statutes. If the fees are not paid by the Fiduciary, at the time of filing, then the Fiduciary will be advised that the filing is not complete until the fees are paid; that their failure to do so will result in process being issued against them to compel the payment of the fees. This will be implemented immediately for all new as well as any open estate matters in which an Inventory or Final Affidavit (in Collection by Affidavit cases) is due to be filed.

  
Brian K. Phelps, Clerk of Superior Court

# ORDERING INFORMATION

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