

STATE OF NORTH CAROLINA

ALLEGHANY COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

SPARTA, NORTH CAROLINA

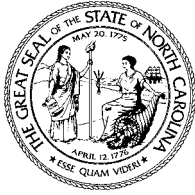
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE SUSIE J. GAMBILL, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

July 18, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Susie J. Gambill, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Alleghany 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 item 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

TABLE OF CONTENTS

	PAGE
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS	1
AUDIT FINDINGS AND RESPONSES	3
ORDERING INFORMATION	5

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 Alleghany 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 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 August 1, 2010 through January 31, 2011. 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 January 31, 2011, the Clerk had \$80,241 in cash and cash equivalents.

Investments - This classification includes certificates of deposit. 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 January 31, 2011, the Clerk had \$112,650 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 January 31, 2011, the Clerk had \$144,759 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

DEFICIENCIES IN SEGREGATION OF DUTIES

The Alleghany County Clerk of Superior Court has granted access rights to the information systems and has assigned daily cash processing responsibilities that are incompatible with adequate segregation of duties, which is 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.

During our review of the information system access, we noted the following deficiencies:

- The Clerk has access rights in the Financial Management System (FMS) as both head cashier and head bookkeeper; however, she indicated that she does not use these functions in the system. Nonetheless, with these access rights the Clerk has the ability to void receipts, enter payment authorizations to generate checks, and distribute funds. The Clerk is also responsible for signing checks and preparing the monthly bank reconciliations. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that the duties of the Head Bookkeeper and Head Cashier should be segregated.
- The head cashier and one cashier have special cashier access rights that allow the same person to enter receipts, void receipts, and close out cashiers within FMS. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated. In addition, these two individuals stated that they have initiated and authorized their own transaction voids. We examined four voided transactions and noted one where the head cashier initiated and authorized her own transaction void on a day when she performed the duties of cashier and head cashier.
- Five employees with access rights in FMS also have access to the Automated Criminal Infraction System (ACIS) secured menu that gives them update capabilities to enter, change, or delete fees and citation information. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated.

We also noted deficiencies in the daily procedures for processing cash. During the cash receipting process, each cashier prepares a daily cash report and the head cashier is to sign the report as evidence that the cash count has been reviewed and verified for accuracy. Also, as part of verifying a day's total cash collections, the head cashier prepares and signs a daily cash summary report verifying the day's total cash receipts. We examined a sample of 25 daily deposits and noted the following deficiencies.

- In six instances there was no evidence that the cashiers' daily cash reports were reviewed and the accuracy of the cash receipts verified. Of these, there were five instances where one person (either the head cashier or a cashier) performed the duties

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

of both cashier and head cashier in the same day. In each instance the cashier's daily cash report was prepared but there was no evidence the receipts had been reviewed by another person to ensure the cash count was accurate.

- In one instance the daily cash summary report was prepared but not signed. As a result, there was no evidence that the total cash collections for the day had been reviewed and verified for accuracy prior to preparing the deposit. On this day, a cashier performed the duties of cashier and head cashier.

Recommendation: The Clerk should strengthen internal controls to ensure that access rights and the assignment of daily responsibilities, especially when staff are serving in backup rolls, promote adequate segregation of duties and are in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: Thank you for your recommendations for this office. I have already made some of the changes that you recommended. Internal Control is most important to me and I will continue to do my best at segregating duties in this office.

At the present I only have five people in the office including me. One of that five has been out most of the time because of sickness for the last three months. That really leaves four people with vacations, sickness, court and lunch periods to work around. Being small to begin with and then so short staffed is why it is so difficult to segregate duties.

Fortunately everyone here is conscience and will work to comply and concur with the Clerk of Superior Court Financial Policies and Procedures Manual and with the recommendations of your audit report. As always I will continue to strive to make this Clerk's Office the best in North Carolina.

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