

STATE OF NORTH CAROLINA

FORSYTH COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WINSTON-SALEM, NORTH CAROLINA

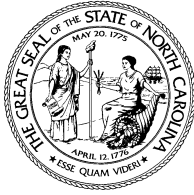
OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE TERRY L. HOLBROOK, CLERK OF SUPERIOR COURT



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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Terry L. Holbrook, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Forsyth 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 performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in 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 Responses 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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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit of the Forsyth County Clerk of Superior Court.

The objective of a fiscal control audit is to identify improvements needed in 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 rendering 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.

To accomplish our audit objectives, we gained an understanding of internal control over matters described above and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control.

Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this fiscal control audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Our audit scope covered the period January 1, 2008, through June 30, 2008. 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 June 30, 2008, the Clerk had \$3,190,815.60 in cash and cash equivalents.

Investments - This classification includes certificates of deposit and pooled investment accounts. 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, 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 June 30, 2008, the Clerk had \$3,089,930.73 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 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 June 30, 2008, the Clerk had \$3,104,090.06 in trust accounts.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

1. INADEQUATE SEGREGATION OF DUTIES

The Clerk's office has inadequate segregation of duties which increases the risk that an error or misappropriation could occur and not be detected in a timely manner.

The head bookkeeper and assistant bookkeeper have both head bookkeeping and head cashier access rights which do not allow for proper segregation of duties. The head bookkeeper serves as a backup head cashier and may enter payment authorizations. The assistant bookkeeper serves as backup head cashier, prepares and posts interest and adjustments, initiates and authorizes disbursement of invested funds, and reconciles bank accounts.

Recommendation: The Clerk should assign job duties to achieve a proper segregation of duties and proper internal controls as recommended in the Clerk of Superior Court Financial Policies and Procedures Manual.

Clerk's Response: Additional allocation of employees by the Legislature for our office will allow us to add an additional employee to serve as back-up for the head cashier. That employee will have "inquiry only" access for all other duties. The additional employee will allow for proper segregation of duties and proper internal controls as recommended in the Clerk of Superior Court Financial Policies and Procedures Manual. The assistant bookkeeper at this time does not have cashier rights. The head bookkeeper retired August 31, 2008 and the new head bookkeeper is diligently pursuing implementing and segregating the required duties as addressed in the audit findings.

2. WEAK INTERNAL CONTROLS OVER SAFEGUARDING OF ASSETS

The Clerk's office has internal control weaknesses related to the handling of manual receipts, handling of deposits in the checking account to be distributed or invested, and timely posting of interest earnings on certificates of deposit. During our audit, we noted the following:

- a. Seven percent of magistrates receipts examined were deposited between 1 and 50 business days late. The magistrates receipt log was scanned for the period and we noted 1,054 receipts totaling \$641,118 of which 76 receipts totaling \$61,366 were deposited late. In addition to the untimely deposit of magistrates' manual receipts, instances of untimely deposits of head cashier manual receipts were also noted. *North Carolina General Statute 147-77* requires collected funds be deposited daily.

Magistrates also shared receipt books and there was no receipts log for the head cashier's manual receipts. Sharing of receipt books is prohibited by Clerk of Superior Court Financial Policies and Procedures Manual because it deteriorates the accountability for the receipts by individual.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- b. *North Carolina General Statute 7A-308.1(1)* requires on all funds deposited by the Clerk in an interest-bearing checking account pursuant to *General Statute 7A-112.1*, a fee of four percent (4%) or \$750, whichever is less; be collected from interest earnings on each principal amount deposited. All interest earnings in excess of the prescribed fee shall be remitted to the beneficial owner(s) of any principal amount when the amount is withdrawn and distributed or invested by the Clerk. The Clerk's office has not been reviewing deposits in the checking account prior to their distribution or investment for a determination of interest earnings in excess of the prescribed fee. Our testwork did not reveal any instances of excess interest earnings during the audit period; however, the neglect of such review by the Clerk's office allows for the possibility of noncompliance with this general statute.
- c. The Clerk's personnel did not post interest for funds invested in certificates of deposits timely. The Clerk's practice is to post interest at the point the funds are withdrawn for distribution to the beneficial owner. Section 8.24 of the Clerk of Superior Court Financial Policies and Procedures Manual states interest should be posted at maturity of the certificate or when the roll-over/renewal notice is received from the financial institution. At June 30, 2008, the Clerk's office had five certificates of deposit totaling \$99,240; the largest account totaled \$79,167.

Recommendation: The Clerk should establish procedures to ensure compliance with the Clerk of Superior Court Policies and Procedures and General Statutes in order to strengthen internal controls over the safeguarding of assets.

Clerk's Response:

- a. A memo referencing the audit findings will be distributed to the Magistrates by the Clerk, attaching a copy of "Manual Receipt Books" and "Submitting Collections to the CSC" from the Financial Policies and Procedures Manual. The findings will also be addressed by the Clerk with the Chief District Court Judge and the Chief Magistrate who have responsibility for supervision of the Magistrates. New procedures will require the Clerk to be notified in writing immediately if noncompliance occurs.

A new form has been created as a tool for the assistant bookkeeper to double check the head cashier for accuracy and timely deposits of manual receipts.

- b. The head bookkeeper and assistant bookkeeper are now reviewing deposits in the checking account prior to distribution of interest earnings.
- c. We have complied and will continue to comply with the requirement that interest on funds invested in certificates of deposits be posted at renewal or maturity.

We have established the additional procedures to ensure and strengthen compliance with the Clerk of Superior Court Policies and Procedures and General Statutes.

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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