



STATE OF NORTH CAROLINA

RANDOLPH COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

ASHEBORO, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE PAMELA L. HILL, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

June 7, 2012

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

This report presents the results of our fiscal control audit at the Randolph 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 that is considered reportable under *Government Auditing Standards*. This matter 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

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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 Randolph 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 findings and conclusions based on our audit objectives.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Our audit scope covered the period August 1, 2011 through January 31, 2012. 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 January 31, 2012, the Clerk had \$1,006,326.25 in cash and cash equivalents.

Investments - This classification includes pooled 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 January 31, 2012, the Clerk had \$2,143,515.49 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 January 31, 2012, the Clerk had \$2,249,760.05 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

Management's response is presented after the audit finding. We did not audit the response, and accordingly, we express no opinion on it. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement and to ensure that the nature and seriousness of the finding is not minimized or misrepresented, we have provided comments to the Clerk's response.

EMPLOYEE HAS BEEN ASSIGNED IMPROPER INFORMATION SYSTEMS ACCESS

The Clerk's Office has given a staff member information systems access rights 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.

During our review of the information system access, we noted an employee with head bookkeeper access in the Financial Management System (FMS) who also had update access in the Automated Criminal/Infraction System (ACIS). The *Clerk of Superior Court Financial Policies and Procedures Manual* states that head bookkeepers should not have update access in ACIS.

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

Clerk's Response: The one audit finding, involving a Deputy Clerk's computer access to the Head Bookkeeping Financial Management System is caused by a four year systemic problem with the Administrative Office of the Courts (AOC). Since March 2009 AOC has either frozen Clerk positions in our office, or as the current AOC policy dictates, approval must be granted by AOC to fill a vacant position, resulting in a critical staff shortage throughout this time period to date. The direct result is that we have not had the adequate staff to run our office. Randolph County's total workforce (staff) has remained at 76% for the last four years, and had been less than 76% in the first year I became Clerk, in 2006.

Due to the lack of staff in our office, it becomes extremely difficult to assign a Clerk to one specific job or task (i.e.: "segregation of duties"), when currently the majority of Clerks in our office assist in multiple divisions to ensure that the daily job duties and responsibilities,

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

including court coverage, service to the public, mandated and time sensitive computer data entry, are completed for all office divisions. In the five and half years serving as Clerk for Randolph County, our office has never been above 80% workforce. This leaves our office in a serious dilemma, not having enough staff to get the job done. We do not have staff available to designate within State AOC and State Audit guidelines, regarding the above referenced audit finding.

Our office is currently understaffed to the point of having to utilize a Deputy Clerk in both our Criminal Division and Bookkeeping Division. Since last audit I have changed positions to ensure audit compliance for Clerks working in the cashier's office, which adversely affects the Civil Divisions with Clerk shortages in the Courtroom, and serving the public at the counter.

Auditor Comments: If it is not practical to appropriately segregate duties, then the Clerk's Office should implement effective monitoring controls designed to detect errors or inappropriate activity. For example, the Clerk or a designee could periodically review records and documentation to verify the validity of system entries.

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