



# **STATE OF NORTH CAROLINA**

**DUPLIN COUNTY CLERK OF SUPERIOR COURT**

**FISCAL CONTROL AUDIT**

**KENANSVILLE, NORTH CAROLINA**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**DUPLIN COUNTY CLERK OF SUPERIOR COURT**

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**KENANSVILLE, NORTH CAROLINA**

**THE HONORABLE KATIE Q. HARRELL**

**CLERK OF SUPERIOR COURT**



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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**AUDITOR'S TRANSMITTAL**

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January 10, 2012

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Katie Q. Harrell, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Duplin 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 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 Duplin 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 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)**

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Our audit scope covered the period April 1, 2011 through September 30, 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 September 30, 2011, the Clerk had \$698,466.95 in cash and cash equivalents.

*Investments* - This classification includes savings accounts invested in a pooled investment account. 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 September 30, 2011, the Clerk had \$1,565,987.23 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, escheating and disbursement of these accounts. As of September 30, 2011, the Clerk had \$1,863,065.90 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. INADEQUATE SEGREGATION OF DUTIES

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

During our review of the information system access, we noted the following deficiencies:

- Two employees had access to perform head cashiering functions in the Financial Management System (FMS); however, they indicated that they did not use these functions in the system. Employees should not be granted access rights that are not necessary for their job functions. With these access rights, the employees had the ability to void receipts, which could potentially result in lost or misappropriated funds going undetected.
- Three employees had access to update functions in the Automated Criminal/Infraction System (ACIS) and/or the Civil Case Processing System (VCAP) that were not needed for their jobs. Update capabilities to enter, change, or delete information increases the risk that criminal citations could be inappropriately waived in ACIS or judgments satisfied in VCAP, resulting in unauthorized entries or possible misappropriation of assets.
- Six employees with head bookkeeper/cashier access in the financial system also had update access in ACIS and/or VCAP. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated.

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 such that the duties of one employee automatically provide a cross-check on the work of other employees.

*Recommendation:* The Clerk's Office 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* or implement alternative compensating controls.

*Agency Response:* We accept your findings. In reviewing the information system access with one of the auditors, it was brought to my attention that some of the employees had access to systems they no longer needed. These employees had access as a result of former positions held within the office. A request for access change was made to remove employees from any unnecessary access to systems not currently needed for their

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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positions. Confirmation of removal was given to the auditor during the audit. After the auditors left, the backup cashier's access in ACIS was also removed. Unfortunately, we do not have enough staff to totally segregate duties within the office and also cross train. Your recommendations are appreciated and as much as possible have been implemented. In addition to checking the daily reports, we are in communication with AOC to identify any other compensating controls that could be implemented.

### 2. FUNDS NOT REVERTED TO STATE'S ABANDONED PROPERTY FUND TIMELY

The Clerk's Office did not have procedures in place to ensure that funds were reverted to the State's abandoned property fund timely in accordance with state law. As a result, funds totaling \$54,140 that were eligible to be reverted were not identified by the Clerk's Office.

According to *North Carolina General Statute 116B*, all abandoned property shall be paid into a fund to be administered by the State Treasurer. The *Clerk of Superior Court Financial Policies and Procedures Manual* indicates that the Clerk's Office should hold funds for one year after the funds become eligible for payout before transferring to the abandoned property fund. In addition, checks on the outstanding check list that do not clear for more than seven months and whose owner can not be located should be reverted to the abandoned property fund. Our tests revealed the following deficiencies:

- We identified five instances out of 20 cases tested where funds had been held for over a year after the funds had become eligible for payout. One case totaling \$13,292 had been held for over one year after the minor's 18<sup>th</sup> birthday. Four cases totaling \$30,329 were the result of tax foreclosures receipted between 2003 and 2006 where property was sold in excess of the debts owed.
- Our review of all un-invested trust accounts identified one case totaling \$2,758 that had been established in 2006 and held for over five years after receipt. The owners were known but could not be located, and therefore, the amount should have been reverted to the abandoned property fund.
- Our review of the outstanding check list revealed that there were 90 checks totaling \$7,761 that were issued but not cleared for more than seven months. The oldest check date was January 2007.

