

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ROCKINGHAM COUNTY CLERK OF SUPERIOR COURT

WENTWORTH, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2018



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

June 27, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable J. Mark Pegram, Rockingham County Clerk of Superior Court

This report presents the results of our financial related audit at Rockingham 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

TABLE OF CONTENTS

	PAGE
BACKGROUND	1
AUDIT OBJECTIVES AND SCOPE	2
METHODOLOGY	3
RESULTS AND CONCLUSIONS.....	4
AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES.....	5
ORDERING INFORMATION.....	9

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 Rockingham 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 \$7,013,515 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 \$134,216 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, \$432,280 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 \$230,368 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

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 \$7,013,515 in receipts during the audit period July 2017 to March 2018.

Specifically, two of 31 (6%) employees had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP). Both employees had head bookkeeper access in FMS and update access in VCAP and 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.

The Clerk's Office did not ensure that system access rights assigned to staff resulted in proper segregation of duties. 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 misunderstood the required procedures. As a result, these monitoring procedures were not 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 7 for the Clerk's response to this finding.

2. UNTIMELY TRANSFER OF UNCLAIMED FUNDS TO THE STATE TREASURER

The Clerk's Office did not transfer unclaimed funds to the North Carolina Department of State Treasurer (Treasurer) in accordance with state law. During the audit period, the Clerk's Office transferred 182 unclaimed items totaling \$230,368 to the Treasurer.

Auditors examined 72 of 182 unclaimed items totaling \$192,268 that were transferred to the Treasurer during the audit period. Twelve (16%) of the items should have been transferred in prior years. Specifically,

- Eleven (15%) items totaling \$7,120 in unclaimed funds should have been transferred to the Treasurer during the periods 2015-2016.
- One (1%) item totaling \$568 should have been transferred to the Treasurer in 2011.

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 North Carolina students attending state-supported colleges and universities.

According to the Clerk, the items were transferred late due to employee turnover and a resulting backlog. In addition, the responsible employee did not understand the North Carolina Administrative Office of the Courts (NCAOC) policies and procedures for timely submission of unclaimed funds to the Treasurer.

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 timely transfer of all unclaimed funds to the Treasurer. Additionally, the Clerk should contact NCAOC to ensure the responsible employee receives proper training in the timely transfer of unclaimed funds and consider training another employee to act as a backup in the event of future turnover.

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



CLERK OF SUPERIOR COURT

Rockingham County

State of North Carolina
General Court of Justice

June 25, 2018

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

Re: Audit Response

Dear Ms. Wood:

This is our response to the State Auditor's letter of June 11, 2018 outlining the audit finding and recommendation discussed in our exit conference.

We appreciate the work of the State Auditor's office and the courteous service exhibited in this audit process.

AUDIT FINDINGS AND RECOMMENDATIONS

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

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 error or fraud.

Action taken to correct risk: I concur with the audit finding and recommendations. We will work with our FMA and AOC to limit our bookkeeping access as much as possible with VCAP update access.

Where we can't segregate all the access duties, we will continue to monitor the reports indicating the activity done by the clerk with VCAP access while bookkeeping. We will properly document the review of these daily reports to be in compliance with the compensating controls. In this issue, once discovered, we addressed the access issue with the AOC and requested removal of the identified staff member.

2. Failure to Identify and Transfer Unclaimed Funds to the State Treasurer

Recommendation: The Clerk 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. Additionally, the Clerk should contact NCAOC to ensure the responsible employee receives proper training in the timely transfer of unclaimed funds and consider training another employee to act as a backup in the event of future turnover.

Action taken to correct risk:

I concur with the audit finding and recommendation. We are taking corrective action to bring our office into full compliance.

Specifically, in August when the escheats process is scheduled to begin we will request assistance from our Financial Management Analyst to ensure all escheatable items are escheated in a timely manner or we will document why we are not escheating the funds at that time. We will be in the process of training additional staff member(s) in this job task.

It is our intention to fully comply with all standards as set forth by the NCAOC and the general statutes of the State of North Carolina.

Sincerely,

J. Mark Pegram
Clerk of Superior Court
Rockingham County

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

