



STATE OF NORTH CAROLINA

TRANSYLVANIA COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

BREVARD, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE RITA A. ASHE, CLERK OF SUPERIOR COURT

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AUDITOR'S TRANSMITTAL

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

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

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 Transylvania 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 July 1, 2008 through December 31, 2008. 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 December 31, 2008, the Clerk had \$188,200.39 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 December 31, 2008, the Clerk had \$674,430.16 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 December 31, 2008, the Clerk had \$690,068.52 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. DEFICIENCY IN SEGREGATION OF DUTIES

The Transylvania County Clerk of Superior Court has given staff access rights to the information system that are incompatible with adequate segregation of duties and 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 and two backup cashiers have special cashier access rights that allow the same person to enter receipts, void receipts, and close cashiers within the financial system. Seven individuals with cashiering access rights and one individual with head bookkeeper access rights within the financial system also have access rights within the criminal infraction system that gives them update capabilities to enter, change, or delete fees and citation information.

In the *Clerk of Superior Court Financial Policies and Procedures Manual*, guidelines are established to maintain segregation of duties. As noted in the manual, separation 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: I understand the importance of maintaining a separation of duties in the receipt and disbursement of funds by the Clerk of Superior Court.

However, the proper separation of duties is not feasible in this office of the Clerk of Superior Court due to the following conditions:

I have a small office and am required to overlap duties in order to maintain proper functioning of the office. I have three employees designated as special cashiers. I have today contacted security to have Lynn Rathbone removed as special cashier. She will now be designated as Head cashier, so that she may continue to close out the regular cashiers. One of the special cashiers takes money on an infrequent basis but there are times that she must due to court scheduling, vacations, lunch or when someone is out sick. For the same reasons both the special cashiers need to also be able to close out the regular cashiers.

Again, being a small office requires my employees to do several job duties. I do have cashiers who also have the ability to update the criminal system. My office could not operate properly without this capability. I am now doing periodic checks of the cash register tapes and also the bookkeeping reports. I will also do checks of the criminal

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

reports. I will do this without the knowledge of any of my employees. I worked as cashier and in the criminal division for several years when I first came to this office so I am familiar with the systems.

2. LACK OF INTERNAL CONTROLS TO SAFEGUARD ASSETS

The Clerk's office does not have adequate physical security over the safeguarding of cash. As a result, there is an increased risk of loss or misappropriation.

Cashiers store their respective cash drawers in a vault located in the head bookkeeper's office. The key to the vault is kept in an unlocked drawer in the head bookkeeper's office which is accessible to all employees within the Clerk's office, potentially providing direct access to cash within the vault.

Recommendation: The Clerk should enhance internal controls over the safeguarding of cash and access to the vault.

Clerk's Response: The key to the vault is now stored in a special secure area. In order for the employees to have access to it they will need to ask me or my assistant Kristi Brown for it. This way we will always know who has been into the vault and whenever possible we will accompany them to the vault.

ORDERING INFORMATION

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