



# STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT OF  
WATAUGA COUNTY CLERK OF SUPERIOR COURT  
BOONE, NORTH CAROLINA  
FOR THE PERIOD DECEMBER 1, 2002 THROUGH MAY 31, 2003**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

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**THE HONORABLE D. GLENN HODGES, CLERK OF SUPERIOR COURT**



Ralph Campbell, Jr.  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
The Honorable D. Glenn Hodges, Clerk of Superior Court

This report presents the results of our fiscal control audit of Watauga County Clerk of Superior Court for the period December 1, 2002 through May 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 a significant weakness in internal control that is described in the Audit Finding and Recommendation 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**

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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**

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### **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 Watauga 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 December 1, 2002 through May 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 a significant weakness in internal control that is described in the Audit Finding and Recommendation 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 FINDING AND RECOMMENDATION

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The following finding and recommendation was identified during the current audit and describes conditions that represent a significant deficiency in internal control over financial accounting and reporting.

### INTERNAL CONTROLS OVER COMPUTER RESOURCES AND SEGREGATION OF DUTIES

The Clerk is responsible for establishing adequate internal control procedures to safeguard assets. Controls should provide for segregation of duties among employees who are involved in cash receipting functions. In addition, cash receipting functions should be segregated from bookkeeping functions.

During our review of receipting and closeout procedures, we noted that four employees had special cashier access rights that allowed them to receipt moneys and perform voids and the daily closeout procedures. Two of these employees also had head bookkeeper access rights. On six of forty-one receipting days tested, one of the employees with special cashier access rights receipted moneys, closed out his cash drawer and performed the daily closeout procedures including preparation of the bank deposit. On nine days tested, an employee that routinely performs bookkeeping duties, including reconciliation of the monthly bank statements, performed the closeout procedures.

Our tests indicated that on thirteen of forty-one days tested, the head cashier initialed the daily closeout report for one or more of the cashiers. On ten of these days, he also prepared Part I of this report which should have been prepared and signed by one of the cashiers.

As a result, segregation of duties and the proper assignment of computer access rights relating to cash receipting, daily closeouts, and bookkeeping are not adequately achieved.

*Recommendation:* We recommend that the Clerk implement procedures to segregate cash receipting duties in a manner that prohibits employees who receipt moneys from performing the daily closeout procedures. We also recommend that the Clerk implement procedures to ensure that employees do not prepare or sign closeout reports for other employees. In addition, we recommend that the Clerk segregate duties and assign computer access rights to prohibit employees who perform bookkeeping duties from issuing receipts or performing the daily closeout procedures.

*Clerk's Response:* The areas of concern were in our daily closeout procedures. We were combining some functions that should have been segregated. These procedures have been corrected in that we implemented procedures to segregate cash receipting and assigned computer access in a manner that regulates which employees perform certain functions.

## **DISTRIBUTION OF AUDIT REPORT**

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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.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller

### **JUDICIAL BRANCH**

The Honorable D. Glenn Hodges	Watauga County Clerk of Superior Court
The Honorable John M. Kennedy	Director, Administrative Office of the Courts
Mr. Steve Lusk	Deputy Director for Administrative Services
	Administrative Office of the Courts

### **LEGISLATIVE BRANCH**

Senator Marc Basnight	Senate President Pro Tem
Representative James B. Black	Speaker of the N.C. House of Representatives
Representative Richard Morgan	Speaker of the N.C. House of Representatives
Members of the local legislative delegation	N.C. House and Senate
Mr. James D. Johnson	Director, Fiscal Research Division

September 2, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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