



STATE OF NORTH CAROLINA

STOKES COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

DANBURY, NORTH CAROLINA

FOR THE PERIOD NOVEMBER 1, 2005, THROUGH APRIL 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FISCAL CONTROL AUDIT REPORT ON
STOKES COUNTY CLERK OF SUPERIOR COURT
DANBURY, NORTH CAROLINA
FOR THE PERIOD NOVEMBER 1, 2005, THROUGH APRIL 30, 2006**

THE HONORABLE R. DEAN HARTGROVE, CLERK OF SUPERIOR COURT



STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable R. Dean Hartgrove, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Stokes County Clerk of Superior Court for the period November 1, 2005, through April 30, 2006. 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 and/or instances of noncompliance or other matters 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.

Leslie W. Merritt, Jr.

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 the Stokes 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 November 1, 2005, through April 30, 2006, 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 and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROL OVER CASH AND SEGREGATION OF DUTIES

Responsibilities for cash receipting, cash disbursing, and reconciling of bank statements are not properly segregated. The bookkeeper reconciles the monthly bank statement, is involved in the cash disbursement process (enters payment authorizations), and has head cashiering access in the Main Frame Cash Receipting System (MFCR). In addition, this same employee, as well as other clerk employees, on occasion, has cashiered using the user identification and password assigned to other employees.

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 2, describes the appropriate internal controls applicable to segregation of duties. The manual provides that no single employee should be able to receipt money, make the final count and deposit of money, enter payment authorization forms, and reconcile the bank statements. In addition, no employee should have access rights to both bookkeeping functions and head cashiering or cashiering functions.

Recommendation: We recommend that the Clerk improve internal control procedures over cash, including the proper segregation of duties. To ensure proper controls over cash, an employee not involved in the receipting or disbursing of cash should reconcile the bank statement, and the bookkeeper should not be head cashier or cashier. In addition, the sharing of user identifications and passwords among clerk employees is a security violation, and we recommend the immediate discontinuance of this practice.

Clerk's Response: My bookkeeper has been removed from head cashiering access in MFCR. She now only has Head Bookkeeper access. Also, she will no longer be reconciling monthly bank statements. Hope Brim will perform this duty. Ms. Brim has no cash receipting or disbursement responsibilities to conflict with this assignment.

Employees have signed Computer Controls Security Agreements, and cashiers and other employees no longer share passwords. Any employee not having MFCR cashiering access and receipting money in an emergency situation (i.e. no cashiers available) will be required to write manual receipts and prepare On-Site cash report.

2. TIMELY REMITTANCE OF MAGISTRATES RECEIPTS

We reviewed manual receipts submitted to the cashier by the five Stokes County magistrates for the period of November 1, 2005, through the current period of June 15, 2006. Instances of untimely remittances were noted for three of the five magistrates during this period. The three magistrates issued 85 receipts totaling \$23,260.50, of which 65 receipts totaling \$17,897.50 were submitted 1 to 26 business days late.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The Clerk of Superior Court Financial Policies and Procedures Manual, Chapter 37, states that magistrates should submit their collections to the Clerk of Superior Court office by the close of the day or, if their shift ends after the Clerk of Superior Court office hours, during the next business day. In addition, *North Carolina General Statute 147-77* requires collected funds be deposited daily.

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 in accordance with prescribed policies and procedures and all funds collected comply with *North Carolina General Statute 147-77*.

Clerk's Response: I am presently working with the Stokes County maintenance to install a drop box depository for collection of magistrate receipts during the evening/night. This depository will be located in a "lock up vault" that is a separate locked vault room within our regular records vault. This vault area is only assessable to a few selected Clerk personnel. This depository will be constructed as:

Double-locked collection box attached to inside of lock up vault door. Deposits will be deposited from the outside of the lock up vault area through a slot in the door into the collection box. The collection box will be double locked, with Clerk of Court and magistrate having separate keys. This would require that Clerk personnel and the magistrate on duty both be present to retrieve the deposits. Both the cashier receipting the funds and the magistrate on duty will then verify the receipts.

This Depository will allow daily submission of magistrate receipts, and will provide a dual-control security system of collection. It will also provide additional security in that the magistrates may deposit their funds every time money is receipted and will not have to keep any receipts in the office or at their homes.

Our projected completion date of this depository is mid-August.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647