



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
CATAWBA COUNTY CLERK OF SUPERIOR COURT
NEWTON, NORTH CAROLINA
FOR THE PERIOD AUGUST 1, 2004 THROUGH JANUARY 31, 2005**

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE AL JEAN M. BOGLE



STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable The Honorable Al Jean M. Bogle, Clerk of Superior Court

This report presents the results of our fiscal control audit of Catawba County Clerk of Superior Court for the period August 1, 2004 through January 31, 2005. 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 instances of noncompliance 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 "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP
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 Catawba 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 August 1, 2004 through January 31, 2005 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 instances of noncompliance 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.

COMPLIANCE WITH THE DAILY DEPOSIT ACT AND INTERNAL CONTROLS OVER DAILY CLOSEOUT PROCEDURES

The Clerk is responsible for establishing procedures to ensure that all monies collected be deposited in accordance with the requirements of the Daily Deposit Act (G.S. 147-77). In addition, the Clerk is responsible for the design and implementation of internal control procedures to provide reasonable assurance that assets are sufficiently protected.

During our review of receipting and closeout procedures, we noted that, on five of the 45 receipting days tested, receipts were not deposited in accordance with the requirements of the Daily Deposit Act. We tested 15 additional days of receipting and closeout procedures and noted seven receipting days were not in compliance with the Daily Deposit Act. The Hickory satellite office was responsible for 11 of the 12 days that had late deposits.

Review of the receipt journals indicated that the daily cash receipting batches were not being closed on a daily basis at the Hickory office, therefore resulting in the receipts being deposited one or more days late.

Our inquiry of Clerk personnel indicated that the Head Cashier gives Hickory office cashiers the batch total tape and the cashiers agree their own cash drawers to this tape. The Head Cashier should verify each cashier's drawer before releasing the batch total tape.

We further noted that access to cashier lock boxes at the Newton office is not limited to individual cashiers. All cashiers have access to the safe where the lock boxes are stored and all the lock boxes may be accessed by the same key. This does not provide for adequate segregation of responsibility by cashier.

Recommendation: We recommend that the Clerk implement procedures to ensure all cash receipting batches are closed daily and funds deposited daily in compliance with the Daily Deposit Act. In addition, we recommend that the Head Cashier verify each cash drawer in accordance with procedures in the Cash Receipting Manual. To ensure adequate safeguarding of assets and segregation of responsibility by cashier, we recommend that separate keys and locks be used for the cashiers' lock boxes.

Clerk's Response: I have met with my Assistant Clerk in the Hickory Clerk of Court office and discussed the auditor's findings concerning the inconsistency in closing of batches for

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

deposit in a timely manner (daily). I have instructed the Hickory office to close the batches from the cash registers daily and make daily deposits. I also instructed the head bookkeeper to double check the Hickory deposits and batches to insure my directions are being followed, and if there is an instance where my directions are not being carried out, I am to be notified immediately.

A second matter of concern that was brought to my attention was that the Head Cashier gives the Hickory office cashiers the batch total tape and the cashiers agree their own cash drawers to this tape before the Head Cashier does. I have ordered the discontinuation of this practice immediately, and I will make periodic unannounced spot checks on their closeout procedures.

A third area of concern was accessibility to both cash drawers by use of the same key. I have contacted Joe Plemmons, Administrative Office of the Courts Financial Management Director and requested separate keys for each cash drawer. Mr. Plemmons stated that he would take the necessary to comply with my request.

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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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Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller

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The Honorable Al Jean M. Bogle
The Ralph A. Walker
Mr. Rex Whaley

Catawba County Clerk of Superior Court
Director, Administrative Office of the Courts
Chief of Financial Services Administrative Office of the Courts

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Director, Fiscal Research Division

May 25, 2005

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