



STATE OF NORTH CAROLINA

DAVIE COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

MOCKSVILLE, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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THE HONORABLE KENNETH D. BOGER, 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 Kenneth D. Boger, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Davie 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 a deficiency in internal control and no instances of noncompliance that are considered reportable under *Government Auditing Standards*. This matter is described in the Audit Finding and Response section of this report. We also noted certain matters that we reported to management of the Davie County Clerk of Superior Court in a separate letter dated September 18, 2008. *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.

A handwritten signature in cursive script that reads "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 at the Davie 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 February 1, 2008 through July 31, 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 July 31, 2008, the Clerk had \$342,213.69 in Cash and Cash Equivalents.

Investments - This classification includes certificates of deposit and 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 July 31, 2008, the Clerk had \$395,463.74 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 July 31, 2008, the Clerk had \$412,712.78 in trust accounts.

RESULTS

The results of our audit disclosed a deficiency in internal control that is considered reportable under generally accepted government auditing standards. This item is described in the Audit Finding and Response section of this report. We also noted a certain matter that we have reported to management in a separate letter dated September 18, 2008.

AUDIT FINDING AND RESPONSE

INADEQUATE SEGREGATION OF DUTIES

The Clerk of Superior Court of Davie County has failed to establish adequate segregation of duties or compensating controls over investment functions. Failure to adequately segregate duties involving investments increases the risk of unauthorized or fraudulent transactions.

The head bookkeeper is responsible for all phases of the investment process. She authorizes the opening and close-out of accounts, records investment activity in the general ledger, maintains investment files and performs the cash disbursement function.

Recommendation: The Clerk of Superior Court of Davie County should adequately segregate duties involving the investment process and/or implement compensating controls to minimize risk of unauthorized transactions.

Clerk's Response: The elected Clerk in the past has always approved the investments by the bookkeeper and has always approved the withdrawal of those investments; however, as a result of this finding the following policy will be implemented: 1) the elected Clerk and Assistant Clerk, after the bookkeeper has gotten CD rates from all the local banks, will review the terms and rates received from the banks and will approve investment prior to the actual investment being made at the bank. CD rates will be attached to payment authorization and initialed by the Clerk and Assistant Clerk; 2) as to the withdrawal, the same procedure will be followed as to the approval by the Clerk and Assistant Clerk; 3) the payment authorization to implement the pay out will be entered by the back up bookkeeper, instead of head bookkeeper and 4) the Aging Reports will be reviewed monthly by the elected Clerk, an Assistant Clerk or the FMA for unauthorized transactions.

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