



STATE OF NORTH CAROLINA

ASHE COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

JEFFERSON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

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THE HONORABLE PAM BARLOW, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Pam Barlow, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Ashe County Clerk of Superior Court. 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 management of financial resources.

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 Ashe 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 management of financial resources. 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 September 1, 2006, through February 28, 2007. During our audit, we considered select internal controls and compliance related to the following accounts and control objectives:

Cash and Cash Equivalents – This classification includes change funds and cash on deposit with private bank accounts. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for these assets. We also examined evidence to support compliance with finance-related laws and regulations over these assets. These laws and regulations provide for the Clerk to receive a fee for administering the funds and provide for allocation of interest to the beneficial owner or owners of the funds. As of February 28, 2007, the Clerk had \$222,640.54 in Cash and Cash Equivalents.

Investments – This classification includes certificates of deposit and savings accounts. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for these assets. We also examined evidence to support compliance with finance-related laws and regulations over these assets. These laws and regulations set limits on authorized investments, set timing requirements for investing funds, provide for the Clerk to receive a fee for administering the investments and provide for allocation of interest to the beneficial owner or owners of the funds. As of February 28, 2007, the Clerk had \$101,351.46 in Investments.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Trusts - This classification includes funds held by the Clerk for minors, incapacitated adults, and others according to the terms of a court order, will or deed. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for trust accounts. We also examined evidence to support compliance with finance-related laws and regulations. These laws and regulations set guidelines for the receipt, administration and disbursement of these accounts. As of February 28, 2007, the Clerk had \$117,998.73 in Trust accounts.

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. LACK OF INTERNAL CONTROLS TO SAFEGUARD ASSETS

During our testwork, we noted errors relating to the daily closeout procedures and handling of manual receipts. During the closeout process we observed that the cashiers do not count their own drawers nor do they observe the Head Cashier count the cash drawers. In addition, the Head Cashier counted the cash drawers in view of the public. During our tests of controls of manual receipts, we noted that several employees wrote manual receipts using the same manual receipt book, that manual receipts written by a cashier were not receipted into the cash receipting system by that same cashier, and a manual receipt tested was not properly completed.

Recommendation: We recommend that the Clerk's office follow the internal control guidelines which have been established by the Administrative Office of the Courts relating to the safeguarding of assets. The Clerk's office needs to implement procedures to ensure the accuracy of the daily closeout process. Manual receipt books should be issued to each cashier in order to establish accountability of the payments receipted. In addition, we recommend that if manual receipts are written each cashier receipt their own receipts into the cash receipting system.

2. LACK OF SEGREGATION OF DUTIES OVER BANK RECONCILIATIONS

During our testwork, we noted that the bank reconciliation for the checking account is being performed by a cashier who is also responsible for the receipting of funds for the Clerk's office. There is a greater opportunity for misuse of funds or the manipulation of account balances, which may be difficult to detect, when the same person is performing several duties within the financial area of the office.

Recommendation: We recommend that the Clerk's office follow the guidelines established by the Administrative Office of the Courts regarding the segregation of duties relating to the financial area of the office. Bank statements should primarily be reconciled by an employee who does not have Cashier, Head Cashier, Bookkeeper, or Head Bookkeeper status.

Clerk's Response: Following is my response to the audit findings and recommendations of September 1, 2006, through February 28, 2007:

- 1) Each cashier will count their own drawers with the head cashier present. This will be done in a secured area, outside of the public's view. After discussing the manual receipt issue with our FMA, we feel that continuing to use one manual receipt book will be efficient since every receipt is accounted for by that same cashier receipting her manual receipt into her own batch. Manual receipts are very rarely used by our cashiers (example may be when the receipting system is down, or a power outage occurs). We will, however, begin to attach a duplicate receipt to the corresponding receipt in the manual receipt book.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- 2) A deputy clerk, who has no responsibility whatsoever with cash receipting or bookkeeping, will begin to reconcile our bank statements.

These policies and procedures have been placed into effect immediately following the exit conference. I very much appreciate the auditors' recommendations and understanding concerning these issues. We have had a lot of turnover and change in our office due to retirements (half of our office staff), and are making every positive effort to address these issues.

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:

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