

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## FORSYTH COUNTY CLERK OF SUPERIOR COURT

WINSTON-SALEM, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2018



**NC**  **OSA**  
The Taxpayers' Watchdog

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



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## AUDITOR'S TRANSMITTAL

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June 19, 2018

The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable Susan S. Frye, Forsyth County Clerk of Superior Court

This report presents the results of our financial related audit at Forsyth 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 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 Forsyth 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 January 31, 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 \$19,010,475 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 \$572,031 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, \$3,221,670 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 \$308,772 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

A staff member in the Clerk's Office had the ability to change information in multiple systems, resulting in inadequate segregation of duties. The Clerk's Office handled \$19,010,475 in receipts during the audit period July 2017 to January 2018.

Specifically, the employee had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP). This employee had both head bookkeeper rights in FMS and update access in VCAP. As a result, the employee could have potentially edited bills of cost and payee amounts in civil cases.

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.

According to the Clerk and the North Carolina Administrative Office of the Courts (NCAOC), NCAOC inadvertently granted unauthorized VCAP access to the head bookkeeper during our audit period. In addition, the Clerk performed a review of employee system access within her office in January 2018 and failed to identify the access conflict.

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.

As a result of our audit, this employee's VCAP access was removed as of March 7, 2018.

*Recommendation:* The Clerk should ensure effective monitoring procedures over system access are implemented, such as a periodic review of employee system access in an effort to identify unauthorized and/or conflicting access. In addition, the Clerk should be proactive in working with NCAOC to ensure only those access rights as authorized by the Clerk's Office are properly assigned.

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

2. UNTIMELY TRANSFER OF UNCLAIMED FUNDS TO THE STATE TREASURER AND FAILURE TO NOTIFY APPARENT OWNERS

The Clerk's Office did not transfer unclaimed funds to the North Carolina Department of State Treasurer (Treasurer) or attempt to notify the apparent owners of unclaimed funds in accordance with state law. During the audit period, the Clerk's Office transferred 967 unclaimed items totaling \$308,772 to the Treasurer.

Auditors examined 68 of 967 unclaimed items totaling \$98,317 that were transferred to the Treasurer during the audit period and found 37 (54%) items that were untimely transferred. Specifically,



- Thirty-two (47%) items totaling \$26,985 in unclaimed funds should have been transferred to the Treasurer during the periods 2010-2016.
- Five (7%) items totaling \$1,144 in unclaimed funds were transferred early and should have been transferred to the Treasurer in 2018 rather than 2017.

Additionally, the Clerk's Office was required to provide notice to the apparent owners for 341 of the 967 unclaimed items totaling \$299,449 prior to transfer to the Treasurer. Auditors examined 68 of 341 unclaimed items requiring notice and found 33 (49%) items totaling \$109,676 where a good faith effort was not made to notify the apparent owner prior to transfer of funds to the Treasurer.

As a result, the return of unclaimed funds to the rightful owners was delayed. Additionally, there was a potential loss of earnings on the Unclaimed Property Fund, or Escheats Fund. A loss of Escheats Fund earnings reduces the amount of funds available for transfer to the North Carolina State Education Assistance Authority, which provides loans and grants to worthy and needy North Carolina students attending state-supported colleges and universities.

According to the Clerk, employee turnover led to an improper understanding of the North Carolina Administrative Office of the Courts (NCAOC) policies and procedures related to the escheat process. This misunderstanding resulted in the untimely transfer of funds and the failure to notify apparent owners.

*North Carolina General Statute 116B-60(d)* and the *North Carolina Clerk of Superior Court Escheats Manual*, Section C2, sets forth the process by which the Clerks determine that unclaimed funds are eligible for delivery to the Treasurer, and the act of transferring such funds to the Treasurer at the appropriate time. Further, *North Carolina General Statute 116B-59* and the *North Carolina Clerk of Superior Court Escheats Manual*, Section C5, requires a good faith effort to locate and provide notice to an apparent owner of unclaimed funds prior to the transfer of funds to the Treasurer.

*Recommendation:* The Clerk's Office should follow state law and the *North Carolina Clerk of Superior Court Escheats Manual* to ensure the timely transfer of all unclaimed funds to the Treasurer and to ensure a good faith effort is performed to notify the apparent owners of unclaimed funds. Additionally, the Clerk should contact NCAOC to ensure all employees receive proper training in the escheat process.

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



SUSAN FRYE, CLERK  
EX OFFICIO JUDGE OF PROBATE  
CLERK OF SUPERIOR COURT  
FORSYTH COUNTY  
PO BOX 20099  
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336-779-6300

L. TODD BURKE  
SENIOR RESIDENT JUDGE  
DAVID L. HALL  
RESIDENT JUDGE  
ERIC C. MORGAN  
RESIDENT JUDGE  
RICHARD S. GOTTLIEB  
RESIDENT JUDGE

June 13, 2018

Beth A. Wood, CPA  
State Auditor  
20601 Mail Service Center  
Raleigh, NC, 27699-0600

Re: Audit Response

Dear Ms. Wood:

This letter is in response to the State Auditor's Audit Findings and Recommendations received in writing on May 30, 2018. I concur with the Audit Findings and Recommendations.

**AUDIT FINDINGS AND RECOMMENDATIONS**

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

*Recommendation:* The Clerk should ensure effective monitoring procedures over system access are implemented, such as a periodic review of employee system accessing an effort to identify unauthorized and /or conflicting access. In addition, the Clerk should be proactive in working with NCAOC to ensure only those access rights as authorized by the Clerk's Office are properly assigned.

*Agency Response:* On January 2018 Ms. Sparks requested to have access to cashier during lunch time because of shortage of workforce. Security added VCAP for Ms. Sparks in error. As a result of the audit, this VCAP access was removed as of March 7, 2018.

*Action taken to correct risk.* The Clerk will periodically review employee's system access report in an effort to identify conflicting access. The Clerk will be more proactive in working with NCAOC to ensure authorized access are properly assigned.

**2. Untimely Transfer of Unclaimed Funds to the State Treasurer and Failure to Notify Apparent Owners**

*Recommendations:* The Clerk's Office should follow state law and the North Carolina Clerk of Superior Court Escheats Manual to ensure the timely transfer of all unclaimed funds to the Treasurer and to ensure a good faith effort in performed to notify the apparent owners of unclaimed funds. Additionally, the Clerk should contact NCAOC to ensure all employees receive proper training in the escheat process.

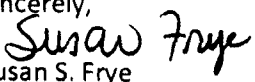
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Agency Response: The retirement in 2017 of the Head Bookkeeper and the improper understanding of the policies and procedures related to the escheat process resulted in the untimely transfer of funds.

Action taken to correct risk. The Head Bookkeeper has received additional training to learn the policies and procedures in the escheat process and the transfer of all unclaimed funds.

I would like to thank you and your staff for the courteous and professional audit process.

Sincerely,



Susan S. Frye

Forsyth County Clerk of Court

cc: Ted F. Price, CPA  
Financial Audit Director

# ORDERING INFORMATION

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