



# **STATE OF NORTH CAROLINA**

**CLAY COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**HAYESVILLE, NORTH CAROLINA**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**CLAY COUNTY CLERK OF SUPERIOR COURT**

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**THE HONORABLE J. HAROLD MCCLURE, CLERK OF SUPERIOR COURT**



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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 J. Harold McClure, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Clay 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 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 Clay 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 October 1, 2006, through March 31, 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. As of March 31, 2007, the Clerk had \$57,351.73 in Cash and Cash Equivalents.

*Investments* – This classification includes certificates of deposit and pooled 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 March 31, 2007, the Clerk had \$83,650.89 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 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 March 31, 2007, the Clerk had \$90,295.92 in Trust accounts.

## **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 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. DEFICIENCY IN SEGREGATION OF DUTIES

Staff members bypass access controls by sharing passwords. As a result, an error or misappropriation could occur that may be difficult to detect. Also, the responsible party for an error or misappropriation may be difficult to identify.

During the audit period, a former Assistant Clerk was assigned Special Cashier access rights. These rights allowed the user to enter receipts, void receipts, close-out Cashiers, re-open batches, and print closed batches. The user identification and password were shared with other employees to allow them to receipt cash and perform cash close-out procedures.

The Clerk retains Special Cashier rights. The Head Bookkeeper and current Assistant Clerk use the Clerk's identification and password to perform cash close-out procedures. The Head Bookkeeper also uses this access right to receipt cash.

As noted in the *Clerk of Superior Court Financial Policies and Procedures Manual*, segregation of duties are important enough to be adopted whether efficiency or inefficiency is the consequence.

*Recommendation:* The Clerk should implement a policy prohibiting the sharing of passwords in order to be in compliance with the *Clerk of Superior Court Financial Policies and Procedures Manual* and strengthen internal control. The Clerk should also evaluate and, to the extent necessary, reassign job duties and system access rights in order to better segregate duties to enhance internal control.

*Clerk's Response:* First and foremost, passwords will not be shared with anyone in accessing rights to any part of the system.

One of my Deputy Clerk's security has been changed from Cashier to SPECIAL CASHIER. She receipts all monies during the day, prints out the Cash Draw totals, Batch Totals, prepares the Cashier Balance Report by Cashier and completes deposit ticket for all receipts at the end of the day. The Assistant Clerk then checks the Special Cashier's work and prepares the CSC Daily Cash Balance Summary. The Assistant Clerk has both Cashier and Bookkeeper capabilities, however, as a compensating control, she does not perform any bookkeeping duties or cashier duties unless it is an emergency and she will then sign on the cash register as "Cashier" and a different Cashier will check the Special Cashier's and the Assistant Clerk's work at the end of the day and prepare the CSC Daily Cash Balance Summary. If she performs any of the Bookkeeper responsibilities during a day, she does not do any cash receipting or CSC Daily Cash Balance Summary preparation during that particular day or the following day.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### **2. INADEQUATE INTERNAL CONTROLS OVER BANK RECONCILIATIONS**

Bank reconciliations for the months of January, February, and March 2007 were not performed until May 2007. Additionally, we noted that reconciliations for November and December 2006 were not performed until late January 2007. The preparation date for the October 2006 reconciliation could not be determined as it was not signed or dated.

Bank Reconciliations are a critical internal control component. Failure to perform them on a timely basis increases the likelihood of significant errors or misappropriations not being discovered on a timely basis.

*Recommendation:* The Clerk should implement a policy ensuring that monthly reconciliations of bank statements are performed. Any variances with the general ledger cash balances should be promptly investigated and resolved in a timely manner.

*Clerk's Response:* The inadequate internal control over our Bank Reconciliations has been addressed and the following policies have been put in place. The Head bookkeeper will reconcile the bank statement within five (5) working days of receipt of the necessary information with which to perform this task (bank statement from the bank and the bank reconciliation control report). After completing the reconciliation and performing all journal entries, etc., another Cashier will then check the reconciliation and the daily reports for Journal Entries, etc., and present the completed reconciliation to the Clerk for his sign-off.

## **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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