



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
HOKE COUNTY CLERK OF SUPERIOR COURT
RAEFORD, NORTH CAROLINA
FOR THE PERIOD MARCH 1, 2005, THROUGH AUGUST 31, 2005**

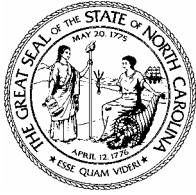
OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE VERA HOLLINGSWORTH, CLERK OF SUPERIOR COURT



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 Vera Hollingsworth, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Hoke County Clerk of Superior Court for the period March 1, 2005, through August 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 internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws and regulations; and/or abuse. 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 that are considered reportable under *Government Auditing Standards*. These matters are 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

October 31, 2005

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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 Hoke County Clerk of Superior Court.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws and regulations; and/or abuse. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice. Our audit does not provide a basis for issuing an opinion on internal control, and consequently, we have not issued such an opinion.

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 March 1, 2005, through August 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, 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/or performed direct tests of the accounts and transactions 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.

RESULTS

The results of our audit disclosed deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Finding and Recommendation section of this report.

AUDIT FINDING AND RECOMMENDATION

WEAK INTERNAL CONTROLS OVER CASH

Internal controls over cash are insufficient to prevent errors and misappropriation of assets. During our audit we noted the following:

- Cash disbursement responsibilities are not properly segregated. One employee is responsible for all aspects of the disbursement function including entering authorized payments in the Financial Management System, printing and reviewing daily cash reports, printing checks, signing checks, placing checks in envelopes, and mailing checks;
- Cash receipting responsibilities are not properly segregated. One employee has the capabilities to receipt payments, process voids for all cashiers, and run the register tenders at the end of the day;
- Cashiers are responsible for reconciling their own cash receipts against their register tenders on a daily basis.

Good internal controls require management to establish effective custodial accountability procedures and adequate segregation of duties. The Clerk of Superior Court Financial Policies and Procedures Manual states that an employee should not have the system access rights to receipt payments, void transactions, and close registers on the same day. The Administrative Office of the Courts daily cash reconciliation forms indicate that an employee designated as a head cashier, someone that does not receipt payments, should reconcile cashiers' cash receipts against their register tenders.

Recommendation: We recommend that the Clerk improve internal control procedures over the cash disbursement and cash receipting processes including the proper segregation of duties.

Clerk's Response: While it is true that there is no one outside of the bookkeeping area trained to perform bookkeeping functions in the Hoke County Clerk's office, there are extenuating circumstances. Weakness in internal controls over cash receipts and cash disbursements were both the result of staff shortages that occurred for reasons discussed below. There have been conversations going on between the clerk and the Deputy Director of the Human Resources Division of the Administrative Office of The Courts concerning the lack of sufficient staff for the Hoke County Clerk of Court's office. The audit period in question is from March 1, 2005, through August 31, 2005. During this time, the clerk's office which was already grossly understaffed because of the rapid growth of the population in the county and therefore an increase in case loads, was hit with (1) the untimely death of the bookkeeper with more than twenty five years of experience, (2) an employee out with complications due to a risky pregnancy from

AUDIT FINDING AND RECOMMENDATION (CONCLUDED)

January 4, 2005, through June 10, 2005, and (3) yet another employee (a cashier) out from July 8, 2005 through August 2, 2005 for surgery and also out a few other days for out-patient surgery.

We were trying to keep our heads above the water and keep the office operating. The present bookkeeper was training as a backup bookkeeper when the previous bookkeeper died and she then assumed the bookkeeping responsibilities because of that death. As a result, I now had four clerks out of ten learning new jobs.

There was certainly not much cross-training going on during this period of time because half of the office staff was busy training for their new positions. Because of the size of the staff, every department was affected in some way with the reorganization of the office staff to try to get the persons best suited for each position in place. It has always been the intent of the clerk to resume cross-training as soon as it was feasible. Let me hasten to add, in my opinion, the ladies in the clerk's office are to be commended for their hard work and the long hours of some to keep this office functioning.

The recommendations of the audit staff are well taken and are now being and will be put into action immediately.

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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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The Honorable Ralph A. Walker
Mr. Rex Whaley

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

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October 31, 2005

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