

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

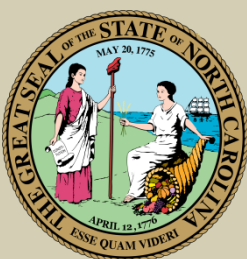


## FRANKLIN COUNTY CLERK OF SUPERIOR COURT

LOUISBURG, NORTH CAROLINA

PERFORMANCE AUDIT

JUNE 2020



**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  
<https://www.auditor.nc.gov>

## **AUDITOR'S TRANSMITTAL**

---

The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable Patricia Burnette Chastain, Franklin Clerk of Superior Court

This report presents the results of our performance audit at Franklin County Clerk of Superior Court. Our work was performed by authority of Chapter 147, Article 5A 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 *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

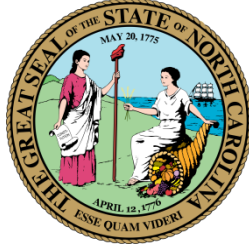


Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	2
RESULTS AND CONCLUSIONS.....	4
FINDINGS, RECOMMENDATIONS, AND RESPONSES .....	5
APPENDIX.....	13
ORDERING INFORMATION.....	15

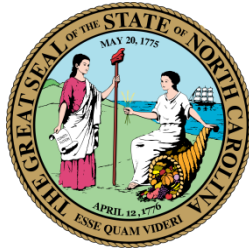


# BACKGROUND

As authorized by Chapter 147, Article 5A of the *North Carolina General Statutes*, we have conducted a performance audit at Franklin 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.



# **OBJECTIVES, SCOPE, AND METHODOLOGY**

The general objective of this performance 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. See Appendix on page 13 for internal control components and underlying principles that were significant to our audit objectives.

Our audit scope covered the period July 1, 2019 through January 31, 2020. 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 \$3,220,931 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 \$60,763 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 \$2,515,529 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 \$122,461 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

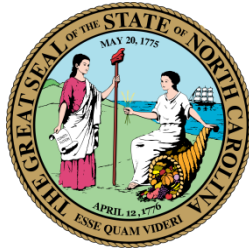
disbursements from minor and incapacitated adult trust accounts are proper to ensure compliance with laws and regulations. As of January 31, 2020, the Clerk had \$790,139 in trust accounts.

To accomplish the audit objectives, auditors gained an understanding of the Clerk's internal control over matters 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.

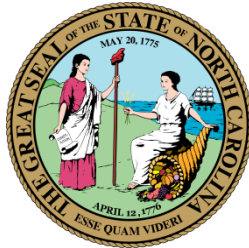
We conducted this audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable 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.





# **RESULTS AND CONCLUSIONS**

Based on the results of audit procedures described in the *Objectives, Scope, and 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 *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.



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**

## 1. UNTIMELY COMPLETION OF BANK RECONCILIATIONS

The Clerk's Office did not timely record the bank reconciliation adjustments identified by the North Carolina Administrative Office of the Courts (NCAOC).

The NCAOC prepares the bank reconciliations on behalf of the Clerk's Office. Any adjustments identified by the NCAOC should be recorded in the Financial Management System by the Clerk's Office.

Auditors found that five of seven (71%) bank reconciliations prepared during the audit period contained required reconciling adjustments, totaling \$310, that were recorded 27 to 97 days after NCAOC prepared the reconciliations.

Because identified adjustments to the bookkeeping and banking records were not investigated and recorded in a timely manner, there was an increased risk that errors or misappropriation could go undetected.

According to the Clerk, new employees were not properly trained. Further, monitoring procedures were not in place to ensure the reconciling adjustments were entered into 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 all reconciling adjustments have been made in the Financial Management System.

*Recommendation:* The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures to ensure that entries are made in the Financial Management System timely.

*Clerk's Response:* See page 10 for the Clerk's response to this finding.

