

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ANSON COUNTY CLERK OF SUPERIOR COURT

WADESBORO, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JULY 2018



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The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

July 12, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Marcus D. Hammonds, Anson County Clerk of Superior Court

This report presents the results of our financial related audit at Anson 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 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 Anson 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, 2017 through February 28, 2018. 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 \$2,455,693 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 \$48,761 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, \$400,050 in bond forfeitures were set aside.

Escheats – The Clerk’s Office transfers abandoned property to the State. The transfer results when the person legally entitled to the property fails to make a valid claim on the property within a prescribed period of time. After that time, all abandoned property held by the Clerk is required to be transferred to the North Carolina Department of State Treasurer. We examined internal controls designed to ensure that the Clerk properly identifies escheatable funds. We also examined internal controls designed to ensure compliance with laws and regulations related to escheating unclaimed funds after a prescribed period of time. During the audit period, the Clerk transferred \$27,057 in escheats to the State Treasurer.

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 the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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. The Clerk’s Office handled \$2,455,693 in receipts during the audit period July 2017 to February 2018.

Specifically, six of 11 (55%) 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:

- Four (37%) employees had both cashier rights in FMS and update access in VCAP. As a result, 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. Additionally, these employees had CCIS access where they could have potentially misappropriated funds in the same manner for criminal payments and could also delete criminal case information.
- Two (18%) employees had both head bookkeeper rights in FMS and update access in VCAP. As a result, the employees could have potentially edited bills of cost and payee amounts in civil cases. One of these employees also had additional access that allowed the employee to delete civil case information.

Improper segregation of duties increased the risk that errors, unauthorized transactions, and fraud could go undetected. 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 monitoring procedures put in place by the North Carolina 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 7 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 fees in accordance with state law.

Auditors examined all 19 estates in the audit period that required an inventory to be filed. Eight (42%) estates were not compelled or not compelled timely. Specifically,

- For five (26%) estates, the Clerk failed to issue written requests requiring inventory filings.
- For three (16%) estates, the Clerk's written requests requiring inventory filings were issued 51-135 days after the three-month inventory deadline.

Auditor's also examined all 52 estates in the audit period in which a final inventory was filed. Fees totaling \$717 for three (6%) estates were not accurately assessed or collected when the final inventory was filed. Specifically,

- For two (4%) estates, fees were not accurately assessed, resulting in the Clerk's Office collecting \$224 more than required.
- For one (2%) estate, fees totaling \$493 were not collected when the final inventory was filed. Also, there was no evidence in the files to support fee collection attempts and/or reasons for collection delays. These fees remained uncollected as of the time of our audit.

As a result, there were delays and potential loss in the collection of estate costs and fees. Additionally, the Clerk's failure to compel the timely filing of inventories could allow unauthorized transactions to occur such as the removal of estate assets without the knowledge of qualified heirs. It could also delay the family of the deceased in finalizing the estate.

According to the Clerk, there were three reasons for the errors.

1. The Clerk was lenient and did not compel inventory filings because it is a small county.
2. The Clerk granted extensions on inventory filings without properly documenting the approvals in the estate file.
3. The Clerk did not properly collect the fees because of employee oversight and a lack of monitoring procedures for the collection process.

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 final 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 assess and collect estate costs and fees at the time the final inventory is filed. In addition, the Clerk should implement monitoring procedures to facilitate and document continuing efforts of identifying, tracking, and compelling the collection of outstanding fees not paid at the time of the final inventory filing.

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



State of North Carolina
General Court of Justice
CLERK OF SUPERIOR COURT
ANSON COUNTY
WADESBORO, NC 28170

MARCUS D. HAMMONDS, CLERK
EX OFFICIO JUDGE OF PROBATE

RICHARD T. BROWN
SENIOR RESIDENT JUDGE

July 5, 2018

Dear Madam Auditor:

Improper System Access Increased Risk of Undetected Errors and Fraud

This is our response to the State Auditor's letter of June 14th, 2018 outlining the audit finding(s) and recommendation(s) discussed in our exit conference.

We appreciate the work of the State Auditor's office and the courteous service exhibited in this audit process.

I concur with the audit finding and recommendations. We will work with our FMA and AOC to limit our cashiering access as much as possible. Where we can't segregate all the access duties, we will monitor the reports indicating the activity done by the clerk with VCAP/CCIS access while cashiering. In addition we will closely monitor those reports that particularly bring into focus those employees with both Head Bookkeeper and VCAP access into the process.

Untimely or Failure To Compel Estate Inventory Filings Or Fee Collection

I concur with the audit finding and recommendations. We are taking corrective action to bring our office into full compliance. Specifically, we are issuing refunds on the 2 estates where fees totaling \$224 were over collected. We are sending a notice on the one case where \$493 was not collected. The AOC has developed an enhancement to the Estate tracking system to enable the Clerk's office to automate the process of issuing the notices in a timely fashion.

Internal policies have been implemented to ensure the accuracy of fee assessments and collections. This includes the proper identifying, tracking, and compelling the collection of outstanding fees. We will work with our FMA to ensure we are remaining compliant. A new addition to the Estates Tracking System is being implemented by August 1st, 2018. This should assist us in identifying cases where notifications need to be sent and in a timely manner.

It is our intention to fully comply with all standards as set forth by the NCAOC and the general statutes of the State of North Carolina.

Respectfully,

A handwritten signature in black ink, appearing to read "M. Hammonds", written over a horizontal line.

Clerk of Superior Court

Anson County, NC

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