



STATE OF NORTH CAROLINA

FRANKLIN COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

LOUISBURG, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE ALICE FAYE HUNTER

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

January 27, 2012

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Alice Faye Hunter, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Franklin 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 a deficiency in internal control and/or instances of noncompliance or other matters 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 Franklin 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)

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 \$260,434 in cash and cash equivalents.

Investments - This classification includes certificates of deposit and savings accounts 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 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 \$1,316,922 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 \$1,352,068 in trust accounts.

RESULTS

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

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 deficiency:

- Ten employees with head bookkeeper or cashier access in the financial system also had the ability to update case information in 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 inappropriately waived in ACIS or judgments satisfied in VCAP, resulting in unauthorized entries or possible misappropriation of assets. 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.

Auditee Response: I have one bookkeeper, one head cashier and 3 cashiers in two courthouses. I am required to use backup bookkeepers, head cashiers and cashiers from the civil, criminal or estates and special proceedings departments. In order to always have personnel available to perform these duties for vacations and sick leave I have two employees trained to backup the Bookkeeper, 2 as Head Cashier and 3 as Cashiers. There are 17 on staff, including the Clerk. There are 5 in FMS and 7 trained to backup FMS. To be able to perform their regular duties in the civil and criminal departments, they must have access to ACIS and VCAP.

I have contacted Rex Whaley at AOC to determine the compensating controls that can be used to comply with policy.

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