

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



STANLY COUNTY CLERK OF SUPERIOR COURT

ALBEMARLE, 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 22, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Michael E. Huneycutt, Stanly County Clerk of Superior Court

This report presents the results of our financial related audit at Stanly 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 Stanly 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 \$5,406,276 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 \$104,160 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, \$907,000 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 \$16,180 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 and/or delete information in multiple systems, resulting in inadequate segregation of duties. The Clerk's Office handled \$5,406,276 in receipts during the audit period July 2017 to March 2018.

Specifically, nine of 19 (47%) employees had inappropriate access to the Financial Management System (FMS) and the Civil Case Processing System (VCAP) as follows:

- 7 (37%) employees had both cashier rights in FMS and update access in VCAP. As a result, 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 have been paid. Two of these employees also had additional access that allowed the employee to delete civil case information. Additionally, one of these employees had head cashier rights in FMS, which allowed the same person to potentially misappropriate funds by closing their own register and/or voiding their own receipts.
- 2 (10%) employees had both head bookkeeper rights in FMS and update access in VCAP. As a result, the employees could have potentially edited bills of cost and payee amounts in civil cases. One of these employees also had additional access that allowed the employee to delete civil case information.

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 improper segregation of duties occurred for three reasons.

First, the North Carolina Administrative Office of the Courts (NCAOC) inadvertently granted unauthorized cashier access in FMS to one employee during the period January 1, 2017 to June 30, 2017.

Second, the Clerk reviewed employee system access for his office in July 2017 and January 2018 but failed to identify the access conflict.

Third, the Clerk did not ensure that his staff consistently performed the monitoring procedures that serve as compensating controls for inappropriate access. According to the Clerk, the small staff size makes it difficult to achieve proper duty segregation.

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.

As a result of our audit, the unauthorized cashier access for the one employee was removed as of April 11, 2018.

Recommendation: The Clerk should ensure effective monitoring procedures over system access are implemented, such as a periodic review of employee system access in an effort to identify unauthorized and/or conflicting access. The Clerk should also be proactive in working with NCAOC to ensure only those access rights as authorized by

the Clerk's Office are properly assigned. Finally, 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. 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 119 unclaimed items totaling \$16,180 to the Treasurer.

Auditors examined the March 2018 aging report¹ for items held over one year and identified 17 unclaimed items totaling \$104,139. Five (29%) items totaling \$13,416 remained on deposit with the Clerk as of the time of our audit and should have been transferred to the Treasurer or rightful owner during the periods 2015-2017. There was no evidence of attempts to contact the rightful owners.

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 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 escheatable items were not identified due to employee turnover and a misunderstanding of policies and procedures related to the escheat process.

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 rightful owners. 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 8 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.



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

JUDICIAL DISTRICT 20A

STANLY COUNTY

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MICHAEL E. HUNEYCUTT, CLERK
EX OFFICIO JUDGE OF PROBATE

KEVIN M. BRIDGES
SENIOR RESIDENT JUDGE

June 21, 2018

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

In Response to audit findings and recommendations:

1. IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED ERRORS AND FRAUD

Recommendation: The Clerk should ensure effective monitoring procedures over system access are implemented, such as a periodic review of employee system access in an effort to identify unauthorized and/or conflicting access. The Clerk should also be proactive in working with NCAOC to ensure only those access rights as authorized by the Clerk's Office are properly assigned. Finally, 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.

I concur with the audit finding and recommendations. We will work with our FMA and AOC to limit our cashiering access as much as possible. 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 cashiering. We will properly document the review of these daily reports to be in compliance with the compensating controls. The criminal clerks that review these daily reports will be trained in the proper procedures.

2. FAILURE TO IDENTIFY AND TRANSFER UNCLAIMED FUNDS TO THE STATE TREASURER OR RIGHTFUL OWNERS

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 rightful owners. 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.

I concur with the audit finding and recommendation. We are taking corrective action to bring our office into full compliance. Specifically, we are moving the five items totaling \$13,416 to the escheats account to be escheated this year. To prevent this issue from occurring in the future we will send our bookkeepers to escheats training provided by NCAOC. 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. These tasks performed by the bookkeeper will be monitored by the Special Proceeding assistant clerk with the help of our FMA.

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.

A handwritten signature in black ink, reading "Michael E. Huneycutt". The signature is written in a cursive style with a horizontal line underneath the name.

Michael E. Huneycutt

Stanly County Clerk of Superior Court

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