



# **STATE OF NORTH CAROLINA**

**BURKE COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**MORGANTON, NORTH CAROLINA**

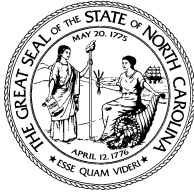
**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**BURKE COUNTY CLERK OF SUPERIOR COURT**  
**FISCAL CONTROL AUDIT**  
**MORGANTON, NORTH CAROLINA**

**THE HONORABLE MABEL H. LOWMAN, CLERK OF SUPERIOR COURT**



STATE OF NORTH CAROLINA  
**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 Mabel H. Lowman, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Burke 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**

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## **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 Burke 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 below 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 performance 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 November 1, 2007 through April 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, 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 April 30, 2008, the Clerk had \$732,804.67 in cash and cash equivalents.

*Investments* - This classification includes certificates of deposit. 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 April 30, 2008, the Clerk had \$1,237,057.36 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 April 30, 2008, the Clerk had \$1,702,037.65 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

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### LACK OF SEGREGATION OF DUTIES/ INTERNAL CONTROLS OVER CASH

The Burke County Clerk of Superior Court did not sufficiently segregate duties in assigning computer access rights for bookkeepers, cashiers, and other financial employees. There were also weaknesses in internal controls over cash. The custody of cash changed between employees without recounts, and the bookkeeper reconciled the bank account in addition to performing typical bookkeeping transactions. Without proper segregation of duties, adequate cash handling controls, and an independently prepared bank reconciliation, there is a greater risk of loss, misuse of funds and manipulation of account balances.

*Recommendation:* Employees' duties and computer access rights should be assigned in accordance with guidelines established by the Administrative Office of the Courts and sound business practices to minimize risk of loss or misuse of funds. The Clerk of Superior Court should review employees' computer access rights on a quarterly basis to assure needed changes are addressed.

*Clerk's Response:* While I understand the seriousness of the appearance of inappropriateness and the possibility of what could happen, the individuals that your report relates to have been with this office for a period of years and their loyalty and respect for themselves as well as there job is above reproach. With the number of personnel in my office it is impossible for jobs not to overlap, I make sure that the duties assigned to each member of my staff are within the realm of what I know to be secure.

The duties of my staff that have proper security is limited in number and I review the security access for each employee semi-annually at the request of AOC and as often as necessary during the year if the occasion arises.

While it would be nice to have additional employees wherein I could train them as cashiers or back-up bookkeepers this office is challenged as every other office to perform the duties that AOC and the legislators ask of us with the number of employees that we have, therefore I feel that everything is currently being done that can possibly be done to ensure that this office continues to maintain the high standard that we are known for across the state.

Each of your recommendations will be considered and any changes that can possibly be addressed will be.

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## **ORDERING INFORMATION**

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