

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



I REDELL COUNTY CLERK OF SUPERIOR COURT

STATESVILLE, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2018



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

June 29, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable James L. Mixson, III, Iredell County Clerk of Superior Court

This report presents the results of our financial related audit at Iredell 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 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 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 Iredell 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 \$19,215,526 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 \$372,331 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, \$1,969,500 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 \$578,221 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 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.

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. The Clerk's Office handled \$19,215,526 in receipts during the audit period July 2017 to March 2018.

Specifically, six of 44 (14%) employees had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP). All six employees had both 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 had been paid.

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 and need for cashiers at a second location for certain days make it difficult to achieve proper duty segregation. While the Clerk was aware of procedures put in place by the North Carolina Administrative Office of the Courts to serve as compensating controls for the inappropriate access, the Clerk did not ensure these procedures were consistently performed by his staff.

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 6 for the Clerk's response to this finding.



State of North Carolina
General Court of Justice
CLERK OF SUPERIOR COURT
IREDELL COUNTY
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The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
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June 27, 2018

Dear Auditor Wood:

This letter is in response to State Auditor's Findings and Recommendations received as a result of the audit conducted on the Iredell County Clerk of Superior Court's Office in April and May 2018.

OSA Recommendations

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.

Agency Response

I agree with the findings and recommendations of audit. Iredell County operates court in two separate geographic locations in the county. The primary location is the Hall of Justice and Hall of Justice Annex Building located in Statesville. The secondary location is the court facility located in Government Center South in Mooresville. Due to holding court in different locations and due to the volume of cases in Iredell County it is impractical to properly segregate cashier duties. Normally the cashier in Mooresville is a Deputy Clerk assigned to the Civil Department who serves as cashier as a secondary duty.

Per the N.C. Administrative Office of the Courts' most up to date CSC System Access Conflicts and Compensating Controls the proper compensating control for this issue would be a documented review of [1] Judgment Transaction Audit Report by Source and [2] Security Audit Report. The policy of this office since February 2015 has been to audit the Judgment Audit Report weekly and the Security Audit Report monthly. This duty was assigned to an Assistant Clerk of Superior Court who is a supervisor in the Civil Department. In December of 2017, through a normal review of duties assigned to supervisors/managers, I discovered the Judgment Transaction Audit Report and the Security Audit Reports had not been audited in several months. Corrective action was immediately taken to correct the issue.

Internal policies have been enhanced to ensure the timely review of the Judgment Audit Report and the Security Audit Report. In addition, training was conducted with all managers and supervisors in regards to the importance of this and all compensating controls and security access issues. Further, the office Operations Manager is now tasked with verifying the above mentioned reports are audited by an Assistant Clerk in the Civil Department monthly.

The audit conducted on the Iredell County Clerk of Superior Court's Office covered the time period of July 1, 2017 through March 31, 2018 and the state auditors began their review on April 23, 2018. I believe it is important to note that the issue was discovered prior to the routine state audit and steps were already in place to correct the situation in December 2017. We appreciate the work of the State Auditor's office to further enhance our policies and our understanding of this issue.

It is our intention to fully comply with all standards set for the N.C. Administrative Office of the Courts and the general statutes of North Carolina. I want to thank the State Auditor's office for their professionalism and courteous service exhibited during the audit process.

Respectfully,



James Lee Mixson III
Clerk of Superior Court

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