



STATE OF NORTH CAROLINA

HERTFORD COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WINTON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE SHIRLEY G. JOHNSON, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

July 29, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Shirley G. Johnson, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Hertford 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 Hertford 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 July 1, 2010 through December 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 December 31, 2010, the Clerk had \$290,382.40 in cash and cash equivalents.

Investments - This classification includes certificates of deposit 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 December 31, 2010, the Clerk had \$390,336.35 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, 2010, the Clerk had \$591,889.44 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 CONTROLS OVER PARTIAL WITHDRAWAL PAYMENTS MADE ON THE BEHALF OF MINORS

The Hertford County Clerk of Superior Court does not have effective internal controls in place to ensure that proper documentation is received for partial withdrawal payments that are made on the behalf of minors. As a result, there is an increased risk that payments could be made for unallowable purposes.

According to North Carolina General Statute 7A-111(a), the Clerk is authorized to receive, administer, and disburse funds on the behalf of minors under 18 years of age. The disbursement of funds prior to the minor obtaining the age of 18 is considered a partial withdrawal and should only occur “at such time or times as in his judgment is in the best interest of the child, except that the clerk must first determine that the parents or other persons responsible for the child’s support and maintenance are financially unable to provide the necessities for such child, and also that the child is in need of maintenance and support or other necessities, including, when appropriate, education.”

According to the Clerk of Superior Court Financial Policies and Procedures Manual issued by the Administrative Office of the Courts, the parent or other person responsible for the minor’s care is to make a request to the Clerk in the form of a letter or petition for the funds and the request is to be placed in the court file. If the Clerk determines that funds should be distributed on the minor’s behalf, he/she must require receipts or vouchers showing the monies disbursed were for the exclusive use and benefit of the minor.

Based on our inquiry of the staff at the Clerk’s Office and our review of a case file, the Clerk does not require the parent or guardian to provide a written request in order to receive a partial withdrawal. In addition, the Clerk’s Office does not have adequate procedures in place to ensure receipts are obtained after the purchase is made. For a partial withdrawal made during our audit period, we found no written request from the guardian stating the purpose or amount requested and no supporting receipt for the purchase in the case file. It was not until our inquiry that the Clerk’s Office contacted the guardian and a receipt was obtained; however, this was approximately eight months after the funds had been released to the guardian.

Recommendation: The Clerk’s Office should strengthen internal control over partial withdrawal payments made on behalf of minors. Specifically, the Clerk’s Office should ensure that adequate documentation, as required by the Administrative Office of the Courts policy and procedures manual, is maintained to support that the partial withdrawals are necessary and for the exclusive use and benefit of the child.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Clerk's Response: For years I have followed the procedure of my predecessors, however, since this finding Lynn Medlin has provided us with the proper instructions on how these matters are to be handled. Starting immediately, we will strengthen that control by requiring parents and/or legal guardians to give a written petition and/or letter requesting the funds and the specific goods or services to be purchased with the funds. Once the clerk has reviewed the petition and/or letter to determine if the minor is in need of maintenance, support, or other necessities, an order for release of minor's funds will be signed and made payable directly to the store or business. The other course of action will be to have the parent pay for the items and bring in receipts and reimbursement made based on said receipts.

2. MAGISTRATES' COLLECTIONS NOT DEPOSITED TIMELY

Magistrate collections were not submitted in accordance with established policies, and thus the funds were not deposited within one day of receipt as required by state law. As a result, there is an increased risk of loss or misappropriation of cash collections.

The *Clerk of Superior Court Financial Policies and Procedures Manual* issued by the Administrative Office of the Courts states that magistrates should submit receipts, funds, and paperwork to the Clerk of Superior Court's cashier's office at the end of each shift. If the magistrate's shift ends after the Clerk's office hours, submission should be made during the next business day. In addition, *North Carolina General Statute 147-77* requires collected funds to be deposited daily.

For the five magistrates in the Clerk's Office, we reviewed all the manual receipt logs for the period of July 1, 2010 through December 31, 2010. We found 16 instances, which represent 21% of the total population, where the magistrates submitted their receipts with the Clerk's Office two to six business days after the magistrate collected the funds. As a result, these funds were not deposited in accordance with statute.

Recommendation: The Clerk's Office should strengthen internal controls to ensure that all funds collected by magistrates are submitted to the cashiers as prescribed by the Administrative Office of the Courts policy and procedures manual so that funds may be deposited daily as required by statute.

Clerk's Response: Upon receipt of this finding, I contacted our Chief District Court Judge, the Honorable Thomas R. J. Newbern, who emailed all of the magistrates in this county on June 28, 2011. He informed them that it was essential that all monies collected be turned in to this office by the following business day. Internally, the cashiers have been advised to notify the Clerk if monies are not turned in as required and the Chief District Court Judge will immediately be notified.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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