



STATE OF NORTH CAROLINA

BEAUFORT COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WASHINGTON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

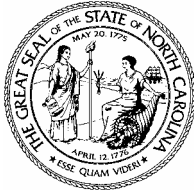
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THE HONORABLE VAN MARTIN PARAMORE, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Van Martin Paramore, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Beaufort 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 controls that are considered reportable under *Government Auditing Standards*. These matters are described in the Audit Finding and Recommendation 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 Beaufort 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 March 1, 2007, through August 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 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 August 31, 2007, the Clerk had \$199,012.96 in Cash and Cash Equivalents.

Investments - This classification includes pooled investments, savings, 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 August 31, 2007, the Clerk had \$2,789,175.33 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 these funds. We also examined evidence to support compliance with finance-related

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

laws and regulations. These laws and regulations set guidelines for the receipt, administration and disbursement of these accounts. As of August 31, 2007, the Clerk had \$2,799,783.48 in Trust accounts.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal controls, 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*. These items are described in the Audit Finding and Recommendation section of this report.

AUDIT FINDING AND RECOMMENDATION

INADEQUATE SEGREGATION OF DUTIES AND IMPROPER ACCESS CONTROLS

The Clerk's Office has inadequate segregation of duties and improper access controls. As a result there is an increased possibility of error or fraud occurring and not being detected timely.

The head bookkeeper enters payment authorizations, has access to blank check stock, prints checks, prepares and posts journal entries, and prepares the bank reconciliations for the pooling account. No one outside of bookkeeping reconciles the printed checks against the check register or payment authorizations or reviews the journal entries and pooling account bank reconciliations.

Cashiers have access to the Automated Criminal Infractions System (ACIS) system which allows them the opportunity to waive citations. With this access, cash could be lost or stolen and concealed by waiving the citation.

The Administrative Office of the Courts Financial Policy and Procedures Manual section 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 statements(s)." Job functions should be assigned such that the duties of one employee automatically provide a cross-check on the work of other employees. Also, the Administrative Office of the Courts Financial Policy and Procedures Manual section 2.9 states that a cashier should not have access to ACIS.

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

Clerk's Response: In response to the Audit that was recently completed in the Beaufort County Clerk's Office for the period March 1, 2007, through August 31, 2007 we have made the necessary changes. As a newly elected Clerk I was anxious to have this audit performed so that any deficiencies could be noted and addressed. Please keep in mind that this audit began 4 months after I took office. Many of the audit issues that have been discovered and noted in the audit finding have taken some of my staff by surprise as they have gone through the audit process for years and had never been notified of any finding or deficiency. As a result they had continued for years to go about their business unaware of the potential conflicts that have been noted. Regardless, we have taken the necessary steps to ensure that job duties are properly segregated and access rights are set in accordance with the A.O.C. policies and procedures. The recent audit finding reported specific areas where changes were needed and we have made the following:

AUDIT FINDING AND RECOMMENDATION (CONCLUDED)

Printed checks are now being reconciled against the check register by someone outside of the Bookkeepers office. To avoid the possibility of fraud we are also having payment authorizations, journal entries and pooling account bank reconciliations reviewed and checked by personnel from outside the Bookkeeper's office.

Cashiers access to the Automated Criminal Infraction System is now limited to inquiry only. They are no longer able to waive citations.

We have taken these steps to ensure that we have adequate segregation of duties and proper access controls in place. It is our desire to be in full compliance with all procedures as set forth in your audit findings. We appreciate the professional manner in which your office conducts its business and the effort made to bring about some needed changes in our office so we can be confident that things are done correctly in Beaufort County.

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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