

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



GASTON COUNTY CLERK OF SUPERIOR COURT

GASTONIA, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2018



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

June 20, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Lawrence N. Brown, Jr., Gaston County Clerk of Superior Court

This report presents the results of our financial related audit at Gaston 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 a deficiency in internal control and an instance of noncompliance that is considered reportable under *Government Auditing Standards*. This item is 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 Gaston 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 March 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 \$16,103,708 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 \$309,610 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, \$3,774,050 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 \$200,064 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 a deficiency in internal control and an instance of noncompliance that is considered reportable under *Government Auditing Standards*. This item is described in the *Audit Findings, Recommendations, and Responses* section of this report. Management's response is presented after the audit finding. We did not audit the response, and accordingly, we express no opinion on it.

FAILURE TO ACCURATELY ASSESS OR COLLECT ESTATE INVENTORY FEES

The Clerk's Office did not accurately assess or collect estate inventory fees in accordance with state law.

Auditors examined 130 of 547 estates in the audit period in which a final inventory was filed. Fees totaling \$3,104 for 20 (15%) estates were not accurately assessed or collected when the final inventory was filed. Specifically,

- For 9 (7%) estates, fees totaling \$2,592 were not accurately assessed, resulting in the Clerk's Office collecting more than required.
- For 11 (8%) estates, fees totaling \$512 were not accurately assessed, resulting in the Clerk's Office collecting less than required.

As a result, there were delays and the potential for loss in the collection of estate costs and fees.

According to the Clerk, the failure to accurately assess and collect the fees resulted from a lack of proper review and audit of the files before finalizing.

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 to ensure appropriate action is taken to assess and collect the proper estate costs and fees at the time the final inventory is filed. In addition, the Clerk should implement effective monitoring procedures, such as a detailed review of fee calculations prior to approval of the final inventory, to ensure the accuracy of fee assessments and collections.

Clerk's Response: See page 6 for the Clerk's response to this finding.



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

LARRY N. BROWN, CLERK
EX OFFICIO JUDGE OF PROBATE

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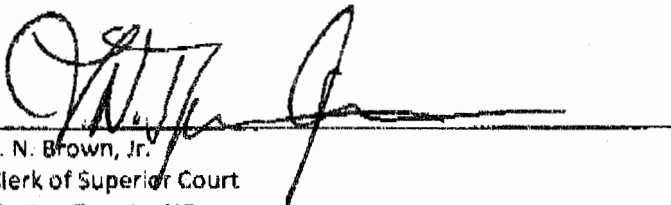
June 18, 2018

OSA Audit Finds – Response

I do not disagree with any of the audit findings of the state auditor's office. When the state auditors came to my office, I met with them and asked them for their help in identifying any areas that needed improvement, both big and small.

All errors reported involved failure to accurately assess estate inventory fees. In every case, fees were collected, however in several cases those fees were not calculated correctly. All errors identified by the auditors were addressed within two weeks after the exit interview with the state auditors. We have changed our procedures to have all fees assessed recalculated by a different staff member before the final accounting is approved. We are scheduled to have an internal audit from the Administrative Office of the Court beginning July 5, 2018. I have requested that auditor review estate files approved after the state auditors review to make sure the changes made have corrected our problem.

As the elected Clerk of Superior Court, I am responsible for any errors this office makes as well as implementing the appropriate corrective action. We addressed all identified errors as well as changed procedures immediately after my exit interview with the state auditors. I have the utmost confidence in my staff and our ability to make the proper changes to ensure that State Law is followed.



L. N. Brown, Jr.
Clerk of Superior Court
Gaston County, NC

ORDERING INFORMATION

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