

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



YADKIN COUNTY CLERK OF SUPERIOR COURT

YADKINVILLE, 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 12, 2017

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Beth W. Holcomb, Yadkin County Clerk of Superior Court

This report presents the results of our financial related audit at Yadkin 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 Yadkin 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 \$2,634,244 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 \$49,668 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, \$123,509 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 \$2,634,244 in receipts during the audit period July 2016 to January 2017.

Specifically, four of 10 (40%) employees had inappropriate access to the Financial Management System (FMS), the Civil Case Processing System (VCAP), and/or the Criminal Court Information System (CCIS) as follows:

- All four 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.
- One of the four employees also had additional access that allowed the employee to delete civil case information.
- Additionally, one of the four employees had access in CCIS where they could have potentially misappropriated funds in the same manner for criminal payments.

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, the Clerk was unaware of procedures put in place by the NC Administrative Office of the Courts to serve as compensating controls for employees with inappropriate access.

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 OR FEE COLLECTION**

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

Auditors examined all 30 estates in the audit period that required an inventory to be filed. Twenty-two (73%) estates were not compelled or not compelled timely. Specifically,

- For 17 (57%) estates, the Clerk's written requests requiring inventory filings were issued 36 to 82 days after the three-month inventory deadline.
- For 5 (16%) estates, the Clerk failed to issue written requests requiring inventory filings.

Additionally, fees totaling \$594 for four estates were not collected at the time of the inventory filing, nor was there evidence in the file to support fee collection attempts and/or reasons for collection delays.

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.

According to the Clerk, the Office had staff turnover in the Estates Division in June 2016, which impacted the timeliness of compelling inventories due to being short staffed and falling behind. In addition, the Clerk granted undocumented extensions for inventory filings and fee collections for some estates.

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

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, as well as collect estate costs and fees at the time inventories are filed. Additionally, any extensions granted by the Clerk should be documented in the estate file.

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 \$800 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 undetected fraud existed because assets were not properly safeguarded.

According to the Clerk, her office 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 8, 2017.

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

CLERK'S RESPONSE



BETH W. HOLCOMB, CLERK
EX OFFICIO JUDGE OF PROBATE

CLERK OF SUPERIOR COURT
YADKIN COUNTY

PO BOX 95, YADKINVILLE, NC 27055
O 336-679-3600 | F 336-679-3601

MICHAEL D. DUNCAN
RESIDENT JUDGE

May 22, 2017

Attn: Beth A. Wood, State Auditor

Finding # 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.

Yadkin County Clerk of Court Response: The Clerk agrees with this finding and has taken action as follows:

Effective March 8, 2017, the Judgment Audit Report is run daily and the Security Audit Report is run monthly and verified by another Assistant Clerk, with corrections highlighted that are made by other staff with VCAP access.

The cashier with VCAP delete access has retired as of April 30th and only one Assistant Clerk and the Elected Clerk have VCAP delete access.

The cashier that had CCIS access has been changed to "inquiry" since her only job concerning criminal is printing the e-citations each morning.

Finding # 2: Untimely or Failure to Compel Estate Inventory Filings or Fee Collection

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, as well as collect estate costs and fees at the time inventories are filed. Additionally, any extensions granted by the Clerk should be documented in the estate file.

Yadkin County Clerk of Court Response: The Clerk agrees, but reiterates that this was during a period of staff change and since that time the compelling of all inventories and accountings is current as of April 30, 2017. Also, our Estate Department has spoken with our local bar about requesting, in writing, the need for any extensions of time to file accountings and they are agreeable to make every effort to help us on this. As to fees, no final accountings would be approved until all monies due were paid in full. For any fees not collected at the time of inventory filing, we have begun documenting the reasons for collection delays in the estate file as of March 15, 2017.

Finding # 3: Deficiency in Safeguarding Cash

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 8, 2017.

Yadkin County Clerk of Court Response: The Clerk agrees and immediately, the head cashier began verifying the petty cash/change funds for cashiers as stated in the auditor's report. In the Clerk's defense, I have been a head cashier since the inception of "head cashier", and although not an excuse, I have never been instructed to verify petty cash/change for cashiers on a daily basis, or I would have been doing so.

A handwritten signature in cursive script that reads "Beth W. Holcomb".

Yadkin County Clerk of Superior Court

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