



STATE OF NORTH CAROLINA

NEW HANOVER COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WILMINGTON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

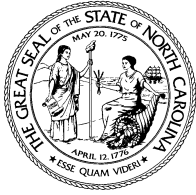
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THE HONORABLE BRENDA A. TUCKER, CLERK OF SUPERIOR COURT



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

October 19, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
The Honorable Brenda A. Tucker, Clerk of Superior Court

This report presents the results of our fiscal control audit at the New Hanover 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 that is considered reportable under *Government Auditing Standards*. This matter is 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 New Hanover County Clerk of Superior Court. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

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

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

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.

Our audit scope covered the period September 1, 2008 through February 28, 2009. 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 February 28, 2009, the Clerk had \$1,691,475.37 in cash and cash equivalents.

Investments - This classification includes certificates of deposit, pooled savings accounts, and U.S. Government securities. 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 February 28, 2009, the Clerk had \$4,801,819.02 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 February 28, 2009, the Clerk had \$4,053,816.75 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 Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

REQUIRED DOCUMENTATION NOT IN CASE FILE

The Clerk's Office made disbursements from minor's investment accounts without obtaining the documentation required by the Administrative Office of the Courts Financial Policies and Procedures Manual (AOC policy manual). Executing transactions without adequate supporting documentation increases the risk that an error or misappropriation could occur and not be detected in a timely manner.

Our examination of 13 disbursements from minor's investment accounts revealed the following:

- Three disbursements totaling \$1,730 were not supported by receipts as required by the AOC policy manual. The policies require the clerk to have receipts or paid vouchers showing that the funds were used for the exclusive use and benefit of the child. In all of these cases, the Clerk of Superior Court approved the disbursement and believed the disbursement to be necessary under the circumstances.
- One disbursement totaling \$1,749 was made to close out the minor's investment account; however, proof of the identity or age of the beneficiary was not evidenced in the case file as required by the AOC policy manual. We did find evidence elsewhere that the minor was of age to receive the funds.

Recommendation: The Clerk should ensure adequate documentation is obtained to support disbursements as required by the AOC policy manual.

Clerk's Response: Your examination alleges that three (3) disbursements were not supported by receipts as required by the AOC policy manual without maintaining receipts or paid vouchers showing that the funds were used for the exclusive use and benefit of the child. Your report also alleges that a minor's account was closed without my office retaining proof of identity or age of the beneficiary.

For the past several years identity fraud has become a very serious problem for the law-abiding citizens of the entire country and I have consciously made an effort to minimize the amount of documentation that is maintained in the public file through which anyone could obtain very personal and potentially damaging information regarding another individual. I maintain a very close relationship with my minor's accounts and their families and my rules for eligibility in the parents or guardians receiving any funds from the account are very stringent. Sufficient documentation is always presented to the office as verification of need. In most instances the distributions are made to the store after having received a proposed bill of sale. Most times the receipts are returned to the office, many accompanied by the actual tags from the clothing purchased. However, I do concede in the above cases those expenditures could have been better documented.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

We have taken several steps to rectify the above findings in that we now require a Petition and Order to be filed when any/all funds are to be released. That form requires the releasing judicial official to make a specific finding that proper identification and age verification was examined. In addition, AOC has provided a form to be used to maintain identification information which will only be available to the bookkeeper.

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647