



STATE OF NORTH CAROLINA

SURRY COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

DOBSON, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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THE HONORABLE PAMELA M. MARION, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

May 10, 2012

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

This report presents the results of our fiscal control audit at the Surry 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 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 Surry 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 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 \$808,312.14 in cash and cash equivalents.

Investments - This classification includes certificates of deposit and 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 \$772,878.93 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 \$802,477.47 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. EMPLOYEES HAVE BEEN ASSIGNED IMPROPER INFORMATION SYSTEMS ACCESS

The Clerk's Office has given staff members 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 systems access, we noted six employees with cashier or head cashier access rights in the Financial Management System (FMS) who also had update access in the Automated Criminal/Infraction System (ACIS) and/or the Civil Case Processing System (VCAP). Update capabilities to enter, change, and/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.

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 audit found that six employees that had cashier/head cashier access in the Financial Management System (FMS) also had the ability to update case information in the Automated Criminal/Infraction System (ACIS) and/or Civil Case Processing System (VCAP). Out of those six employees I have either deleted or changed access to inquiry only with four of those employees. The two remaining employees require access to those 2 systems to perform the duties that relate to their job.

2. MAGISTRATE COLLECTIONS NOT DEPOSITED TIMELY

Magistrate collections were not remitted to the cashier's office in accordance with established policies; therefore, the funds were not deposited within one day of receipt as required by state law. Failure to deposit cash timely increases the likelihood of loss or misappropriation.

For the nine magistrates in the Clerk's Office, we reviewed all the manual receipt logs for the period of August 1, 2011 through January 31, 2012. During this time period there were 306 receipts submitted to the cashier's office, of which 61 receipts for eight of the nine magistrates were deposited two to six business days after receipt.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that magistrates should submit receipts, funds, and paperwork to the Clerk of Superior Court cashier's office at the end of each shift. If the magistrate's shift ends after the Clerk's office hours, submission should be made during the next business day. In addition, *North Carolina General Statute 147-77* requires collected funds to be deposited daily unless an exemption is granted by the State Treasurer for receipt totals less than \$250.

Recommendation: The Clerk's Office should work with the magistrates and officials to whom they report to ensure the magistrates are aware of and follow state policy and law regarding the timely deposit of receipts.

Clerk's Response: A letter was given to each Magistrate concerning the tardiness of turning in the funds collected by them. The letter stressed the importance of funds being turned in the next business day after being receipted by them. I discussed personally with those individuals that had numerous tardiness.

3. INVESTMENT DUTIES NOT PROPERLY SEGREGATED

The Clerk's Office has not properly segregated duties related to investments. Proper segregation of duties involves assigning responsibilities such that the 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.

The head bookkeeper is responsible for both the withdrawal of invested funds and the reconciliation of the investment bank account. One employee should not reconcile the account and also have custody of the assets. In addition, there is no independent review and approval of the reconciliation to ensure that it is performed timely and accurately. Such a review could mitigate the risk associated with the incompatible duties.

The *Clerk of Superior Court Financial Policies and Procedures Manual* establishes guidelines for maintaining adequate segregation of duties.

Recommendation: The Clerk's Office should assign the responsibilities for reconciling the investment bank account and for making investment withdrawals to different employees. Also, someone independent of the preparer should review and approve the investment bank account reconciliation.

Clerk's Response: Currently the Head Bookkeeper is in the process of showing the backup bookkeeper the procedures for investment of minor trust accounts, whereas these responsibilities, along with reconciliation of the investment bank account will be divided between the Head Bookkeeper and the backup bookkeeper to achieve sufficient duty segregation and to serve as a cross-check on each employee's work.

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