## 2. FAILURE TO IDENTIFY AND TRANSFER UNCLAIMED FUNDS TO THE STATE TREASURER OR RIGHTFUL OWNER AND FAILURE TO NOTIFY APPARENT 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.

The Clerk's Office was required to notify the apparent owner prior to transferring funds to the Treasurer. Auditors examined all 45 unclaimed items requiring notice and found 24 (53%) items totaling \$59,616 where the Clerk's Office did not make a good faith effort to notify the apparent owner prior to transferring funds to the Treasurer.

Additionally, auditors examined the January 2020 aging report<sup>1</sup> for items held over one year and identified 90 unclaimed items totaling \$535,393. Twenty-five (28%) items totaling \$30,490 should have been transferred to the rightful owner or to the Treasurer during 2017-2019 but instead remained on deposit with the Clerk. There was no evidence that the Clerk's Office attempted to contact the rightful owners.

<sup>1</sup> The monthly aging report reflects all case level account funds being held by the Clerk and the amount of the time the funds have remained in the Clerk's Office without any activity.

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.<sup>2</sup>

According to the Clerk, new employees were not properly trained on the escheat process. Further, monitoring procedures were not in place to ensure funds were transferred and apparent owners were notified.

*North Carolina General Statutes*<sup>3</sup> and the *North Carolina Clerk of Superior Court Escheats Manual*<sup>4</sup> 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.
- Make a good faith effort to locate and provide notice to the apparent owner of unclaimed funds before transferring funds to the Treasurer.

*Recommendation:* The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures over the escheat process, such as a periodic review over the monthly aging reports.

*Clerk's Response:* See page 11 for the Clerk's response to this finding.

### 3. UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTION

The Clerk's Office did not compel the timely filing of estate inventories or collect estate fees in accordance with state law. The Clerk's Office collected \$60,763 in estate fees during the audit period July 2019 to January 2020.

Auditors examined all 40 estates in the audit period that required an inventory to be filed. Sixteen (40%) estates were not compelled or not compelled timely. Specifically,

- For seven (18%) estates, the Clerk issued an initial notification to file, but failed to take further compelling action.
- For six (15%) estates, the Clerk failed to issue written requests requiring inventory filings.
- For three (7%) estates, the Clerk's written requests requiring inventory filings were issued 60-98 days after the three-month inventory deadline.

Auditors also examined 65 of the 108 estates in the audit period in which a final inventory was filed. A total of \$2,322 in fees for 12 (19%) estates were not accurately assessed or collected when the final inventory was filed. Specifically,

---

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

<sup>3</sup> NCGS 116B-53(c), 116B-60(d), and 116B-59

<sup>4</sup> Sections C1, C2, and C5

- For nine (14%) estates, fees were not accurately assessed. This resulted in the Clerk's Office collecting a total of \$1,986 more than required for seven estates and a total of \$81 less than required for two estates.
- For three (5%) estates, fees totaling \$255 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 loss in the collection of estate costs and fees. Additionally, the Clerk's failure to compel the timely filing of inventories could allow unauthorized transactions to occur, such as the removal of estate assets without the knowledge of qualified heirs. It could also delay the family of the deceased from finalizing the estate.

According to the Clerk, there were two reasons for the errors.

- The Clerk's staff made phone calls in lieu of written requests in an effort to maintain a positive working relationship with the estate's personal representatives. However, there was no documented evidence of the phone call discussions.
- The Clerk's staff made unintentional mistakes in calculating the fees and not collecting the required amounts before finalizing due to a lack of review.

*North Carolina General Statute 28A-20 and the North Carolina Clerk of Superior Court Procedures Manual, Chapter 74, require the filing of an estate inventory within three months after the Clerk's appointment of the estate's personal representative. If an inventory is not filed, the Clerk must send a written request requiring the personal representative to file the inventory or explain why the personal representative should not be replaced. Additionally, 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 ensure documentation of all compelling efforts is maintained. In addition, the Clerk should implement monitoring procedures such as reviewing fee calculations for accuracy and identifying uncollected fees at the time of final inventory filings.

