



STATE OF NORTH CAROLINA

GATES COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

GATES COUNTY CLERK OF SUPERIOR COURT

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GATESVILLE, NC

THE HONORABLE NELL F. WIGGINS

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

May 1, 2012

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Nell F. Wiggins, Gates County Clerk of Superior Court

This report presents the results of our fiscal control audit at the Gates 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 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 Gates 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 audit in accordance with generally accepted government auditing standards applicable to performance audits. 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, 2011 through November 30, 2011. During our audit we considered internal controls 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 the cash on deposit with private banks. As of November 30, 2011, the Clerk had \$58,133 in cash on deposit with private banks.

Investments - This classification includes certificates of deposit and 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 November 30, 2011, the Clerk had \$220,880 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 November 30, 2011, the Clerk had \$220,880 in the liability for invested trust account.

RESULTS

The results of our audit disclosed deficiencies in internal control 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

EMPLOYEE DUTIES HAVE NOT BEEN PROPERLY SEGREGATED

The Gates County Clerk of Superior Court has granted information system access rights and assigned job duties that are inconsistent with proper segregation of duties. Proper 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. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

Failure to segregate incompatible duties also represents noncompliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*. The manual establishes guidelines to maintain adequate segregation of duties and states that segregation of duties is important enough to be adopted whether efficiency or inefficiency is the consequence.

Our audit identified the following segregation of duties deficiencies and instances of noncompliance with the *Clerk of Superior Court Financial Policies and Procedures Manual*:

- The Clerk's Office did not comply with the manual's requirement to segregate the duties of head bookkeeper and cashier. The bookkeeper has access rights in the Financial Management System as both cashier and head bookkeeper, which gives her the ability to receipt cash and post journal entries. The backup bookkeeper has both special cashier and head bookkeeper access, which gives her the ability to enter receipts, void receipts, open and close cash batches, enter payment authorizations to generate checks, and post journal entries. In addition, we found there is no independent review of journal entries.
- The Clerk's Office did not comply with the manual's requirement that one person should not be able to perform more than one of the following tasks: receipt money, make final count and deposit of money, enter payment authorizations, and reconcile the bank statement. The bookkeeper's job duties include: a final count of the daily cash collections, preparing the daily bank deposit, preparing the monthly bank reconciliation, investing funds, calculating the investment fee, and posting all journal entries associated with the investment of trust accounts. She also enters payment authorizations to print checks.
- The Clerk's Office did not comply with the manual's caution against Clerks using the special cashier function because it gives a user the ability to execute a cash transaction from inception to close without being reviewed by another employee. We determined that three employees have special cashier access rights in the Financial Management System. This function allows the same person to enter receipts, void receipts, and open and close cash transactions that were processed during the day.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- The Clerk's Office did not comply with the manual's requirement that an individual with cashier access should not have update status in the Automated Criminal/Infraction System. One of the employees with special cashier access also has access to update the Automated Criminal/Infractions System. This gives her the ability to receipt cash and void the receipt in the Financial Management System, then enter, change, or delete the original fees and citation information in the criminal/infraction system. In addition, the Clerk of Court has update access in the criminal/infraction system and the ability to receipt cash in the financial system.

We also noted that two cash drawers are shared by six employees who all have access privileges to receipt cash in the Financial Management System. This situation significantly weakens individual accountability over cash.

Recommendation: The Clerk's Office should ensure that system access rights and the assignment of job duties promote adequate segregation of duties and comply with the *Clerk of Superior Court Financial Policies and Procedures Manual*. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

Clerk Response: I concur with this finding. I have reviewed access rights for all of my staff and have removed all Special Cashier rights. To the best of my ability, I have assigned access rights as recommended by the Policies and Procedures Manual. To accomplish additional segregation of duties, I have implemented reviews of work performed by myself and our FMA and our reviews will be documented. I have also reduced the number of staff sharing cash drawers.

Some practices which have been implemented were in place before the audit and some have been put into place since the audit. Due to the small size of our office it is not possible to always segregate duties to the extent required in the AOC Financial Policies and Procedures Manual. Please note that no financial irregularities were found during this audit.

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