



# STATE OF NORTH CAROLINA

**BLADEN COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**ELIZABETHTOWN, NORTH CAROLINA**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

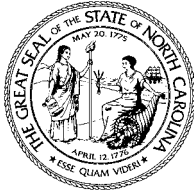
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**THE HONORABLE NIKI S. DENNIS**

**CLERK OF SUPERIOR COURT**



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## AUDITOR'S TRANSMITTAL

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July 28, 2011

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Nikki Dennis, Bladen County Clerk of Superior Court

This report presents the results of our fiscal control audit at the Bladen 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, regulations, and provisions of contracts or grant agreements; 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 items 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**

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## **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 Bladen 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, regulations, and provisions of contracts or grant agreements; 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 June 1, 2010 through November 30, 2010. During our audit, we considered internal controls related to the following accounts and control objectives:

*Cash* - This classification includes cash on deposit in private bank accounts. We examined internal controls designed to ensure that the Clerk properly safeguards and accounts for these assets. As of November 30, 2010, the Clerk had \$226,198.27 in cash.

*Investments* - This classification includes certificates of deposit and pooled investments. We examined internal controls 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 November 30, 2010, the Clerk had \$815,233.61 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 controls designed to ensure that the Clerk properly safeguards and accounts for these funds. 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 funds. As of November 30, 2010, the Clerk had \$836,130.30 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

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### 1. DEFICIENCIES IN SEGREGATION OF DUTIES

The Clerk's Office has given staff access rights to the information systems 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.

Five employees who serve as both cashier/head bookkeeper and as deputy clerks have access rights within the financial system as well as update access within the automated criminal infraction system (ACIS) and/or the civil case processing system (VCAP). Update capabilities to enter, change, or delete information increases the risk that criminal citations could be waived in ACIS and judgments satisfied in VCAP, resulting in unauthorized entries or possible misappropriation of assets.

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's Office 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:* As stated in the report I have 5 employees who serve as both cashier/head bookkeeper and as Deputy Clerks which they have access rights within the financial system as well as update access within the automated criminal infraction system (ACIS) and/or the civil case processing system (VCAP). Being from a small county and being understaffed by three employees makes it difficult to be able to not have one or more employees with multiple duties. Two (2) employees as I stated in my last audit only have civil revocation access only in the criminal system. One (1) employee is only for lunch times when someone is out on leave. The other two (2) employees are my assistants. The risks associated with inadequate segregation of duties will be minimized by increased oversight of the cashier/bookkeeper activities within the financial systems.

### 2. DEFICIENCIES IN THE SAFEGUARDING OF ASSETS

The Clerk's Office has not ensured that adequate internal controls to safeguard cash are implemented and operating effectively. As a result, errors or misappropriations could occur and not be detected in a timely manner.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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One magistrate's collections were not submitted timely to the Clerk's office for receipting into the financial system and deposit. Our review of 11 days of manual receipts identified three instances in which cash collections totaling \$2,540 were submitted to the Clerk's Office from two to five days late.

In addition, we noted that the physical safeguards over cash were inadequate. Cash handling procedures have not been effectively designed to address afternoon, evening, and off-duty collections by magistrates and the proper safekeeping of those monies prior to deposit.

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that magistrates who issue manual receipts should submit receipts, funds, and paperwork to the Clerk's cashiers at the end of each shift. If the magistrate's shift ends after the Clerk's office hours, the magistrates should submit receipts, funds, and paperwork during the next business day. The manual also addresses restricted access to cash through physical security methods such as a safe, a vault, or locked cash drawers.

*Recommendation:* The Clerk's Office should strengthen internal controls over cash and ensure compliance with the *Clerk of Superior Court Financial Policies and Procedures Manual* to ensure that magistrates' monies are timely receipted and properly safeguarded.

*Clerk's Response:* This particular Magistrate was out sick during this time and I have spoken with her to prevent any future problems. According to the financial policies and procedures manual they are to turn in money collected at the end of each shift. They all now have locked bank bags and will allow other Magistrates to turn in their money on a more efficient manner.



## **ORDERING INFORMATION**

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