*Recommendation:* The Clerk's Office should strengthen internal controls to ensure that funds that should be reverted to the State's abandoned property fund or returned to the rightful owner are identified timely and properly disbursed.

*Agency Response:* Your findings are accepted and we are in the process of strengthening our internal controls to more timely send these monies to the state's treasurer after reasonable attempts to locate the owners of the funds are exhausted. The bookkeeper is in the process of making a spread sheet that will alert her on a monthly basis of future



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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maturity dates of any monies held in our office. Also, the outstanding check list will be reviewed each month by the person reconciling the bank statements. She will alert the bookkeeper if any outstanding checks are older than six months.

### 3. MAGISTRATE RECEIPTS 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 (AOC) states that magistrates should submit receipts, funds, and paperwork to the Clerk of Superior Court's cashier 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.

We reviewed all of the magistrates' receipt logs for the period of April 1, 2011 through September 30, 2011. We found 41 receipts, or 17.3% of the total, that were submitted to the Clerk's Office two to 12 business days after the magistrate collected the funds. As a result, these funds were not deposited in accordance with statute and AOC Policy.

*Recommendation:* The Clerk's Office should 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 and state law regarding the timely deposit of receipts.

*Agency Response:* Your findings are accepted and we also accept your recommendations. Each magistrate now has a copy of the Administrative Office of the Court's policies and procedures and the state law regarding the timely deposit of receipts. The cashiers are to alert me as well as the Chief Magistrate of any deposits made late. Any deposits made two or more days late will be reported to their supervisor, the Chief District Court Judge. Occasionally, the Chief Magistrate and I (at different times) will review the daily log maintained by the cashiers as an added precaution.

### 4. DEFICIENCIES NOTED IN PARTIAL WITHDRAWAL PAYMENTS MADE ON THE BEHALF OF MINORS

The Clerk's Office made disbursements from the investment accounts of minors without obtaining the documentation required by the *Clerk of Superior Court Financial Policies and Procedures Manual*. As a result, there is an increased risk that payments could have been made that were for unallowable purposes.

The Clerk made two partial distributions from minors' investment accounts during the audit period. The disbursements, totaling \$1,000, were not supported by receipts as

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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required by the Administrative Office of the Courts' (AOC) policy manual. The policies require the Clerk's Office to have receipts or paid vouchers showing that the funds were used for the exclusive use and benefit of the child. In each case, the Clerk of Superior Court approved the disbursement and believed the disbursement to be necessary. We noted that there were a series of withdrawals from these accounts dating from 2000 that were also not supported by receipts. The Clerk stated that receipts had been required in the past but were no longer requested.

*Recommendation:* The Clerk's Office should ensure that appropriate receipts are obtained to support disbursements from minors' accounts as required by AOC Policy.

*Agency Response:* Your findings are accepted as well as your recommendations. Receipts have always been required, but were not always provided prior to monies being disbursed. In the future, additional disbursements will no longer be made when receipts are not provided as required.

### 5. DELAYS IN INVESTING FUNDS

The Clerk's Office did not adequately monitor its trust accounts to ensure that they were invested timely as required by law. As a result, there is an increased risk of noncompliance with statutory requirements.

According to *North Carolina General Statute 7A-112(b)*, when money in a single account in excess of \$2,000 is received by the Clerk, and it can be reasonably expected that it will remain on deposit with the Clerk in excess of six months, the funds in excess of \$2,000 shall be invested by the Clerk within 60 days of receipt.

During our testing of 21 new investments made during our audit period, we found that 12 investments were made more than 60 days after receipt. Four of the 12 were not invested until more than 100 days after receipt.

*Recommendation:* The Clerk's Office should ensure that investments are made timely in accordance with statutory requirements.

*Agency Response:* Your findings are accepted as well as your recommendations. The bookkeeper and I will review the un-invested trust report (trust accounts) each month to ensure investments are made timely.

## ORDERING INFORMATION

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Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647