*Clerk's Response:* See page 11 for the Clerk's response to this finding.

#### 4. FAILURE TO COMPEL INVENTORY FILINGS OR ASSESS AND COLLECT SUFFICIENT BONDS FOR ESTATES OF MINORS AND INCAPACITATED ADULTS

The Clerk's Office did not compel the timely filing of guardianship estate inventories or assess and collect sufficient<sup>5</sup> bonds to protect wards (minors or incapacitated adults) in accordance with state law.

Auditors examined all 38 guardianship estates for wards that required bonds and the filing of an annual inventory of the ward's assets. For eight (21%) of the guardianship estates,

<sup>5</sup> *North Carolina General Statutes 35A-1230 and 35A-1231* require bonds for estate guardians to equal 125% of the ward's personal property (if under \$100,000) or 110% of personal property (if over \$100,000). Bond amounts should be reviewed upon the filing of the inventory and each account to ensure sufficiency.

the Clerk's Office failed to issue timely written requests requiring inventory filings and/or failed to assess and collect sufficient bonds. Specifically,

- For three (8%) of the guardianship estates, the Clerk failed to compel an annual inventory filing. Because there was not a recent annual inventory filed, the sufficiency of the bond amount could not be determined.
- For five (13%) of the guardianship estates, the bond assessed and collected was insufficient as of the last inventory filing. Assets in these estates totaled \$169,736 and required \$212,170 in bonds. However, the Clerk only assessed and collected \$196,000 in bonds.

Failure to compel the timely filing of inventories prevents the Clerk from assessing and collecting sufficient bonds from guardians and could result in financial loss to the ward if the guardian misuses the assets in the estate. Additionally, the Clerk and the State may be liable for the financial loss if bonds are not sufficient.

According to the Clerk, monitoring procedures were not in place to ensure inventories were compelled timely and bonds were sufficient for the guardianship estates.

*North Carolina General Statutes 35A-1230 and 35A-1231* require the Clerk to assess and collect sufficient bonds before appointing a guardian to the estate. *North Carolina General Statute 35A-1238* states that the Clerk shall be liable for all loss and damages sustained. *North Carolina General Statutes 35A-1264 and 35A-1265* require the annual filing of an inventory of the ward's personal property. If an inventory is not filed, the Clerk must send a written request requiring the guardian to file the inventory or explain why the guardian should not be removed.

*Recommendation:* The Clerk should implement monitoring procedures such as a continual review of ward assets to ensure the annual inventories are compelled timely and the bond collected remains sufficient.

*Clerk's Response:* See page 11 for the Clerk's response to this finding.

### 5. FAILURE TO ACCURATELY DISBURSE TRUST FUNDS HELD FOR MINORS AND INCAPACITATED ADULTS

The Clerk's Office did not accurately disburse trust funds held for wards (minors or incapacitated adults) in accordance with state law.

Auditors examined all six trusts held by the Clerk's Office on behalf of wards that had disbursements during the audit period. For two (33%) trust disbursements, the Clerk's Office failed to obtain required documentation<sup>6</sup> or ensure the correct amount was disbursed. Specifically,

- For one trust disbursement, the Clerk's Office disbursed funds totaling \$800 to the ward's guardian without obtaining required documentation.

---

<sup>6</sup> *North Carolina General Statute 7A-111* and the *North Carolina Clerk of Superior Court Financial Policies and Procedures Manual* stipulates that the Clerk must require receipts or paid vouchers showing that the monies disbursed were used for the exclusive use and benefit of the minor in the event of a partial withdrawal from the minor's trust funds.

- For one trust disbursement, the Clerk's Office failed to refund<sup>7</sup> investment fees, resulting in an underpayment of \$776.

