



# STATE OF NORTH CAROLINA

**PENDER COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**BURGAW, NORTH CAROLINA**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**PENDER COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**BURGAW, NORTH CAROLINA**

**THE HONORABLE ROBERT W. KILROY**

**CLERK OF SUPERIOR COURT**



Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA

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## AUDITOR'S TRANSMITTAL

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June 30, 2011

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Robert Kilroy, Pender County Clerk of Superior Court

This report presents the results of our fiscal control audit at the Pender 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 Pender 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 \$511,721.70 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 \$601,887.61 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 \$614,776.57 in trust accounts.

### **RESULTS**

The results of our audit disclosed a deficiency in internal control and instance of noncompliance that is considered reportable under generally accepted government auditing standards. This item is described in the Audit Findings and Responses section of this report.

Management's response is presented after the finding. We did not audit the response, and accordingly, we express no opinion on it. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement and to ensure that the nature and seriousness of the finding is not minimized or misrepresented, we have provided comments to the Clerk's response as appropriate.

## AUDIT FINDINGS AND RESPONSES

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### 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.

Seven 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 should grant access rights to the information systems and assign duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

*Clerk's Response:* Thank you for the opportunity to visit with you and your staff on the above matter.

We take your concerns seriously. However, I need to remind you that a Court speaks through its judgments/orders as shown in its files, not an EDP System as maintained by AOC and other agencies of the State.

With continuing budget crunch and less staff, we simply cannot have boutique employees with limited duties, especially in the cashier position. We have a railroad to operate and we need the crew to multitask. Whether blowing the whistle or shuffling freight, I do not see the perception of a wheel coming off as sufficient basis to keep everyone off the train. If it happens, we will fix it.

To repeat what I stated earlier, it ain't broke and I see no reason to fix it.

*Auditor Comment:* The audit finding identifies a control and compliance deficiency in accordance with the guidelines established by the North Carolina Administrative Office of the Courts (AOC), which are applicable to all clerks of court in the State of North Carolina.



## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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A similar issue has been previously reported by the AOC internal auditors. The Clerk's response indicates that he is willing to accept the risk associated with the inadequate segregation of duties and will respond to any error or fraud that occurs after the fact instead of implementing internal controls that would prevent error or fraud in the first place. However, as a result of the lack of segregation of duties, error or fraud may occur and not be detected timely or at all.

## ORDERING INFORMATION

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