



STATE OF NORTH CAROLINA

MONTGOMERY COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

TROY, NORTH CAROLINA

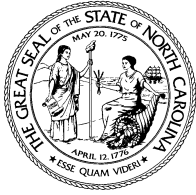
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE WAYNE WOOTEN, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

March 8, 2010

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
The Honorable Wayne Wooten, Clerk of Superior Court

This report presents the results of our fiscal control audit at Montgomery 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
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 Montgomery 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, 2009 through July 31, 2009. During our audit, we considered internal control related to the following accounts and control objectives:

*Cash and Cash Equivalent*s - 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, 2009, the Clerk had \$249,244.30 in Cash and Cash Equivalents.

Investments - This classification includes pooled investments. 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, 2009, the Clerk had \$479,456.26 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, 2009, the Clerk had \$495,379.70 in trust accounts.

RESULTS

The results of our audit disclosed a deficiency in internal control and instance of noncompliance that is considered reportable under generally accepted government auditing standards. This item is described in the Audit Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

INADEQUATE SEGREGATION OF DUTIES

The Montgomery County Clerk of Superior Court has given staff access rights to the information system and assigned job functions that are incompatible with adequate segregation of duties, and are not in compliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. As a result, errors or misappropriations could occur and not be detected in a timely manner.

The head cashier has access rights that allow her to void receipts, close-out cashiers, and perform bookkeeping functions. The same individual also reconciles the Clerk's checking account.

In addition, seven individuals with either cashier or bookkeeper access rights within the financial system also have update status within the automated criminal infraction system (ACIS) that gives them capability to change or update information. Two of the individuals also have secured update status within the automated criminal infraction system which allows them to delete information.

In the *Clerk of Superior Court Financial Policies and Procedures Manual*, guidelines are established to maintain segregation of duties. Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. As noted in the manual, segregation of duties is important enough to be adopted whether efficiency or inefficiency is the consequence.

Recommendation: The Clerk should grant access rights to the information system and assign duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: The head cashier that also has bookkeeping functions has had access to bookkeeping functions removed except print function. Also, our Administrative Office of the Courts (AOC) financial management analyst for this area has agreed to recheck the checking account reconciliation performed by this head cashier.

All employees with ACIS update capabilities, including the ones with secure update capabilities, have been removed from cashier duties with the exception of one individual that I will use only on an as needed basis because of personnel shortages. Each time I use this individual, I will have AOC security to give her only temporary access for the time needed and then remove her access through security when not needed.

ORDERING INFORMATION

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