

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## WARREN COUNTY CLERK OF SUPERIOR COURT

WARRENTON, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2018



**NC\$OSA**  
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 22, 2018

The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable Lisa F. Blalock, Warren County Clerk of Superior Court

This report presents the results of our financial related audit at Warren 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 .....	8

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 Warren 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 \$1,815,577 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 \$39,480 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, \$224,400 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 \$41,411 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. 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 44 unclaimed items totaling \$41,411 to the Treasurer.

Auditors examined all 44 unclaimed items and found six (13%) items that should have been transferred in prior years. Specifically,

- One (2%) item totaling \$12,517 in unclaimed funds should have been transferred to the Treasurer in 1993.
- Three (7%) items totaling \$5,834 should have been transferred to the Treasurer during the periods 2006-2010.
- One (2%) item totaling \$1,945 should have been transferred to the Treasurer in 1997.
- One (2%) item totaling \$1,156 should have been transferred to the Treasurer in 2016.

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, prior to her appointment, there was a misunderstanding of the North Carolina Administrative Office of the Courts (NCAOC) policies and procedures related to the timely submission of unclaimed funds to the Treasurer, which caused the items to be escheated late.

*North Carolina General Statute 116B-60(6)(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 ensure responsible employees receive proper training in the timely transfer of unclaimed funds.

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

2. FAILURE TO ACCURATELY ASSESS AND COLLECT ESTATE INVENTORY FEES

The Clerk’s Office did not accurately assess and collect estate inventory fees in accordance with state law.

Auditors examined all 52 estates in the audit period in which a final inventory was filed. Fees totaling \$1,665 for 10 (20%) estates were not accurately assessed or collected when the final inventory was filed. Specifically,



- For five (10%) estates, fees were not accurately assessed, resulting in the Clerk's Office collecting \$162 less than required.
- For five (10%) estates, fees totaling \$1,503 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.

As a result, there were delays and the potential for loss in the collection of estate costs and fees.

The errors occurred because the Clerk's Office did not have monitoring procedures in place to ensure that staff accurately assessed, identified, tracked, and compelled the collection of fees not paid at the time of the final inventory filing.

According to the Clerk, 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 7 for the Clerk's response to this finding.



LISA F. BLALOCK, CLERK  
EX OFFICIO JUDGE OF PROBATE

CLERK OF SUPERIOR COURT  
WARREN COUNTY

PO BOX 709, WARRENTON, NC 27589  
O 252-257-6300 | F 252-257-6301  
JURY LINE 252-257-6305

ROBERT H. HOBGOOD  
SENIOR RESIDENT JUDGE

HENRY W. HIGHT, JR.  
RESIDENT JUDGE

**1. Untimely Transfer of 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 ensure responsible employees receive proper training in the timely transfer of unclaimed funds.

**Response:** I agree that certain funds were not escheated in a timely manner and I agree with the above recommendations. However, I was appointed Clerk in 2017, and at that time escheated the older unclaimed funds. Prior to my appointment as Clerk, it was not in my authority to escheat these funds.

The bookkeeper has already attended an Escheats class offered by AOC and we have a new manual. We are also closely monitoring the monthly reports for funds that should be escheated.

The above remedies and guidelines are already in place. The bookkeeper and the Clerk will be monitoring funds for escheating.

**2. Failure to Accurately Assess and Collect Estate Inventory Fees**

**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 final inventory filing.

**Response:** I agree that fees were (unintentionally) not collected and I agree with the above recommendations. Human error, oversights, failure to attach receipts and handling of cases by several people contributed to these errors.

Our policy now is to double check for payments/receipts and fee calculations before signing and approving the Final Accounting.

This was implemented immediately upon the Auditor's Findings by the Clerk and the Assistant Clerk.

Lisa F Blalock, Warren Co Clerk of Superior Court



# 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**

