

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



TRANSYLVANIA COUNTY CLERK OF SUPERIOR COURT

BREVARD, NORTH CAROLINA
FINANCIAL RELATED AUDIT
JUNE 2018



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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 7, 2018

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Kristi B. Brown, Transylvania County Clerk of Superior Court

This report presents the results of our financial related audit at Transylvania 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at Transylvania 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 January 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 \$2,207,010 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 \$71,259 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, \$320,500 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 \$13,712 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.

LACK OF REVIEWS AND TIMELY COMPLETION OF BANK RECONCILIATIONS

Bank reconciliations prepared by the North Carolina Administrative Office of the Courts (NCAOC) were not reviewed, nor were the required reconciling adjustments identified by NCAOC recorded in the Financial Management System in a timely manner.

Auditors examined the seven monthly bank reconciliations prepared during the audit period and found:

- Seven (100%) bank reconciliations lacked evidence of review.
- Six (86%) bank reconciliations contained a total of \$188 required reconciling adjustments that were recorded 77 to 94 days after NCAOC prepared the reconciliations.

When bank reconciliations are not timely reviewed, and the 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, they were unaware of their responsibilities of reviewing the bank reconciliations and recording the related adjusting entries in the Financial Management System.

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 a review of the reconciliation has been performed and all reconciling adjustments made in the Financial Management System.

Recommendation: The Clerk's Office should perform a timely review of the NCAOC prepared bank reconciliation each month. In addition, the Clerk's Office should investigate all adjusting entries listed and make all required entries in the Financial Management System in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual* in order to complete the bank reconciliation process.

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
TRANSYLVANIA COUNTY

KRISTI B. BROWN, CLERK
EX OFFICIO JUDGE OF PROBATE

7 EAST MAIN STREET
BREVARD, NC 28712

MARK E. POWELL
SENIOR RESIDENT
SUPERIOR COURT JUDGE

828-885-3000 OFFICE
828-885-3001 FAX

LACK OF REVIEWS AND TIMELY COMPLETION OF BANK RECONCILIATIONS

OSA Recommendations

The Clerk's Office should perform a timely review of the NCAOC prepared bank reconciliation each month. In addition, the Clerk's Office should investigate all adjusting entries listed and make all required entries in the Financial Management System in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual* in order to complete the bank reconciliation process.

Agency Response

I agree with the finding and recommendations.

Bank Reconciliations for the Transylvania Clerk of Superior Court (CSC) office are completed by the NCAOC to ensure independent verification of financial transactions and to maintain the proper segregation of duties as prescribed by the NCAOC. While the reconciliations were reviewed periodically by the CSC office, no one signed the reconciliations to validate/verify this review. Further, reconciling items as noted (totaling \$188) were not recorded in the Financial Management System until approximately 2-3 months after the reconciliation as opposed to the prescribed procedure of recording adjustments within a month of reconciliation.

The Transylvania County Clerk of Superior Court has assigned a designated reviewer for the bank reconciliations who will verify that adjusting items are recorded within a month of the reconciliation.

The reviewer (Head Bookkeeper) has been assigned to review all bank reconciliations (effective as of March 2018) and will record any necessary entries in FMS or entries/adjustments being listed on the reconciliation.

Kristi B. Brown
6/4/2018

ORDERING INFORMATION

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513



This audit was conducted in 178 hours at an approximate cost of \$18,334.