

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

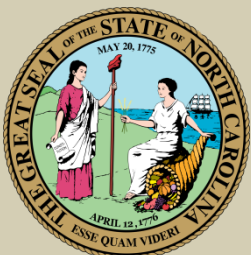


ALAMANCE COUNTY CLERK OF SUPERIOR COURT

GRAHAM, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2019



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Meredith T. Edwards, Alamance County Clerk of Superior Court

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

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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 Alamance 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, 2018 through February 28, 2019. 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 \$11,118,564 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 \$223,170 in estate fees.

The Clerk’s Office ensures that all estate guardians are properly bonded based on the value of the annual estate inventory. An annual estate inventory is to be filed by the estate guardian of a minor or incapacitated adult. We examined internal controls designed to ensure that the Clerk properly obtains an inventory for each guardianship in compliance with laws and regulations. We also examined internal controls designed to ensure that bonds assessed and collected are sufficient and in compliance with laws and regulations. During the audit period, auditors examined \$9,706,983 in estate guardian bonds retained by the Clerk.

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 \$33,530 in escheats to the State Treasurer.

Trusts – The Clerk’s Office receives, administers, and disburses trust funds for minors and incapacitated adults. We examined internal controls designed to ensure that disbursements from minor and incapacitated adult trust accounts are proper to ensure compliance with laws and regulations. As of February 28, 2019, the Clerk had \$3,332,716 in trust accounts.

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 \$11,118,564 in receipts during the audit period July 2018 to February 2019.

Specifically, four out of 39 (10%) employees had inappropriate access to the Financial Management System (FMS) and the Criminal Court Information System (CCIS). All four employees had both cashier rights in FMS and update access in CCIS.

As a result, employees could have potentially misappropriated funds by collecting cash from a criminal payment, bypassing receipt entry into FMS, and updating CCIS to indicate all costs have been paid.

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 did not ensure that system access rights assigned to staff resulted in proper segregation of duties. The North Carolina Administrative Office of the Courts provided monitoring procedures to serve as compensating controls for the inappropriate access. While aware of these procedures, the Clerk did not ensure they were consistently performed.

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 and consistently applied 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 OWNER

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.

Auditors examined the February 2019 aging report¹ for items held over one year and identified 304 unclaimed items totaling \$577,545. Seventy-three (24%) items totaling \$50,635 should have been transferred to the rightful owner or to the Treasurer during

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.

2016-2018, but instead remained on deposit with the Clerk's Office. There was no evidence that the Clerk's Office attempted to contact the rightful owners.

As a result, the return of unclaimed funds to the rightful owners has been 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.²

According to the Clerk, funds were not identified or transferred due to employee turnover and a lack of communication between divisions about the escheat process.

*North Carolina General Statutes*³ and the *North Carolina Clerk of Superior Court Escheats Manual*⁴ require the Clerk's Office to:

- Review monthly aging reports to identify funds that should be disbursed to the rightful owners or escheated.
- Determine that unclaimed funds are eligible for delivery to the Treasurer and transfer those funds at the appropriate time.

Recommendation: The Clerk should ensure responsible employees receive proper training. The Clerk should also implement effective monitoring procedures over the escheat process, such as a secondary review of the aging reports to compensate for any potential lack of communication between divisions.

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

² The State Education Assistance Authority provides loans and grants to worthy and needy North Carolina students attending state-supported colleges and universities.

³ NCGS 116B-53(c) and 116B-60(d)

⁴ Sections C1 and C2



MEREDITH TUCK EDWARDS
CLERK OF SUPERIOR COURT

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May 28, 2019

Beth A. Wood
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Ms. Wood:

Please see below the response of the Alamance County Clerk of Superior Court's Office to the State Auditor's letter of May, 2019 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.

Finding: 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 and consistently applied to reduce the risk of errors or fraud.

Agency Response from the Alamance County Clerk of Superior Court's Office

I concur with the audit finding.

The Alamance County Clerk's Office had reviewed the compensating control reports since February 2019, prior to the auditor's arrival, however, not all of the reviews were properly documented. Reviews are now being attested daily. We realize this was not completed until after the audit cycle being reviewed. We have worked with our Financial Management Analyst and the Administrative Office of the Courts to limit our cashier access as much as possible with CCIS 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 CCIS access while cashiering.

The Assistant(s) overseeing the cashiers are now, as of our February audit, properly documenting the reviews and attestation of these daily reports to insure compliance with the compensating controls. That work continues daily.



Finding: Failure to Identify and Transfer Unclaimed Funds to the State Treasurer or Rightful Owner

Recommendation: The Clerk should ensure responsible employees receive proper training. The Clerk should also implement effective monitoring procedures over the escheat process, such as a secondary review of the aging reports to compensate for any potential lack of communication between divisions.

Agency Response from the Alamance County Clerk of Superior Court's Office

I concur with the audit finding and recommendation.

The Alamance County Clerk of Superior Court's Office is taking corrective action to bring our office into full compliance. Specifically, in July and 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.

The Elected Clerk has begun to review the Aging Report monthly with the bookkeeper and other assistants to ensure timely compliance with any and all moneys that are held by the Clerk's Office for which it is timely to escheat those funds as well as to facilitate proper communication between divisions. The Elected Clerk has also implemented further training and guidance for the Division required to oversee the escheats process to ensure full compliance going forward. Additional training will be implemented as well, where needed. 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.

Ms. Woods we thank you for your Office's time and attention to these matters.

Sincerely,

Meredith Tuck Edwards
Alamance County Clerk of Superior Court

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