



# STATE OF NORTH CAROLINA

**WATAUGA COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**BOONE, NORTH CAROLINA**

**FOR THE PERIOD OCTOBER 1, 2005, THROUGH MARCH 31, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FISCAL CONTROL AUDIT REPORT ON  
WATAUGA COUNTY CLERK OF SUPERIOR COURT  
BOONE, NORTH CAROLINA  
FOR THE PERIOD OCTOBER 1, 2005, THROUGH MARCH 31, 2006**

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



STATE OF NORTH CAROLINA  
Office of the 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 the Watauga County Clerk of Superior Court for the period October 1, 2005, through March 31, 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 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**

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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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# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **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 Watauga 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 October 1, 2005, through March 31, 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 that are considered reportable under *Government Auditing Standards*. The item is described in the Audit Findings and Recommendations section of this report.

## AUDIT FINDINGS AND RECOMMENDATIONS

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### INTERNAL CONTROLS OVER DAILY CLOSEOUT PROCEDURES AND CASH MANAGEMENT

The Clerk is responsible for the design and implementation of adequate internal control procedures to provide reasonable assurance that assets are sufficiently protected. In addition, 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).

During our review of receipting and closeout procedures, we noted sixteen instances, of the 39 receipting days tested, where the Tender Type Reports and/or Daily Cash Report by Cashier were not signed by the Head Cashier. On two of the 39 receipting days tested, a cashier signed for another cashier on the closeout report.

In addition, during our examination of receipting days, we noted sixteen Magistrates' receipts, totaling \$8,890.00, which were not deposited in a timely manner.

*Recommendation:* We recommend that the Clerk take the necessary steps to ensure that the daily closeout reports and tender tapes are properly prepared and signed or initialed each receipting day. Employees should not be permitted to sign closeout reports for other employees.

In addition, we recommend that the Clerk's Office implement procedures to ensure that Magistrates' receipts are turned in to the Cashier and deposited in a timely manner in compliance with the Daily Deposit Act.

*Clerk's Response:* There were two items I was asked to address, magistrates turning in money in an untimely manner, and incorrect signatures on Daily Cash Reports.

1. Magistrates: Our deposits are made each day before noon. Each magistrate has been instructed to turn in all money by 9:00 am each day, thus giving us time to include it in the daily deposit. Any failure to adhere to his deadline by a magistrate must have a written explanation by that magistrate detailing the reason(s) for delay in turning in the money. A copy of this explanation will be forwarded to the Chief District Court Judge.
2. Daily Cash Reports: Only the cashier responsible for that drawer will be signing the report. This is keeping with AOC policy. Also the Head Cashier must sign each day. I will personally audit these reports on a regular basis.

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

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