



STATE OF NORTH CAROLINA

BERTIE COUNTY CLERK OF SUPERIOR COURT FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

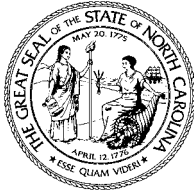
BERTIE COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

WINDSOR, NORTH CAROLINA

THE HONORABLE JOHN C. P. TYLER

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

October 18, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable John C. P. Tyler, Clerk of Superior Court

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

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 Bertie 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 February 1, 2011 through July 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 July 31, 2011, the Clerk had \$123,807.50 in cash and cash equivalents.

Investments - This classification includes pooled 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 July 31, 2011, the Clerk had \$474,836.73 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 July 31, 2011, the Clerk had \$492,828.34 in invested 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. INADEQUATE SEGREGATION OF DUTIES

The Clerk's office has assigned job functions that are incompatible with adequate segregation of duties and not in compliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. As a result, errors or misappropriation of assets could occur and not be detected in a timely manner.

The bookkeeper performs the monthly bank reconciliations for all bank accounts, opens and deposits investments with the bank, closes and withdraws funds from the bank, posts journal entries for cash and investment transactions, and generates checks using the Financial Management System. Journal entries are not reviewed by someone other than the preparer. No one other than the bookkeeper reconciles printed checks to payment authorizations or reviews the check register.

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 duties of one employee automatically provide a cross-check on the work of other employees. The manual states that employees authorized to withdraw funds from investments should not be able to also generate checks and be responsible for reconciling the accounts or for determining where the funds will be invested.

Recommendation: The Clerk's Office should assign job duties to achieve proper segregation of duties as described in the *Clerk of Superior Court Financial Policies and Procedures Manual*. If it is not possible to separate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or misappropriation.

Agency Response: The Clerk has reassigned job duties to achieve proper segregation of duties as described in the Clerk of Superior Court Financial Policies and Procedures Manual. The Clerk now opens and closes and makes all withdrawals on all accounts and is responsible for determining how and where all funds are to be invested. The Clerk or a Deputy Clerk that does not receipt or perform any bookkeeping functions will now daily reconcile the check register and payment authorizations. The Clerk now reconciles the monthly bank statements.

2. MAGISTRATES' COLLECTIONS NOT DEPOSITED TIMELY

Magistrate collections were not submitted and deposited in accordance with established policies and 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,

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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 unless an exemption is granted by the State Treasurer for receipt totals less than \$250.

Bertie County has three magistrates and we reviewed all of their manual receipt logs for the period of February 1, 2011 through July 31, 2011. We noted one magistrate had submitted receipts to the Clerk's Office timely. However, we found 22 instances, representing 25% of the total population, where two magistrates did not submit their receipts to the Clerk's Office timely. Thirteen of the 22 were submitted four to fourteen business days after the magistrates collected the funds. The Clerk was aware of the untimely submissions and discussed the issue with the magistrates; however, this did not resolve the matter because the magistrates' untimely submissions continued.

Recommendation: The Clerk's Office should continue to work with the magistrates and officials to whom they report to ensure the magistrates are aware of and follow the Administrative Office of the Court's policies regarding the timely deposit of receipts.

Agency Response: The Clerk has spoken with each Magistrate concerning the submission of their collections in a timely manner as well as providing each Magistrate with a copy of NC G.S. 147-77. The Magistrates have been informed that the Chief District Court Judge as well as the Resident Superior Court Judge will be informed of any untimely submissions of receipts in the future. The Clerk will not recommend their reappointments if the untimely submissions continue.

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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