

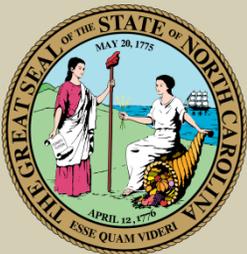
# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



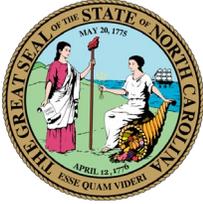
## CARTERET COUNTY CLERK OF SUPERIOR COURT

BEAUFORT, NORTH CAROLINA  
PERFORMANCE AUDIT  
JUNE 2022



**NC**  **OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
The Honorable William K. Raper, Carteret County Clerk of Superior Court

Ladies and Gentlemen:

We are pleased to submit this performance audit report for the Carteret County Clerk of Superior Court. The audit objective was to identify improvements needed in internal control over selected financial matters, as listed on pages 2-3.

This audit was conducted in accordance with Chapter 147, Article 5A of the North Carolina General Statutes.

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 FINDING, RECOMMENDATION, AND RESPONSE section of this report.

We appreciate the courtesy and cooperation received from management and the employees of the Carteret County Clerk of Superior Court during our audit.

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.

Beth A. Wood, CPA  
State Auditor

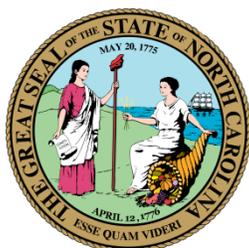
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**Beth A. Wood, CPA**  
**State Auditor**

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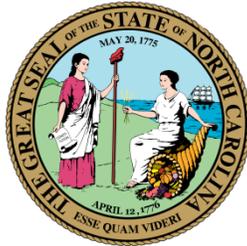


# BACKGROUND

We have conducted a performance audit of the Carteret County Clerk of Superior Court, as authorized by Chapter 147, Article 5A of the North Carolina General Statutes, which requires the Office of the State Auditor to periodically examine and report on the financial practices of state agencies.

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 objective of this performance audit was to identify improvements needed in internal control over selected financial 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 scope covered the period July 2021 through March 2022. In conducting our audit, we observed, documented, and evaluated the effectiveness of selected internal controls related to:

- *Cash* - The Clerk's office collects various fines, fees, and court costs daily, as well as bonds, judgments, and other amounts. We examined internal controls to determine whether such controls were designed and implemented to ensure that the Clerk properly safeguarded and accounted 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 \$7,577,395 in cash.
- *Estates* - The Clerk's office is to ensure that all estates are charged an application fee plus an assessment based on the value of each estate's inventory. An estate inventory is to be filed by the representative of the estate. We examined internal controls to determine whether such controls were designed and implemented to ensure that the Clerk properly obtained 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 \$263,861 in estate fees related to estates.

The Clerk's office is to ensure that all estate guardians<sup>1</sup> are properly bonded based on the value of each 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 obtained an inventory for each guardianship in compliance with laws and regulations. We also examined internal controls to determine whether such controls were designed and implemented to ensure that bonds assessed and collected were sufficient and in compliance with laws and regulations. During the audit period, auditors examined \$9,573,743 in estate guardian bonds retained by the Clerk related to 79 estates.

- *Escheats* - The Clerk's office is to transfer 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 to determine whether such controls were designed and implemented to ensure that the Clerk properly identified 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 \$401,580 in escheats to the Department of State Treasurer.

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<sup>1</sup> Guardianship is a legal relationship in which a person(s) or agency (the guardian) is appointed by the court to make decisions and act on behalf of a minor or incapacitated adult.

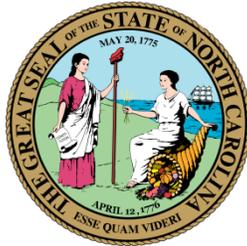
- *Trusts* - The Clerk's office receives, administers, and disburses trust funds for minors and incapacitated adults. We examined internal controls to determine whether such controls were designed and implemented to ensure that disbursements from minor and incapacitated adult trust accounts were proper to ensure compliance with laws and regulations. During the audit period, the Clerk disbursed \$56,313 from minor and incapacitated adult trust accounts.

To accomplish the audit objective, auditors gained an understanding of the Clerk's internal control over matters and evaluated the design of 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 our audit conclusions.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all deficiencies in internal control or instances of noncompliance.

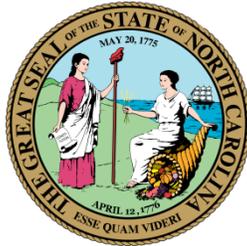
As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion. See the Appendix for internal control components and underlying principles that were significant to our audit objectives.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. 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 a deficiency in internal control that is considered reportable under *Government Auditing Standards*. This item is described in the FINDING, RECOMMENDATION, AND RESPONSE 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.



# **FINDING, RECOMMENDATION, AND RESPONSE**

## IMPROPER SYSTEM ACCESS INCREASED RISK OF UNDETECTED ERRORS AND FRAUD

Staff in the Clerk's office had inadequate segregation of duties resulting in the ability to change or delete information in the Financial Management System (FMS). The Clerk's office handled \$7,577,395 in receipts during the audit period July 2021 through March 2022.

Auditors tested the system access rights of all 23 employees and identified one (4%) employee who was assigned both head bookkeeper and head cashier access rights in FMS. The employee could have potentially misappropriated funds by voiding receipts, editing court cost information, and posting journal entries to change the payee.

Improper segregation of duties increases the risk that errors, unauthorized transactions, and fraud could go undetected. While no instances of fraud were 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. In addition, the Clerk did not implement compensating controls as outlined in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

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 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 the Clerk should implement compensating controls to reduce the risk of errors or fraud.

*Clerk's Response:* See page 6 for the Clerk's response to this finding.



KEN RAPER, CLERK  
EX OFFICIO JUDGE OF PROBATE  
CLERK OF SUPERIOR COURT  
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BEAUFORT, NC 28516  
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JUDICIAL DISTRICT 3B  
CARTERET, CRAVEN AND PAMLICO COUNTIES

June 17, 2022

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:

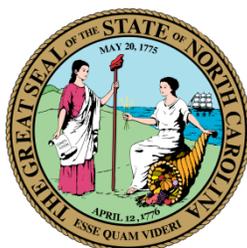
I am providing this letter as a response to the Access Conflict, which was discovered by the Audit Team on April 26, 2022. During the Audit Process, the Audit Team advised that the Clerk's Office Head Book Keeper, had additional access as Head Cashier. Upon the discovery, the Audit Team advised that the Head Book Keeper, should be removed to comply with best practice and procedure, per Administrative Office of the Courts Access Conflicts and Compensating Controls, as outlined in the Clerk of Superior Court, Clerk's Manual.

In order to comply with the Administrative Office of the Courts, system Access Conflicts and Compensating Controls, an *Access Request form (AOC-A-15)* was completed and forwarded to AOC, Judicial Branch removing Head Cashier Access on April 26, 2022.

A copy of the *Access Request Form, AOC-A-151* was submitted to the Financial Audit Supervisor by Carteret County Clerk of Superior Court, Ken Raper, on April 26, 2022.

Sincerely,

William K. Raper, Carteret County Clerk of Superior Court



# APPENDIX

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

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

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

COMPONENTS AND PRINCIPLES	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

<b>CONTROL ACTIVITIES</b>				
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
<b>INFORMATION AND COMMUNICATION</b>				
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
<b>MONITORING ACTIVITIES</b>				
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

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North Carolina Office of the State Auditor at:

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This audit required 221 hours at an approximate cost of \$23,426.