



STATE OF NORTH CAROLINA

MADISON COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

MARSHALL, NORTH CAROLINA

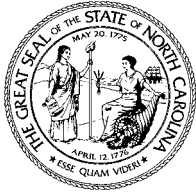
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

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MADISON COUNTY CLERK OF SUPERIOR COURT
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THE HONORABLE MARK A. CODY, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

October 13, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Mark A. Cody, Clerk of Superior Court

This report presents the results of our fiscal control audit at the Madison 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 matters 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 Madison 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 January 1, 2011 through June 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 June 30, 2011, the Clerk had \$164,324.15 in cash and cash equivalents.

Investments - This classification includes certificates of deposit and a pooled savings 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 June 30, 2011, the Clerk had \$193,429.24 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, 2011, the Clerk had \$195,922.40 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

1. DEFICIENCIES IN SEGREGATION OF DUTIES

The Clerk's Office has assigned access rights to information systems 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 review of the information system access, we noted the following deficiencies:

- One individual has access to perform cashiering functions in the Financial Management System (FMS) who also has access to perform head bookkeeping functions. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated. Further, another employee had access to perform cashiering functions in FMS that was responsible for performing bank reconciliations. These functions are incompatible per the *Clerk of Superior Court Financial Policies and Procedures Manual* and not consistent with adequate segregation of duties.
- Four employees have access to perform cashiering functions, two employees have access to perform head cashier functions, and two employees have access to perform head bookkeeping functions in FMS who also have access to the Automated Criminal Infraction System (ACIS) secured menu with update capabilities to enter, change or delete fees and citation information. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated.
- Three employees have access to perform cashiering functions and one employee has access to perform head cashier functions in FMS who also have access to the Support Enforcement System (SES) with update capabilities to enter credit information and mark cases for deletion. The *Clerk of Superior Court Financial Policies and Procedures Manual* states that these duties should be segregated.

The *Clerk of Superior Court Financial Policies and Procedures Manual* establishes guidelines to maintain adequate segregation of duties. Adequate segregation of duties includes assigning information system access such that the duties of one employee automatically provide a cross-check on the work of other employees. As noted in the manual, segregation of duties is important enough to be adopted whether efficiency or inefficiency is the consequence.

Recommendation: The Clerk's Office should assign information system access rights in order to promote effective segregation of duties and to comply with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Clerk's Response: The one employee who had access to cashiering functions in the Financial Management System and access to perform bookkeeping functions no longer has cashiering access. A security form has been faxed to the Administrative Office of the Courts removing her access to cashiering functions. The employee previously responsible for bank reconciliations no longer has access to receipt cash and is now the head cashier.

Two of the four employees who had head cashiering functions no longer have cashiering access. I had previously requested and received a waiver of two of my employees with cashiering functions to have access to Automated Criminal Infractions System secured menu. It is necessary for these two employees to have this capability because the work study done by the Administrative Office of the Courts says it takes four plus employees to perform the duties of our criminal department. We have only eight employees including myself.

One employee who had head cashiering functions and update capabilities, including mark cases for deletion capabilities in the Support Enforcement System, has been removed from head cashiering. A security form has been faxed to the Administrative Office of the Courts removing her access to head cashiering functions. This person is now responsible for bank reconciliations and the Support Enforcement System.

2. DEFICIENCIES IN THE SAFEGUARDING OF CASH

The Clerk's Office did not consistently follow the daily procedures ensuring proper cash management. As a result, errors or misappropriations could occur and not be detected in a timely manner.

Sound internal controls provide for the proper accountability and physical control over assets, including cash. During our audit, we examined 26 daily deposits and noted the following deficiencies:

- In six instances, the cash register batch receipts were not closed each day. Instead, the batch remained open for consecutive days.
- In four instances, the completed deposit package was kept in the vault, which was accessible by all employees throughout the day, and not taken to the bank for deposit until the following day.
- During our walkthroughs, it was noted that the cashier and back-up cashier use the same cash drawer when receipting funds.

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that internal processes should provide for safeguarding cash. The practices described above increase the likelihood of cash being lost or misappropriated.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The Clerk's Office should strengthen internal controls to ensure that cash is safeguarded.

Clerk's Response: We now have policies in place to ensure that the register is closed out each day. Only in extreme circumstances will a completed deposit be kept in our vault overnight, and in those cases the deposit will be made early the next morning with the current day deposit being made that afternoon. A cash drawer has been requested from the Administrative Office of the Courts so the cashiers can separate the monies when receipting funds.

3. DEFICIENCIES IN INTERNAL CONTROL OVER INVESTMENT REQUIREMENTS

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 two thousand dollars (\$2,000) is received by the clerk...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..." During our audit, we examined three trusts, and identified two, that were expected to be held longer than six months, but were not invested until 218 days after receipt.

Recommendation: Clerk's Office should strengthen internal controls to ensure that trust accounts are invested timely in accordance with statutory requirements.

Clerk's Response: Policies are now in place that require each division in our office, civil, criminal, and estates, to work more closely with the bookkeeper to ensure that every investment is made within the statutory time limit. A staff member has been assigned to follow up weekly with all departments and bookkeeping to assure that these investments are made timely.

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