



STATE OF NORTH CAROLINA

FISCAL CONTROL AUDIT REPORT OF WAKE COUNTY CLERK OF SUPERIOR COURT RALEIGH, NORTH CAROLINA

FOR THE PERIOD OCTOBER 1, 2002 THROUGH MARCH 31, 2003

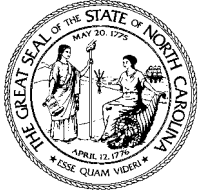
OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FISCAL CONTROL AUDIT REPORT OF
WAKE COUNTY CLERK OF SUPERIOR COURT
RALEIGH, NORTH CAROLINA
FOR THE PERIOD OCTOBER 1, 2002 THROUGH MARCH 31, 2003**

THE HONORABLE JANET I. PUESCHEL, 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 Janet I. Pueschel, Clerk of Superior Court

This report presents the results of our fiscal control audit of Wake County Clerk of Superior Court for the period October 1, 2002 through March 31, 2003. 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 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 significant weaknesses in internal control and significant instances of noncompliance that are 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.'.

Ralph Campbell, Jr.
State Auditor

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BACKGROUND INFORMATION

The office of the Clerk of 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 applied in every county in the State.

Voters of each county elect the Clerk of Superior Court to a four-year term. 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 is also 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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OBJECTIVE, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVE

As authorized by Article 5A of Chapter 147 of the *North Carolina 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 of Wake 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 October 1, 2002 through March 31, 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 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.

OBJECTIVE, 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

Listed below are the compliance areas with one or more examples of the criteria for each.

Cash Management and Investments – Laws and regulations set limits on authorized deposits and investments. Moneys are required to be deposited in approved depositories and invested in specific investment types. Accounts must be protected with adequate insurance and collateral. 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. 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. Financial statement information is required to be filed with the Administrative Office of the Courts timely after year-end.

Case Files – Laws and regulations set record maintenance and security requirements. Records are required to be filed in a secure location using a uniform indexing system.

Costs and Fees – Laws and regulations set costs and fees to be charged. Uniform costs and fees are required to be charged as established by State law.

Special Provisions – Laws and regulations impose specific requirements on particular entities or activities. Partial payment collections are required to be distributed 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.

OBJECTIVE, 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 significant weaknesses in internal control and significant instances of noncompliance that are 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.

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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**

Two employees have FMS access rights that allow them to void receipts and close out cash drawers, as well as perform bookkeeping functions. These access rights weaken the internal controls relative to the receipting of funds and the proper recording of transactions, compromising the Clerk's ability to properly record, process, and report accurate financial data.

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 void receipts and close out cash drawers, as well as perform bookkeeping 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: At the present time, there are two (2) employees, the Department Head and back-up Supervisor that have access to the bookkeeping function and the balancing of cashiers, due to the shortage of personnel in the finance department. On July 1, 2003, it was decided to have an additional backup for such essential tasks which include balancing funds in order to comply with the daily deposit of funds. The Clerk's office must continue to have the two employees with these access rights to cover these bookkeeping functions until additional staff is allowed by the Administrative Office of the Courts to prevent non-compliance with the statute. (*North Carolina General Statute*, Chapter 147-77 which requires collected funds to be deposited on a daily basis.) The Clerk will make any needed changes to comply with the Financial Policies and Procedures Manual to the extent that this department shall operate with efficiency and integrity for the citizens of Wake County. (Also, see below for Clerk's general response applicable to all findings.)

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. SEGREGATION OF DUTIES RELATED TO BOOKKEEPING FUNCTIONS

Adequate segregation of duties does not exist between authorizing and entering payment authorizations, signing checks, transferring funds between checking and pooling accounts, and reconciling bank accounts. The weaknesses noted increase the risk that errors or irregularities may occur and not be detected in a timely manner.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapters 2, 3, and 7, describe sound internal controls, including controls applicable to segregation of duties. The manual provides that no one employee should have the authority to authorize, initiate, execute, and record a transaction. Employees reconciling bank accounts should not have authority to generate checks.

Recommendation: Bookkeeping employee responsibilities should be segregated in order to comply with the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: Due to the volume in Wake County, there are three (3) employees in this department that have the ability to process payment authorizations, bank transfers and to process checks through a check signing machine. Any of the payment authorizations created and entered by these bookkeepers are transactions that occur within the finance department, or are for funds that need to be distributed to other agencies, businesses, and/or individuals, where the knowledge of a bookkeeper is needed to process this transaction correctly. Routinely, other departments, i.e., civil, criminal, estates, and special proceedings prepare payment authorizations related to their needed disbursements. Payment authorizations are filled out and sent to bookkeeping for verification and entering on FMS. The Clerk's checking account and pooled account are reconciled by different employees. We have employees who have been cross-trained in the event that someone is terminated or becomes ill, to ensure that all functions are complete.

