

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

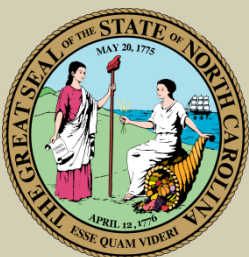


WILSON COUNTY CLERK OF SUPERIOR CLERK

WILSON, NORTH CAROLINA

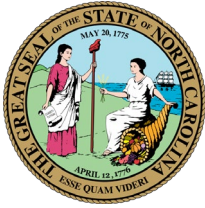
PERFORMANCE AUDIT

JULY 2022



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Caroline Quinn, Wilson County Clerk of Superior Clerk

Ladies and Gentlemen:

We are pleased to submit this performance audit report for Wilson County Clerk of Superior Clerk. 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 and an instance of noncompliance 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 Wilson County Clerk of Superior Clerk 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.

A handwritten signature in cursive script, reading "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

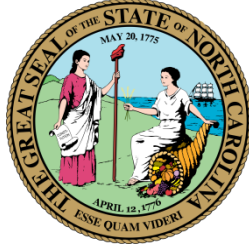


Beth A. Wood, CPA
State Auditor

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Chapter 147, Article 5A 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.

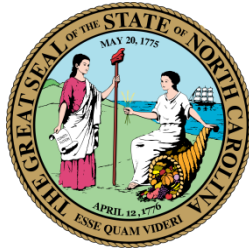


BACKGROUND

We have conducted a performance audit of Wilson 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 \$6,140,167 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 \$177,893 in estate fees related to estates.

The Clerk's office is to ensure that all estate guardians¹ 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 \$15,614,973 in estate guardian bonds retained by the Clerk related to 51 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 \$114,316 in escheats to the Department of State Treasurer.

¹ 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.

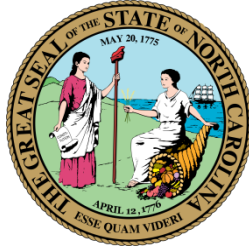
- *Trusts* - The Clerk's office receives, administers, and disburses trust funds for minors and incapacitated adults. We examined internal controls to determine whether such controls were designed and implemented to ensure that disbursements from minor and incapacitated adult trust accounts were proper to ensure compliance with laws and regulations. During the audit period, the Clerk disbursed \$151,609 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.

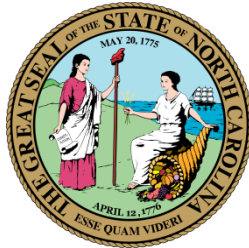
As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion. See the Appendix for internal 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 and an instance of noncompliance 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 the response.



FINDING, RECOMMENDATION, AND RESPONSE

FAILURE TO ASSESS AND COLLECT SUFFICIENT BONDS FOR ESTATES OF MINORS AND INCAPACITATED ADULTS

The Clerk's office did not assess and collect sufficient² bonds to protect wards (minors or incapacitated adults) in accordance with state law.

Auditors examined all 51 guardianship estates for wards in the audit period that required bonds and found seven (14%) estates where the bonds assessed and collected were insufficient. The assets on these seven estates totaled \$218,153 and required \$272,692 in bonds. However, the Clerk only assessed and collected bonds totaling \$177,907.

Failure to assess and collect sufficient bonds from guardians could result in financial loss to the ward if the guardian misuses the assets in the estate. Additionally, the Clerk may be liable³ for the financial loss if bonds are not sufficient.

According to the Clerk, a lack of policies and procedures regarding the calculation of bond requirements led to the insufficient bonds.

North Carolina General Statutes 35A-1230 and 35A-1231 require the Clerk to assess and collect sufficient bonds before appointing guardians to the estates of minors and incapacitated adults or permitting guardians from receiving the wards' property.

Recommendation: The Clerk should design and implement policies and procedures to assess and collect sufficient bonds to protect ward assets in accordance with state law.

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

² North Carolina General Statutes 35A-1230 and 35A-1231 require bonds for estate guardians to equal 125% of the ward's personal property (if less than or equal to \$100,000) or 110% of personal property (if greater than \$100,000). Per the *North Carolina Clerk of Superior Court Procedures Manual*, Chapter 86, bond amounts should be reviewed upon the filing of annual inventories to ensure they remain sufficient.

³ Chapter 35A, Article 7 of the North Carolina General Statutes.



CAROLINE F. QUINN, CLERK
EX OFFICIO JUDGE OF PROBATE

CLERK OF SUPERIOR COURT
WILSON COUNTY

PO BOX 1608, WILSON, NC 27894-1608
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L. LAMONT WIGGINS
SENIOR RESIDENT JUDGE

WILLIAM D. WOLFE
RESIDENT JUDGE

June 17, 2022

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury St.
20601 Mail Service Center
Raleigh, NC 27699-0600

Dear Auditor Wood:

This letter is in response to your recent audit of the Wilson County Clerk of Superior Court for the period of July 1, 2021 through March 31, 2022. We are very appreciative of the work that the State Auditor's Office does as well as the courteous service exhibited during the audit process. We concur with the audit finding.

Audit Finding—Failure to access and collect sufficient bonds for estates of minors and incapacitated adults.

Recommendation—The Clerk should design and implement policies and procedures to assess and collect sufficient bonds to protect ward assets in accordance with state law.

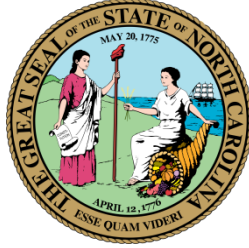
Clerk's Response—After an Internal Audit finding in 2017 (under the prior Clerk of Court), the Wilson County Clerk's Office did implement new procedures to address this issue. Following our most recent Internal Audit in 2021, we again adjusted, not our review procedure which we believe to be effective, but the way in which we were calculating said bonds based on a conversation with the Internal Auditor. Apparently, that change caused us to mistakenly figure some bonds incorrectly. That said, the Wilson County Clerk's Office has implemented new policies and procedures as to calculation which we hope and believe will comply with the statute and solve this issue going forward. We will continue our review of these cases and notify fiduciaries of bonds that need to be increased with that in mind.

Again, thank you for your service to the State of North Carolina. We intend to continue to fully comply with all standards set forth by the Administrative Office of the Courts and the general statutes of our great state.

With every good wish, I am

Sincerely,

Caroline F. Quinn



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
CONTROL ENVIRONMENT				
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.				
RISK ASSESSMENT				
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

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North Carolina Office of the State Auditor at:

919-807-7666



This audit required 195 hours at an approximate cost of \$20,670.