

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



JACKSON COUNTY CLERK OF SUPERIOR COURT

SYLVA, 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 13, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Ann D. Melton, Jackson County Clerk of Superior Court

This report presents the results of our financial related audit at Jackson 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 Jackson 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 \$2,820,110 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 \$62,012 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, \$545,050 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 \$5,731 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. FAILURE TO COLLECT ESTATE INVENTORY FEES

The Clerk's Office did not 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 65 of 86 estates in the audit period in which a final inventory was filed. Fees totaling \$500 for 10 (16%) estates were not collected when the final inventory was filed and remained uncollected as of the time of our audit. Specifically,

- For five (8%) estates, there was no evidence in the file to support fee collection attempts once the final inventory was filed.
- For five (8%) estates, there was evidence in the file to support fee collection attempts once the final inventory was filed. However, the inventories were considered final and closed without collection of the applicable fees, and no evidence existed of subsequent collection efforts.

For the 10 estates, there were no monitoring procedures in place to ensure the Clerk's Office continued efforts of identifying, tracking, and compelling the collection of fees not paid at the time of the final inventory filing.

According to the Clerk, new employees were processing estate inventory fees during this time and were unfamiliar with the state policies and procedures regarding the timing of final inventory fee collections.

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 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.

2. UNTIMELY COMPLETION OF BANK RECONCILIATIONS

Required adjustments for bank reconciliations identified by the North Carolina Administrative Office of the Courts (NCAOC) were not recorded in the Financial Management System in a timely manner.

Auditors found that three of eight (38%) bank reconciliations prepared during the audit period contained a total of \$236 required reconciling adjustments that were recorded 22 to 126 days after NCAOC prepared the reconciliations.

When identified adjustments to the bookkeeping and banking records are not investigated and recorded in a timely manner, the risk increases that an error or misappropriation could go undetected.

According to the Clerk and Bookkeeper, the Bookkeeper preferred to delay making adjusting entries until the NCAOC Financial Management Analyst was available to assist.

The *Clerk of Superior Court Financial Policies and Procedures Manual* requires reconciliations be performed monthly and completed no later than the last day of the following month. The bank reconciliation is considered complete when all reconciling adjustments have been made in the Financial Management System.

Recommendation: The Clerk should investigate all adjusting entries listed. All required entries in the Financial Management System should be made in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual* in order to complete the bank reconciliation process. In addition, the Clerk should consider additional training for those responsible for making these entries to ensure timely recording in the Financial Management System.

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



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June 11, 2018

This letter is in response to the State Auditor's letter of June 5, 2018 outlining the Audit Findings and Recommendations discussed in our exit telephone call on June 7, 2018.

1. FAILURE TO COLLECT ESTATE INVENTORY FEES

OSA Recommendation: The Clerk should follow state law to ensure appropriate action is taken to 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.

AGENCY RESPONSE:

I agree with the finding and recommendations.

Effective immediately the estate clerks will not close estates files without having first collected ALL fees which are due as per NCGS 7A-307(a)(2) this will ensure monitoring within the estate tracking system of all pending estate files.

2. UNTIMELY COMPLETION OF BANK RECONCILIATIONS

OSA Recommendation: The Clerk should investigate all adjusting entries listed. All required entries in the Financial Management System should be made in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual* in order to complete the bank reconciliation process. In addition, the Clerk should consider additional training for those responsible for making these entries to ensure timely recording in the Financial Management System.


AGENCY RESPONSE:

I agree with the finding and recommendations.

Effective immediately the bookkeeping department will review the bank reconciliations and make sure the adjustment entries are recorded within the month end. The FMA has agreed to assist with the understanding for any miscellaneous entries that are required to be made.

I appreciate the audit review team who served Jackson County. They were always pleasant and very professional.

Respectfully,


Ann Melton
Clerk of Superior Court

ORDERING INFORMATION

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This audit was conducted in 246 hours at an approximate cost of \$25,338.