



STATE OF NORTH CAROLINA

AVERY COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

NEWLAND, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE LISA F. DANIELS

CLERK OF SUPERIOR COURT

Office of the State Auditor



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AUDITOR'S TRANSMITTAL

May 10, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Lisa F. Daniels, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Avery 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 Avery 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 February 1, 2010 through July 31, 2010. 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, 2010, the Clerk had \$45,863.77 in cash and cash equivalents.

Investments - This classification includes certificates of deposit, pooled investments, 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, 2010, the Clerk had \$556,028.54 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, 2010, the Clerk had \$557,514.64 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. DEFICIENCIES IN SEGREGATION OF DUTIES

The Clerk's Office has given staff access rights to information systems and assigned job functions 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. Subsequent to our audit period, the Clerk's Office changed procedures to address some of the deficiencies noted.

The bookkeeper and one of the assistant clerks had head bookkeeper and special cashier access rights in FMS that allowed them to enter receipts, void receipts, close out cashiers, and perform bookkeeper functions. Head bookkeeper access allows the distribution of funds and journal entry processing. Special cashier access allows individuals to void their own receipts, making possible the misappropriation of funds without a transaction trail. Subsequent to our audit period, cashiering rights for the bookkeeper were removed.

The Clerk has head bookkeeper and head cashier access rights in the financial system that allow her to void receipts, close out cashiers, and perform bookkeeper functions. It was also noted that when the Clerk and bookkeeper receipt cash, they use an assistant clerk's user name, password, and cash drawer.

The bookkeeper also compiles the deposit, takes the deposit to the bank, and performs the monthly bank reconciliation of the checking account. The bookkeeper withdraws funds from investments, generates checks, and reconciles the pooled investment bank account per instructions from the financial management analyst. She also determines where the funds received will be invested. This increases the risk that errors could occur and cash collections could be misappropriated and not be detected by the internal control system in a timely manner. Subsequent to our audit period, the Clerk's Office implemented a review and approval process for the monthly bank reconciliations and monthly pooled investment bank account reconciliations. All investment funds transactions are now discussed with the Clerk.

Six individuals with either cashier and/or bookkeeper access rights within the Financial Management System (FMS) also have update status within the Automated Criminal Infraction System (ACIS) that gives them the capability to change or update information. Three of the individuals have secured update status within ACIS which allows them to delete information. This increases the risk that cash collections for criminal infractions could be misappropriated and not be detected by the internal control system.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: Access rights to the information systems and assigned duties should be in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Agency's Response: The bookkeeper no longer has cashier rights. The Clerk and head bookkeeper no longer do receipts. The Clerk will now review and approve monthly bank reconciliations, pooled investments, and all journal entries. Status has been changed to inquiry only in ACIS for three of the individuals identified in the finding.

2. DEFICIENCIES IN THE SAFEGUARDING OF ASSETS

The Clerk's Office has not implemented adequate internal controls to safeguard cash. As a result, there is an increased risk that an error or misappropriation could occur and not be detected in a timely manner. Subsequent to our audit period, the Clerk's Office changed procedures to address some of the deficiencies noted.

Cash receipted in the Clerk's Office after daily close-out is placed in a locked desk drawer; however, the key was retained in a desk drawer and was accessible. Subsequent to the audit period, procedures were changed so that keys are locked in the vault at the end of each day. The Clerk's Office also obtained new locking cash drawers for each individual that receipts cash.

The magistrates' logs are not reviewed by someone in the Clerk's Office. We identified four deposits, totaling \$3,456, that were not deposited timely, which included one instance where a magistrate used another magistrate's manual receipt book. Each magistrate had access to the other magistrates' manual receipt books and cash collected. Subsequent to the audit period, the Clerk's Office purchased individual locking bank bags in which the magistrates keep cash collected and manual receipt book. Each bag has its own unique key.

Recommendation: The Clerk's Office should continue to strengthen internal controls over cash and ensure compliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Agency's Response: Each cashier now has locking cash drawers. Cash register drawer keys are placed in the vault at the end of each day. Locking bank bags were given to each magistrate to keep money and receipt books. The bookkeeper checks daily for magistrate deposits.

3. LACK OF PROPER REVIEW AND APPROVAL

The Clerk's Office has not ensured that voided receipts, journal entries, and bank reconciliations are reviewed and approved by someone other than the preparer. As a result, there is an increased risk that an error or misappropriation could occur and not be

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

detected in a timely manner. Subsequent to our audit period, the Clerk's Office changed procedures to address the deficiencies noted.

We noted five of the 23 voided receipts tested were processed without proper documentation and review or approval. Subsequent to the audit period, the Clerk's Office implemented a new review and approval process for voids. A completed void authorization form, along with supporting documentation, is now required to be reviewed and approved by the head bookkeeper.

We also noted that there was no review or approval of journal entries prepared by the bookkeeper. Subsequent to our audit period, the Clerk's Office implemented a review and approval process for journal entries.

The checking account bank reconciliations performed by the bookkeeper during our audit period were not reviewed or approved. In addition, three of the six pooled investment bank reconciliations performed by the bookkeeper during our audit period were not reviewed and approved. Four of the six pooled investment reconciliations were not completed in a timely manner. Subsequent to the audit period, the Clerk's Office implemented a review and approval process for the monthly checking account reconciliations and the pooled investment bank reconciliations. The bookkeeper performs these duties and the Clerk reviews and approves them monthly as evidenced by her initials and date.

This finding has been resolved.

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