



# STATE OF NORTH CAROLINA

**BRUNSWICK COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**BOLIVIA, NORTH CAROLINA**

**OFFICE OF THE STATE AUDITOR**

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

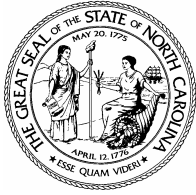
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**THE HONORABLE CHERYL WILSON, CLERK OF SUPERIOR COURT**



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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 Cheryl Wilson, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Brunswick 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 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.

*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 Brunswick 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 December 1, 2006, through May 31, 2007. During our audit, we considered internal controls and compliance related to the following accounts and control objectives:

*Cash and Cash Equivalents* - This classification includes change funds, cash on deposit with private bank accounts and savings accounts. We examined internal control designed to ensure that the Clerk properly safeguards, accounts for and reports these assets. As of May 31, 2007, the Clerk had \$825,561.82 in Cash and Cash Equivalents.

*Investments* - This classification includes certificates of deposit and pooled investments. We examined internal control designed to ensure that the Clerk properly safeguards, accounts for and reports 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 and provide for the Clerk to receive a fee for administering the investments. As of May 31, 2007, the Clerk had \$7,154,868.37 in Investments.

*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

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

internal control designed to ensure that the Clerk properly safeguards, accounts for and reports these funds. 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 May 31, 2007, the Clerk had \$2,089,478.98 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 instances of noncompliance 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

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### 1. DEFICIENCIES IN SEGREGATION OF DUTIES

The Clerk's Office did not have adequate segregation of duties in place to ensure that two people handle different components of a transaction. As a result, there is an increased possibility of error that may occur and not be detected. The deficiencies are described below.

- We determined that the Head Bookkeeper was responsible for preparing and posting journal entries for interest earned for investment accounts without another party reviewing them for proper support and proper coding.
- We found that payment authorizations (forms requesting payments from individual's accounts) were not always approved by another person. In our examination of payments made from the 21 accounts that had been closed during our audit period, we found one case where two of the withdrawals were processed by the Head Bookkeeper without the approval of another person.
- The Head Bookkeeper had incompatible duties because she was assigned the responsibility for closing the pooled investment accounts at the bank, creating checks, and preparing reconciliations for the pooled investment accounts. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated. We also noted that there was no evidence to indicate that two of the reconciliations in our audit period had been approved.

*Recommendation:* The Clerk's Office should follow the policies and procedures set forth by the *Clerk of Superior Court's Policies and Procedures Manual* in regards to ensuring adequate segregation of duties.

*Clerk's Response:* The Clerk's office now has adequate segregation of duties in place to ensure that two people handle different components of a transaction. The following procedures have been implemented:

- All journal entries and payment authorizations by the Head Bookkeeper will be reviewed and approved by another person.
- All investments including pooled accounts will be approved and signed by the Clerk of Court when closing accounts.
- All bank reconciliations will be reviewed and documented by the Clerk of Court.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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### 2. MAGISTRATE COLLECTIONS NOT SUBMITTED TIMELY

Magistrate collections were not submitted timely in accordance with established procedures. The risk that funds may be lost or used for inappropriate activity increases when collections are not deposited timely.

We reviewed the log of magistrates' receipts maintained by the cashier's office for a sample of four months during our audit period. During this period there were 260 receipts submitted to the cashiers by magistrates. We noted delays in deposits in 24 (9%) of the receipts reviewed. There were 19 receipts one day late, one receipt 21 days late, one receipt 23 days late, and two receipts did not have a submitted date listed. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that magistrates who issue manual receipts should submit receipts, funds, and paperwork to the Clerk of Superior Court's cashiers at the end of each shift. If the magistrate's shift ends after the Clerk of Court's office hours, the magistrates should submit receipts, funds, and paperwork during the next business day.

*Recommendation:* We recommend the Clerk establish procedures to ensure that all funds collected by magistrates are submitted to the Clerk cashiers at the end of their shift or the next business day in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

*Clerk's Response:* An additional measure has been added to ensure that the magistrates' monies are turned in and receipted in a timely manner.

## **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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