Failure to obtain required documentation for disbursements could result in financial loss to the ward if the guardian misuses the assets in the trust. In addition, failure to refund investment fees resulted in an underpayment of monies to which the ward was entitled.

According to the Clerk, new employees were not properly trained. Further, monitoring procedures were not in place to ensure trust funds were accurately disbursed.

*North Carolina General Statutes 7A-111 and 7A-308.1 and the North Carolina Clerk of Superior Court Financial Policies and Procedures Manual* require the Clerk to obtain required documentation before disbursing trust funds to a guardian and to refund any investment fees charged in excess of the investment earnings when the all funds are finally withdrawn.

*Recommendation:* The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures such as a review over all trust fund disbursements.

*Clerk's Response:* See page 12 for the Clerk's response to this finding.

---

<sup>7</sup> *North Carolina General Statute 7A-308.1 and the North Carolina Clerk of Superior Court Financial Policies and Procedures Manual* stipulates that an investment fee equal to five percent of each trust fund shall be assessed and collected on each trust fund before the fund is invested. Any investment fees charged in excess of the cumulative investment earnings on an account shall be refunded to the beneficial owner when all funds in that account are finally withdrawn and distributed by the Clerk.





PATRICIA BURNETTE CHASTAIN, CLERK  
EX OFFICIO JUDGE OF PROBATE  
CLERK OF SUPERIOR COURT  
FRANKLIN COUNTY  
102 SOUTH MAIN STREET  
LOUISBURG, NC 27549  
919-497-4200

JOHN M. DUNLOW  
SENIOR RESIDENT JUDGE  
CINDY KING STURGES  
RESIDENT JUDGE

May 22, 2020

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

Dear Auditor Wood:

I would like to express my sincere appreciation to you and your professional team of staff that we had the privilege of working with during our March audit. They were extremely helpful and understanding of our lack of staff to perform certain duties in a timely manner during the examined audit period. I was grateful at the completion of our audit to know, we had measures and detailed plans in place to increase our daily work performance while maintaining high levels of accuracy. Please see the following information in regards to how our office is striving to improve and maintain all recommendations.

### UNTIMELY COMPLETION OF BANK RECONCILIATIONS

**Recommendation:** The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures to ensure that entries are made in the Financial Management System timely.

**Agency Response:** We concur with the finding by your office and as a result on March 13, 2020, we had a trained permanent bookkeeper in place in our office. Also, as discussed with the auditors, our office is small and we were short staffed in addition to, 4 staff absent, including myself, due to surgeries, extended medical conditions and death of family members during the audit period. In addition to hiring an experienced and capable bookkeeper, we have taken further steps to cross-train other staff to ensure monitoring procedures are carried out in a timely manner.



**FAILURE TO IDENTIFY AND TRANSFER UNCLAIMED FUNDS TO THE STATE TREASURER OR RIGHTFUL OWNER AND FAILURE TO NOTIFY APPARENT OWNERS**

**Recommendation:** The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures over the escheat process, such as a periodic review over the monthly aging reports.

**Agency Response:** We concur with the finding by your office and as a result on March 13, 2020, we had a trained permanent bookkeeper in place in our office. Also, as discussed with the auditors, our office lost our longtime bookkeeper of 15 years in September and her replacement was not offered a training class prior to her leaving after only 3 months. At this point, procedures are added which includes an additional part time staff assigned to our bookkeeper, which literally makes every effort to "HUNT" down decedents' heirs or other owners eligible before escheating funds held to the Treasurer. The aging report is reviewed and worked each month now.

**UNTIMELY OR FAILURE TO COMPEL ESTATE INVENTORY FILINGS OR FEE COLLECTION**

**Recommendation:** The Clerk should ensure documentation of all compelling efforts is maintained. In addition, the Clerk should implement monitoring procedures such as reviewing fee calculations for accuracy and identifying uncollected fees at the time of final inventory filings.

