



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
PERSON COUNTY CLERK OF SUPERIOR COURT
ROXBORO, NORTH CAROLINA
FOR THE PERIOD DECEMBER 1, 2003 THROUGH MAY 31, 2004**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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THE HONORABLE DEBORAH L. BARKER



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 L. Barker, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Person County Clerk of Superior Court for the period December 1, 2003 through May 31, 2004. 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 a fiscal control audit is to gather and evaluate evidence about selected internal control policies and procedures designed to ensure: (1) reliable financial accounting and reporting and/or (2) compliance with finance-related laws and regulations. Should any information arise during the audit indicating that significant abuse may have occurred, the audit objective may be extended to include internal control designed to prevent abuse and to determine whether the abuse did in fact occur and its impact. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or abuse that are considered reportable under *Government Auditing Standards*. These matters 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." in a cursive script.

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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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

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 at the Person County Clerk of Superior Court.

The objective of a fiscal control audit is to gather and evaluate evidence about selected internal control policies and procedures designed to ensure: (1) reliable financial accounting and reporting and/or (2) compliance with finance-related laws and regulations. Should any information arise during the audit indicating that significant abuse may have occurred, the audit objective may be extended to include internal control designed to prevent abuse and to determine whether the abuse did in fact occur and its impact. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice.

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 covered the period December 1, 2003 through May 31, 2004 and 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.

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

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.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

METHODOLOGY

To accomplish our audit objectives, 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 deficiencies in internal control and/or instances of noncompliance or abuse that are considered reportable under *Government Auditing Standards*. These matters are described in the Audit Findings and Recommendations section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Accounting, Reporting, or Compliance

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. MAGISTRATES RECEIPTS

The Clerk of Superior Court Financial Policies and Procedures Manual states that magistrates who issue manual receipts should submit the receipts, funds and paperwork to the Clerk of Superior Court's cashiers office at the end of each shift. If the magistrate's shift ends after the Clerk of Superior Court's office hours, submission should be during the next business day. *North Carolina General Statute 147-77* requires collected funds to be deposited daily. Magistrates should use only receipt books individually assigned to them. Clerk of Court staff should maintain a receipt book log. The receipt book should be an accurate and complete listing of each manual receipt.

We reviewed all manual receipts submitted to the cashiers by the four magistrates of Person County Clerk of Court during the months of December 2003 and January 2004. Of the 114 manual receipts, 57 were deposited between 1 and 10 business days late. There were 5 instances in which a magistrate used a receipt book that was assigned to another magistrate. There were 4 receipts recorded on the manual log incorrectly by the cashier.

Recommendation: We recommend that the Clerk establish procedures to ensure that all funds collected by magistrates are submitted to the Clerk's cashiers at the end of their shift or the next business day. The receipt book log for magistrates' receipts should be accurately maintained and monitored to ensure the remittance of receipts in accordance with established policies and procedures and all funds collected comply with *North Carolina General Statute 147-77*.

Clerk's Response: According to statute, the Chief District Judge in each judicial district supervised the Magistrates. I have consulted with our Chief District Judge and given him a copy of the Audit (draft), which addresses procedures with the Magistrates. He will be issuing a Memo regarding the audit findings and the procedures that need to be followed regarding the deposit of funds and use of the receipt books. It is my understanding, the problems aforementioned in the audit, specifically the magistrates' deposits and the use of one another's receipt books, had been addressed in the past by the previous clerk. With the assistance of the Chief District Court Judge, it is the intention of my office to correct any misunderstandings or misinterpretation of the requirements of the Statutes.

In addition, procedures have been put in place to review all magistrate receipt logs on a more frequent and regular basis so that any errors in that log may be detected early and corrected.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. SAFEGUARDING OF ASSETS- CASH

AOC Policies and Procedures require appropriate physical controls over assets and records. Auditors observed that during the cash register close out, money is counted in an area accessible to the public. Also, when counting the money, the head cashier combines the money from both cashiers prior to counting it. After the money is counted it is placed in an unlocked bag and placed in the safe until it is taken to the bank. There are three employees with access to the safe.

Recommendation: Cash should be counted in a secure area. To protect accountability for cash, the head cashier should verify each cashier's money before combining the cash. After the cash has been counted, a locked moneybag should be utilized to safeguard the cash until it is deposited in the bank.

Clerk's Response: Due to the actual physical layout of the Cashier's office, it has been difficult to put in place certain safeguards regarding the counting and closeout of the cashiers. However, the procedure of closing out does now include taking the cashiers and their monies to an inner office which is available to facilitate the actual checking up. Also, the head cashier has been informed and corrected the problem of combining monies of the two cashiers when counting up in order to correctly verify each cashier's drawer. A request for an additional locked moneybag has been made to our current banking institution.

3. PARTIAL PAYMENT DISTRIBUTION

Partial Payments should be distributed in accordance with the priorities identified in General Statute 7A-304 (d) and should be distributed in a timely manner. The auditors reviewed 12 Partial Payments from the May 31, 2004 Aging Schedule which were over 90 days old. Two were not distributed in the proper order per General Statute 7A-304 (d). Four were not distributed in a timely manner, with distribution time ranging from 4 to 8 months. In addition there were 3 additional accounts not distributed because the District Attorney provided no restitution worksheet. The age of these Partial Payments range from 12 months to 47 months.

Recommendation: Partial payments should be distributed in accordance with General Statute 7A-304 (d). Aging schedules should be reviewed, cases researched and appropriate information obtained, so that Partial Payments can be distributed. The bookkeeper should utilize the automated partial payment distribution available within the Financial Management System software.

Clerk's Response: Our bookkeeper is in the process of investigating and correcting the stated accounts that were enumerated in the audit. Arrangements also have been made to utilize the automated partial payment distribution that is available through the Financial Management System.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

4. JUDGMENTS AND CASH BONDS

Procedures should be in place to review aging schedules for all liability accounts. A determination should be made as to whether funds can be disbursed to the owner, held by the clerk or escheated.

Auditors reviewed 5 Judgments over one year old and 17 Cash Bonds over one year old. Out of this sample, 4 of the Judgment cases and 12 of the Cash Bond Cases had been disposed. No attempt had been made to disburse funds to their owners.

Recommendation: We recommend that the Clerk's personnel review all cases to determine whether the funds can be disbursed to the owner, should be escheated, or should continue to be held by the Clerk.

Clerk's Response: The bookkeeper has established a schedule of reviewing all liability accounts on a regular basis. Once again, those cases that have been specifically detailed are being dealt with and attempts to locate the owners or escheat those funds are being followed through.

5. PROPERTY BONDS

The value of any deeds of trusts held as non-cash appearance bonds should be recorded on the Clerk of Superior Court's financial records.

The auditor's review of property bonds held by Person County Clerk of Superior Court revealed that the Clerk had approved the receipt of deeds of trust totaling \$115,000 that had not been recorded in the financial records.

There were \$409,000 of property bonds recorded on the financial statements that should not have been. These cases were closed and the Bonds cancelled with the Register of Deeds.

Recommendation: When the Clerk of Superior Court approves the receipt of a deed of trust the information should be forwarded to the Bookkeeper to prepare the journal entry to record the property bond. When the obligation is fulfilled and the deed of trust is to be released the information should be forwarded to the Bookkeeper to prepare the journal entry to record the release of the property bond.

Clerk's Response: In court matters in which a property bond is required and the cases have been disposed of in the system, the bonds now have been properly cancelled and removed from the financial statements by the bookkeeper. A report produced by the bookkeeper will be reviewed monthly by the Clerk in order to determine which property bonds can be cancelled and the proper journal entry entered.

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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