



STATE OF NORTH CAROLINA

UNION COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

MONROE, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

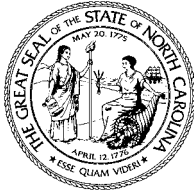
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HONORABLE J.R. ROWELL

CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

January 18, 2012

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
The Honorable J.R. Rowell, Clerk of Superior Court

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

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

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.

Our audit scope covered the period April 1, 2011 through September 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 safeguarded and accounted for these assets. As of September 30, 2011, the Clerk had \$472,794 in cash and cash equivalents.

Investments - This classification includes pooled savings accounts. We examined internal control designed to ensure that the Clerk properly safeguarded and accounted 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, and provide for appropriate disbursement to the beneficial owner or owners of the funds. As of September 30, 2011, the Clerk had \$4,491,189 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 controls 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 September 30, 2011, the Clerk had \$4,517,240 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

DEFICIENCIES IN INTERNAL CONTROL OVER INVESTMENT REQUIREMENTS

The Clerk's Office did not consistently apply its internal controls designed to ensure that trust accounts are 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...."

We examined the monthly reports of uninvested funds to ensure that investments were made timely and noted that four of the six monthly reports examined had no evidence of supervisory review. During this period, \$8,564 in an account with a total balance of \$10,564 was invested 11 days after the 60 days allowed per general statute.

Recommendation: The Clerk's Office should consistently apply internal controls to ensure that uninvested funds are properly monitored and invested in accordance with statutory requirements.

Clerk Response: To correct this problem, our office will monitor the funds much more closely and the funds will be invested in accordance with statutory requirements. A spreadsheet will be developed to assist in ensuring that any funds in excess of \$2,000, that would require investment, will be reviewed from the monthly reports and notations will be made as to the status of the funds.

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ORDERING INFORMATION

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