



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
VANCE COUNTY CLERK OF SUPERIOR COURT
HENDERSON, NORTH CAROLINA**

FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH FEBRUARY 28, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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THE HONORABLE DEBORAH W. FINCH, CLERK OF SUPERIOR COURT



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Deborah W. Finch, Clerk of Superior Court

This report presents the results of our fiscal control audit of Vance County Clerk of Superior Court for the period September 1, 2002 through February 28, 2003. Our work was performed by authority of Article 5A of Chapter 147 of the General Statutes and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws and regulations.

The results of our audit disclosed a significant weakness in internal control that is described in the Audit Findings and Recommendations 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 "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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BACKGROUND INFORMATION

The office of the Clerk of the Superior Court is created by the North Carolina Constitution which mandates that there be a Clerk of Superior Court for each county. Under the constitution, it is the responsibility of the General Assembly to prescribe jurisdiction and the powers of the Clerk. Laws of the General Assembly regarding clerks must be uniformly applicable in every county in the state.

The Clerk of Superior Court is elected for a four-year term by the voters of the county. Clerks are paid by the state, with their salaries scaled in accordance with the population of their counties. The Clerk appoints the assistants, deputies and employees in his or her office. The number of assistants and deputies that each clerk may employ varies from county to county depending on the volume of business. Assistant and deputy clerks are paid on a salary schedule fixed by the Administrative Office of the Courts based on education and years of service in the Clerk's office; the maximum and minimum salaries within that scale are fixed by the General Assembly.

The responsibilities of the Clerk are numerous and varied. The Clerk, as a judicial officer of the superior court, has judicial responsibilities. The Clerk is judge of probate, that is, the Clerk handles the probate of wills (proceedings to determine if a paper writing is a valid will) and the administration of estates of decedents, minors and incompetents. The Clerk also hears a variety of special proceedings such as adoptions, incompetency determinations and partitions of land and is empowered to issue arrest and search warrants and to exercise the same powers as a magistrate with respect to taking pleas of guilty to minor littering, traffic wildlife, boating, marine fisheries, alcoholic beverage, State park recreation and worthless-check offenses.

The Clerk has many responsibilities besides judicial ones. The Clerk is responsible for all clerical and record-keeping functions of the superior court and district court. The Clerk operates a unified record-keeping system for all civil actions, special proceedings, estates, criminal actions, juvenile actions, minutes of the court, judgments, liens, lis pendens, and numerous other records required by law. The Clerk maintains the judgment docket, is custodian of evidence in civil and criminal trials, and issues civil summons and subpoenas. In addition, the Clerk invests money received and held by his or her office in trust and receives and administers insurance or other money on behalf of minors and incapacitated adults.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the General Statutes and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Vance County Clerk of Superior Court. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws and regulations for the period September 1, 2002 through February 28, 2003.

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. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected internal controls in the following areas:

General

Control Environment - The control environment consists of the actions, policies, and procedures that reflect the overall attitude of top management about control and its importance to the entity. The control environment sets the tone of the organization, influencing the control consciousness of its employees.

Information System Controls - Information system controls include activities that relate to many computerized information system applications and support the effective functioning of application controls. Information system controls include access security and end-user controls.

Financial Accounting and Reporting

Cash and Investment Cycle - The cash and investment cycle generally consists of the activities associated with the custody of cash and investments. Financial statement accounts typically impacted by the cycle include cash, certificates of deposit and other investments.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

Cash Receipts Cycle – The cash receipts cycle generally consists of the activities associated with the receipt of cash. All financial statement accounts are impacted by this cycle.

Cash Disbursements Cycle – The cash disbursements cycle generally consists of the activities associated with disbursing cash for items other than operating and payroll costs. All financial statement accounts are impacted by this cycle.

Finance-related Compliance

Cash Management and Investments – Laws and regulations set limits on authorized deposits and investments. For example, Clerks are required to deposit moneys in approved depositories or invest idle funds only in specified investment types. Also, disbursements that are unclaimed by payees for a prescribed time period are often required to be remitted to the State Treasurer in accordance with the State of North Carolina's Escheats and Abandoned Property Program.

Deposit of Receipts – Laws and regulations require deposit of moneys as soon as possible in order to safeguard assets and to enhance the cash management and investment program. For example, receipts over a specified amount are required to be deposited on a daily basis.

Annual Financial Reporting – Laws and regulations require preparation of annual financial report information in a prescribed format and within a prescribed timeframe. For example, Clerks are required to file financial statement information with the Administrative Office of the Courts timely after year-end.

Case Files – Laws and regulations set record maintenance and security requirements. For example, Clerks are required to maintain records in a secure location using a uniform indexing system.

Costs and Fees – Laws and regulations set costs and fees to be charged. For example, Clerks are required to charge uniform costs and fees as established by state law.

Special Provisions – Laws and regulations impose specific requirements on particular entities or activities. For example, the Clerk is required to distribute partial payment collections in the order prescribed by state law. Other special provisions include the investment of accounts greater than \$2,000, record retention requirements, property held for safekeeping procedures, and review procedures over monthly aging reports.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

RESULTS

The results of our audit disclosed a significant weakness in internal control that is described in the Audit Findings and Recommendations section of this report.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws and regulations. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Accounting, Reporting, or Compliance

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control over financial accounting and reporting or compliance with finance-related laws and regulations.

1. **SEGREGATION OF DUTIES RELATED TO FINANCIAL MANAGEMENT SYSTEM (FMS) ACCESS RIGHTS**

Three employees' FMS access rights resulted in the capability to receipt funds, void receipts, and close out cash drawers. In addition, two other employee's access rights allowed access to bookkeeping functions as well as cashiering functions.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 2, describes sound internal controls including controls applicable to segregation of duties. The manual provides that no employee should have access rights to receipt funds as well as void receipts and close out cash drawers, and that no employee should have access rights to both bookkeeping functions and cashiering functions.

Recommendation: Employee responsibilities should be segregated and FMS access rights updated to comply with the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: We agree with the finding. Upon your recommendation, we immediately updated the FMS access rights to comply with the Clerk of Superior Court Financial Policies and Procedures Manual and to assure proper segregation of duties.

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June 18, 2003

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