



STATE OF NORTH CAROLINA

MITCHELL COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

BAKERSVILLE, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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THE HONORABLE JANET L. COOK, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

October 21, 2011

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable Janet L. Cook, Clerk of Superior Court

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

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

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.

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 \$86,142 in cash and cash equivalents.

Investments - This classification includes certificates of deposit. 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 \$784,726 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 \$822,972 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. INAPPROPRIATE SYSTEMS ACCESS AND SEGREGATION OF DUTIES

The Clerk's Office has given staff access rights to information systems and assigned job duties 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 misappropriations could occur and not be detected in a timely manner.

In the 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.

Five employees with cashier, head cashier, or head bookkeeper access in the Financial Management System (FMS) have the ability to update case information in the Automated Criminal/Infractions System (ACIS). One of these employees also has head cashier and head bookkeeper access in FMS. In addition, this employee prepares the bank reconciliations. Having these access rights in the different systems and performing incompatible duties could permit error or fraud to occur that would not be detected in a timely manner.

Recommendation: The Clerk's Office should assign information system access rights and segregate duties in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: Because my office is short staffed, as I'm sure is the case of other small Clerks Offices in the state, I don't have enough employees to adequately segregate duties as per the Financial Policies set out by the procedures manual. I have five employees on my staff and have taken steps to correct what I can. One employee who was designated as head bookkeeper and head cashier is now only performing the duties as back-up head bookkeeper.

2. DEFICIENCIES IN INTERNAL CONTROL OVER INVESTMENT REQUIREMENTS

The Clerk's Office did not adequately monitor 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 five trusts totaling \$27,385 that were expected to be held longer than six months but were

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

not invested as required. Subsequent to our audit, these monies have been invested or were paid out.

Recommendation: The Clerk's Office should strengthen internal controls to ensure that trust accounts are invested as required by law.

Clerk's Response: Steps have been taken to ensure that all our monies exceeding \$2,000 are invested. Out of the five trusts held longer and not invested as required, two of them have been paid out and the other three have been invested.

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