**Agency Response:** We concur with the finding by your office and as a result we have made necessary changes and cross trained staff to assist our 2 staff in the estate division on March 13, 2020. However, the coronavirus has affected our office and we are reduced to only one staff at this time. Also, as discussed with the auditors, it has always been our office policy to collect all fees during the initial set up of estates, but some people do not have the money on that day. We have established additional procedures for working the tracking report daily, we have created a coversheet which will allow for documentation of phone calls and personal office attorney contact, as well as, set up an excel spreadsheet for filing reminders 2 weeks prior to deadlines.

**FAILURE TO COMPEL INVENTORY FILINGS OR ASSESS AND COLLECT SUFFICIENT BONDS FOR ESTATES OF MINORS AND INCAPACITATED ADULTS**

**Recommendation:** The Clerk should implement monitoring procedures such as a continual review of ward assets to ensure the annual inventories are compelled timely and the bond collected remains sufficient.

**Agency Response:** We concur with the finding by your office and as a result we have made changes in estate personnel and implemented additional estate training as of March 13, 2020. We have set up an internal system which will alert staff at least 2 weeks prior to filing deadlines. All guardianship files will now be reviewed when annually filed by our 2 assistant clerks in special proceedings and estates for assessing and collecting sufficient bonds.

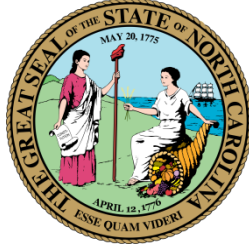
### FAILURE TO ACCURATELY DISBURSE TRUST FUNDS HELD FOR MINORS AND INCAPACITATED ADULTS

**Recommendation:** The Clerk should ensure responsible employees receive proper training. Additionally, the Clerk should implement monitoring procedures such as a review over all trust fund disbursements.

**Agency Response:** We concur with the finding by our office and as a result on March 13, 2020, we have in place an experienced Bookkeeper. Also, as discussed with the auditors, our office lost our bookkeeper after 15 years and her replacement only worked for 3 months prior to taking other employment. Training classes were not available during that time period. The staff member that stepped up to help during this time was interrupted numerous times due to the 4 employees that were out due to extended illnesses. We have developed an excel spreadsheet to assist in recouping the commission fees & detail monitoring of these files. When we are fully staffed after the coronavirus, our Bookkeeper with assistance from another assigned staff will review every trust account for accuracy and require a birth certificate be filed along with proper identification.

A handwritten signature in black ink, reading "Patricia Burnette Chastain". The signature is fluid and cursive, with the first name "Patricia" being the most prominent.

Franklin County Clerk of Superior Court



# APPENDIX

### **Internal Control Components and Underlying Principles Significant to the Audit Objectives**

Our general audit objective was to identify improvements needed in internal control over selected fiscal matters.

Internal control components and underlying principles that were significant to our audit objectives are identified in the table below.

	Audit Objectives			
	Cash	Estates	Escheats	Trusts
<b>Control Environment</b>				
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.	X	X	X	X
2. The oversight body should oversee the entity's internal control system.	X	X	X	X
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.	X	X	X	X
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.				
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.				
<b>Risk Assessment</b>				
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.				
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	X	X	X	X
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.				
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.	X	X	X	X

Control Activities				
10. Management should design control activities to achieve objectives and respond to risks.	X	X	X	X
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.				
12. Management should implement control activities through policies.	X	X	X	X
Information and Communication				
13. Management should use quality information to achieve the entity's objectives.	X	X	X	X
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.	X	X	X	X
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.	X	X	X	X
Monitoring Activities				
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	X	X	X	X
17. Management should remediate identified internal control deficiencies on a timely basis.	X	X	X	X

# 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: <https://www.auditor.nc.gov>

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.ncstateauditor.ncauditor&hl=en\\_US](https://play.google.com/store/apps/details?id=net.ncstateauditor.ncauditor&hl=en_US)



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

For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666



---

This audit required 220 hours at an approximate cost of \$22,800.