3. PROPER SAFEGUARDING OF ASSETS

Unused checks and unused manual receipt books are not properly safeguarded. The keys to the check signer and signature plate are left in the machine, which is not in a secure location. Failure to properly safeguard assets increases the risk of unauthorized transactions occurring and misappropriation of assets.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapters 3 and 37, describe sound internal controls, including controls over the proper safeguarding of assets. The manual provides that unused checks, unused manual receipt books, and keys to the check signer should be kept in a secure, locked, inaccessible area.

Recommendation: Assets of the Clerk's office should be properly safeguarded in compliance with the Clerk of Superior Court Financial Policies and Procedures Manual.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Clerk's Response: The Clerk's office has a supply of checks in sealed boxes that are kept in a secured evidence vault with limited access. A current box of checks being used are kept in a room with the printer and check signer for daily use and locked up at the end of the day. A check register is kept on a daily basis to monitor used checks and any checks that may be missing. After the audit, we began using a metal locked cabinet to place unused checks until the next day. We are placing unused checks in the evidence vault which is secure and is only used for financial assets and financial documents. This secured area has limited access as instructed by the Clerk. The unopened boxes of unused manual receipt books have always been located in the vault in the office of the cashiering supervisor. Since the audit, the responsibility of safeguarding and monitoring receipt books have been given to a different employee. Strict procedures have been implemented by the Clerk to ensure proper use of receipts and to detect any irregularities that may occur. The use of log books in issuing receipt books and recorded manual receipts continue to be used.

4. CONTROLS OVER MANUAL RECEIPTS

Internal controls over manual receipts are not adequate. Multiple employees issue receipt books, and the Manual Receipt Book Log is not properly completed. The Manual Receipts Log is not properly maintained to account for all receipts and track timeliness of deposits. Failure to maintain adequate controls over manual receipts increases the risk of misappropriation of funds.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 37, describes sound internal controls over manual receipts. The manual provides that the Manual Receipt Book Log and the Manual Receipts Log should be maintained to provide accountability for manual receipts and to track the timeliness of deposit of funds.

Recommendation: The control of manual receipt books should be limited to a minimum number of employees. Manual receipts should be accounted for as required by the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: As mentioned in the response to Number 3 of the findings of the audit, a different employee has been given the responsibility to enforce the policy and procedures in handling manual receipt books and manual receipts. If, or when, a situation occurs outside the policy, the Clerk will be notified and immediate action will be taken to investigate this occurrence. Logs are maintained to help prevent any irregularities in this area.

5. CASH SHORTAGES/OVERAGES

The Clerk is not signing the Daily Cash Balance Summary acknowledging shortages/overages and authorizing the bookkeeper to record journal entries. Shortages/overages of \$100 or more are occurring and not being reported to the Administrative Office of the Courts Financial Management Analyst (FMA). In a sample

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

of 40 days, we noted 8 days with a shortage/overage of \$100 or more that was not reported to the FMA. Failure to adequately monitor and report shortages/overages could result in errors or misappropriations occurring and not being detected in a timely manner.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 14, requires the Clerk to sign the Daily Cash Balance Summary when there are shortages/overages and notify the FMA immediately when a shortage/overage of \$100 or more occurs.

Recommendation: The Clerk should approve and report shortages/overages as required by the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: As stated in the prior responses, the same employee noted in audit finding Number 4, was the person that balanced the cashiers on a daily basis. This employee was to complete a balance sheet for each cashier and complete a summary sheet showing any overage/shortages. The procedure is to notify the financial supervisor who notifies the Clerk and the Administrative Office of the Courts (AOC) to come in to verify and to audit these discrepancies of \$100 or more. In investigating this finding, I feel certain this procedure was followed when and if the financial supervisor had been notified. To show proof this procedure is being followed now, we are requiring a written response and signature of the AOC-FMA that has reviewed our financial discrepancies. As part of the daily financial process all overage/shortages have always been recorded on FMS through a journal entry.

6. INVESTMENT OF FUNDS NOT MADE TIMELY

The Clerk is not investing funds in a timely manner as required by law. We noted 15 accounts, out of 25 examined, were not invested timely. *North Carolina General Statutes 7A-112(b)* states in part that an account in excess of \$2,000 that is reasonably expected to remain on deposit in excess of six months shall be invested by the Clerk within 60 days of receipt.

