

STATE OF NORTH CAROLINA

WAKE COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

RALEIGH, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

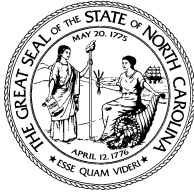
STATE AUDITOR

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THE HONORABLE N. LORRIN FREEMAN

CLERK OF SUPERIOR COURT



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State Auditor

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AUDITOR'S TRANSMITTAL

October 1, 2010

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable N. Lorrin Freeman, Wake County Clerk of Superior Court

This report presents the results of our fiscal control audit at the Wake 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 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 Wake 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

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 January 1, 2010 through June 30, 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 June 30, 2010, the Clerk had \$14,049,666.92 in cash and cash equivalents.

Investments – This classification includes certificates of deposit and pooled investments. We examined internal control designed to ensure that the Clerk properly 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 June 30, 2010, the Clerk had \$7,829,739.98 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 June 30, 2010, the Clerk had \$4,621,801.03 in trust accounts.

RESULTS

The results of our audit disclosed a deficiency in internal control that is considered to be 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

ACCOUNTS NOT MONITORED TO ENSURE TIMELY INVESTMENT

The Clerk's Office has not monitored its accounts to ensure that they were invested timely as required by law. However, since the current interest rates being earned on the deposits in the checking account are greater than what is being earned on the typical investment options available to the Clerk's Office, there is no lost interest income for the owners of the deposits, at least at the present time.

According to *North Carolina General Statute 7A-112(b)*, "When money in a single account in excess of two thousand dollars (\$2,000) is received by the clerk by virtue or color of his office and it can reasonably be expected that the money will remain on deposit with the clerk in excess of six months from date of receipt, the money exceeding two thousand dollars (\$2,000) shall be invested by the clerk within 60 days of receipt."

We examined 16 large individual accounts (balances in excess of \$42,000) held for more than six months. Four of the accounts examined, totaling \$1,379,142, were condemnation cases. Clerk's Office personnel indicated to us during the audit that these balances can reasonably be expected at the time of receipt to be held for more than six months. We also identified two other accounts, totaling \$169,696, that we concluded could have been expected to be held for more than six months at the time of receipt based on the individual circumstances of the case. The Clerk's Office had not identified that these accounts required investment, but as stated above, the accounts earned more interest than they would have in the typical investments authorized for clerks.

Recommendation: The Clerk's Office should routinely review accounts to ensure that investments are made timely as required by law. As soon as it becomes evident that an individual account will be held for more than six months, the amount exceeding \$2,000 should be invested. Under the current market circumstances, we believe it would be prudent to identify the accounts that require investment, document that the checking account interest rate exceeds the available investment interest rate, and leave the balances in the checking account.

Agency's Response: As stated in the Audit Findings and Recommendations presented to our office, state law requires that our office invest any monies in individual accounts that exceed \$2000 that we *reasonably expect* to remain on deposit in our office for a period of more than six months. Our office holds monies primarily under two circumstances which include monies held on behalf of minors and monies held in which a determination must be made by the court as to rightful ownership. The audit found no minor accounts that had not been invested but identified several accounts of disputed funds that had been held more than six months. It is often difficult to forecast how long disputed funds deposited with our office will be held.

We are taking steps to implement the audit recommendation so that in those cases in which we reasonably believe we will hold monies more than six months, we will document that the operating account provides the best rate of interest at this time and that it is therefore in the public's best interest not to invest the funds.

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