



STATE OF NORTH CAROLINA

HALIFAX COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WELDON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE REBECCA C. SPRAGINS, 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 Rebecca C. Spragins, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Halifax 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. We also noted a certain matter that we reported to management of the Halifax County Clerk of Superior Court in a separate letter dated October 4, 2007.

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 Halifax 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 February 1, 2007, through July 31, 2007. During our audit, we considered internal control 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 controls designed to ensure that the Clerk properly safeguards and accounts for these assets. As of July 31, 2007, the Clerk had \$196,121.00 in Cash and Cash Equivalents.

Investments - This classification includes pooled investments and certificates of deposit. 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 July 31, 2007, the Clerk had \$1,557,726.82 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

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

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 July 31, 2007, the Clerk had \$1,466,277.61 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. We also noted certain other matters that we have reported to management in a separate letter dated October 4, 2007.

AUDIT FINDINGS AND RECOMMENDATIONS

1. INADEQUATE SEGREGATION OF DUTIES

The Clerk's office had inadequate segregation of duties. As a result, there is an increased possibility of error or fraud occurring and not being detected.

The head bookkeeper enters payment authorizations, has access to blank check stock, prints checks, prepares and posts journal entries, and prepares the bank reconciliation for the pooling account. The assistant bookkeeper can perform the same duties but is responsible for reconciling the regular checking account. Although the Assistant Clerk in the Civil Division reviews the bank reconciliations, no one reviews the journal entries or the Daily Actual Journal Report. No one outside of bookkeeping is reconciling the printed checks to payment authorizations or reviewing the check sequence log.

The Administrative Office of the Courts Financial Policies and Procedures Manual Part 2.2 states, "In order to achieve good internal controls in the financial area, one person should not be able to perform more than one of the following tasks: receipt money, make the final count and deposit of money, enter Payment Authorizations Forms (which generate checks), and reconcile the bank statement(s)." Job functions should be assigned such that the duties of one employee automatically provide a cross-check on the work of other employees.

Recommendation: The Clerk should ensure that job duties are segregated in accordance with the Administrative Office of the Courts Financial Policies and Procedures Manual.

Clerk's Response: In the FMS Bookkeeping Manual authored by the Administrative Office of the Courts is listed a comprehensive enumeration of essential duties of all head bookkeepers. The "Daily Worksheet, Daily Tasks" form as outlined for new bookkeepers is also in the forms section of that manual and is followed in the Halifax Co. CSC office. All payment authorizations and all journal entries will be verified on the pre-check register and actual journals report by someone other than the clerk who prepared the entry.

The regular checking account and the pooling account information will be accumulated and prepared by the assistant bookkeeper and given to an Assistant CSC, who will thoroughly review how the reconciliations and other numbers were arrived at and then sign off on her review. The Assistant CSC performs this duty already. As an additional compensating control, Halifax's AOC financial representative will begin a monthly review for Halifax CSC. During that monthly review, the FMA reviews the CSC's Statement of Changes, investment analysis, and aging reports and will now begin to include a detailed review of both reconciliations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. UNTIMELY INVESTMENTS

The Clerk's Office held money for two cases in the Clerk of Superior Court checking account for five months to a year instead of investing it within the sixty day requirement established by law. In addition to noncompliance with General Statutes, this results in lost interest income for the owner.

According to G.S. 7A-112(b), "money in a single account in excess of \$2,000 receipted by the Clerk that is expected to remain on deposit with the Clerk in excess of 6 months shall be invested by the Clerk within 60 days of receipt in investments." The money for one case was receipted in February 2007 and has no activity recorded in the file since then. The money for the other case was receipted in June 2006. Attempts were made to contact the recipients six months after the money was receipted and recently but the money remained in the Clerk's checking account.

Recommendation: The Clerk should monitor and review accounts routinely and consistently to ensure that investments are made timely as required by law.

Clerk's Response: In both cases referenced, looking back, we realize we did hold them for 6 months or longer; however, that was not the original expectation as they involved raised bids. The bookkeeper reviews her monthly reports for funds held greater than \$2,000 which should be invested, but in each of these cases, when she asked about the funds, each department did not expect that they would continue to hold them. These notations were not always placed in the file or on the report, but inquiries were made. The CSC's office will begin to make better notations of the comments in the future.

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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