Having a responsible employee monitor aging reports and funds as they are received by the Clerk's office would assist in identifying accounts requiring investment.

Recommendation: Accounts should be invested as required by *North Carolina General Statutes 7A-112(b)*.

Clerk's Response: Filling vacant positions in the financial division will allow employees to monitor the aging reports more closely to correct this problem. Some of the examples noted in the audit for non-compliance have been discussed at length with AOC personnel. Interpretation of the statute as it relates to these examples leaves room for indecision. The statute directs the clerk to invest any funds in excess of \$2,000 that they reasonably expect to hold in excess of six months. This is the critical concept in relation to condemnations, surplus proceeds, bonds, etc. The test is "do we reasonably expect to

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

hold these funds for six months?” It is certainly not clear at the time that we receive these types of funds exactly how long they will be held. In view of the fact that the funds could be disbursed within the six month period (and in fact frequently are), it is not required that these funds always be invested. Considering the fact that once a transaction has occurred, the decision to invest is basically a judgment call. Rarely is the Clerk notified to the extent of time the funds will be held.

7. PROPERTY BONDS HELD FOR SAFEKEEPING NOT PROPERLY RECORDED

Property bonds held for safekeeping are not consistently recorded on the Financial Management System (FMS). Documentation to support \$234,800 in property bonds recorded on FMS at March 31, 2003 could not be located. Other deeds of trust held by the Register of Deeds in the name of the Clerk are not recorded on FMS. As a result, property bonds are not adequately tracked.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 17, requires that the Clerk record the value of the deeds of trust accepted for performance of obligations on the financial books.

Recommendation: Property bonds held for safekeeping should be documented and recorded on FMS in compliance with the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: Under prior administration, the financial department only recorded two (2) property bonds. These two bonds were recorded in FMS and the documentation was located on the 12th floor in a file cabinet. These documents will be held in the finance department until the case it originated from is disposed. Procedures in the Clerk's office are in place if we are notified by the magistrate's office that a property bond is to be considered as collateral. A printout of Deeds of Trust where the Clerk of Court is the trustee has been obtained from the Register of Deeds. These recordings will be verified and searched to determine if a valid lien still exists. Approximately four (4) weeks ago a locked file cabinet was opened for the first time and almost 200 files of property bond information and Deeds of Trust were found. These are now being handled.

Clerk's General Response Applicable to All Findings:

The above responses correlate in number to the findings and recommendations identified during the most recent audit of the Wake County Clerk of Superior Court. We agree that the audit findings represent deficiency in internal controls. However, it is important to note that during the period audited, October 1, 2002 – March 31, 2003, that the following conditions existed:

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- A. Gilbert W. File was Clerk for one-third (1/3) of the audit period (October 1, 2002-December 2, 2002.) He was a previous employee of the Clerk's department who had little experience in finance and was appointed to the position, not elected. From December 2, 2002 through March 31, 2003, the present elected Clerk, Janet Pueschel, took over operation of the Clerk's office and was presented with a number of problems which are subsequently noted in this report.
- B. Ms. Pueschel, had written to the Office of the State Auditor and Chief Justice I. Beverly Lake after her election and before she took office, asking for a fiscal audit to determine what areas needed specific attention immediately. That audit was never accomplished either by your office or the Administrative Office of the Courts. It took several months for Ms. Pueschel to identify areas of weakness, and to put corrective measures into place. It was unfortunate that the audit could not be completed before Ms. Pueschel took office so that the deficiencies could have been addressed immediately.
- C. Due to fiscal problems with North Carolina State government, the Clerk's office has operated with significant staff vacancies which have not been filled due to a job freeze at the Administrative Office of the Courts.
- D. No staff in the finance department had had any training in the last several years since the Financial Management System (FMS) had been instituted in the Clerk's office.
- E. During the audit, a seventeen (17) year employee of the Financial Section of the Clerk's office, who had been assigned significant responsibilities, quit unexpectedly on the second day of the audit. She handed in a hastily prepared resignation and leaving her personal property behind. This caused extreme concern and after a complete review of her office area and duties, we found that although she had been trusted to adequately complete her assignments she had not been doing so, which resulted in audit findings 3 and 4.

Auditor's Comment: There is no statutory responsibility for the Office of the State Auditor to audit when a new Clerk takes office. With limited resources audit requests with specific time requirements often cannot be accommodated. Wake County Clerk of Superior Court is audited annually.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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September 24, 2003

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