

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



RICHMOND COUNTY CLERK OF SUPERIOR COURT

RICHMOND, 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

June 25, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Vickie B. Daniel, Richmond County Clerk of Superior Court

This report presents the results of our financial related audit at Richmond 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 Richmond 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 \$2,173,635 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 \$60,801 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, \$413,880 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 \$5,945 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 IDENTIFY AND TRANSFER UNCLAIMED FUNDS TO THE STATE TREASURER OR RIGHTFUL OWNERS

The Clerk's Office did not identify and transfer unclaimed funds to the North Carolina Department of State Treasurer (Treasurer) or rightful owners in accordance with state law. During the audit period, the Clerk's Office transferred 56 unclaimed items totaling \$5,945 to the Treasurer.

Auditors examined the February 2018 aging report¹ for items held over one year and identified 187 unclaimed items totaling \$131,041. One hundred sixty (86%) items totaling \$95,786 remained on deposit with the Clerk as of the time of our audit and should have been transferred to the Treasurer or the rightful owner. Specifically,

- Eighty-nine (48%) items totaling \$53,895 in unclaimed funds should have been transferred to the rightful owner during the periods 2008-2017. There was no evidence of attempts to contact the rightful owners.
- Seventy-one (38%) items totaling \$41,891 in unclaimed funds should have been transferred to the Treasurer during the periods 2008-2017.

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

According to the Clerk, employees had an improper understanding of the North Carolina Administrative Office of the Courts (NCAOC) policies and procedures related to the timely review of the monthly aging reports¹.

North Carolina General Statute 116B-53(c) and the *North Carolina Clerk of Superior Court Escheats Manual*, Section C1, sets forth the process by which the Clerks are to identify funds eligible for escheat, which includes reviewing the monthly aging reports¹. This same review also identifies funds that should be disbursed to the rightful owners. Further, *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.

Recommendation: The Clerk should follow state law and the *North Carolina Clerk of Superior Court Escheats Manual* to ensure the identification and timely transfer of all unclaimed funds to the Treasurer or other applicable parties. Additionally, the Clerk should ensure responsible employees receive proper training and implement effective monitoring procedures over the escheat process, such as a periodic review of aging reports¹.

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

¹ The monthly aging report reflects all case level account funds being held by the Clerk and the amount of time the funds have remained in the Clerk's office without any activity.

2. 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, resulting in delays and potential loss in the collection of estate costs and fees.

Auditors examined 65 of 149 estates in the audit period in which a final inventory was filed. Fees totaling \$312 for seven (11%) estates were not accurately assessed or collected when the final inventory was filed. Specifically,

- For two (3%) estates, fees were not accurately assessed, resulting in the Clerk's Office collecting \$37 more than required.
- For one (2%) estate, fees were not accurately assessed, resulting in the Clerk's Office collecting \$6 less than required.
- For four (6%) estates, fees totaling \$270 were not collected when the final inventory was filed and there was no evidence in the files to support subsequent collection efforts. These fees remained uncollected as of the time of our audit.

For the seven estates, there were no monitoring procedures in place to ensure the Clerk's Office accurately assessed and properly identified, tracked, and compelled the collection of fees not paid at the time of the final inventory filing.

According to the Clerk, her employees made unintentional mistakes in calculating the fees and not collecting the required amounts when the final inventories were filed.

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 effective monitoring procedures, such as reviewing fee calculations for accuracy and identifying uncollected fees at the time of final inventory filing.

Clerk's Response: See page 8 for the Clerk's response to this finding.



VICKIE B. DANIEL, CLERK
EX OFFICIO JUDGE OF PROBATE
CLERK OF SUPERIOR COURT
RICHMOND COUNTY
RICHARD BROWN
SENIOR RESIDENT JUDGE
105 W. FRANKLIN STREET
ROCKINGHAM, NC 28379

June 20, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, N.C. 27699-0600

Re: Audit Response

Dear Ms. Wood:

This letter is in response to the State Auditor's Audit Findings and Recommendations in a letter dated June 6, 2018. I concur with the Audit Findings and Recommendations.

Audit Findings and Recommendations

1. Failure to Identify and Transfer Unclaimed Funds to the State Treasurer or Rightful Owners

OSA Recommendation: The Clerk should follow state law and the North Carolina Clerk of Superior Court Escheats Manual to ensure the identification and timely transfer of all unclaimed funds to the Treasurer or other applicable parties. Additionally, the Clerk should ensure responsible employees receive proper training and implement effective monitoring procedures over the escheat process, such as a periodic review of aging reports.

Agency Response: This is a valid finding and corrective actions have been taken to ensure compliance with AOC policies and procedures. The monthly aging reports will be reviewed periodically in order to ensure the timely transfer of all unclaimed funds to the Treasurer or other applicable parties. Adequate documentation will be provided for cases that are being held instead of escheated. It is also important to note that there was no fraud discovered during this audit.

2. Failure to Accurately Assess or 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 effective monitoring procedures, such as reviewing fee calculations for accuracy and identifying uncollected fees at the time of final inventory filing.

☆☆☆

Agency Response: I concur with the audit finding and recommendation. Corrective measures have been taken to bring our office into full compliance. For the two estate cases where overpayments were made, refunds have been sent to heirs. For the one case where the estate underpaid, a notice has been sent for collection. Notices have also been sent for the remainder of the estates that had not paid the fee assessed when the final inventory was filed. Effective immediately the estate clerks will not close estate files until all fees are collected. This will allow the estate tracking system to monitor all pending files.

Internal policies have been implemented to ensure that fees are accurately assessed and properly identified, tracked and collected at the time of the final inventory filing. We will work with our Business Systems Analyst to ensure our compliance.

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

Respectfully,



Vickie B. Daniel
Clerk of Superior Court
Richmond County

ORDERING INFORMATION

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This audit was conducted in 234 hours at an approximate cost of \$24,102.