



# STATE OF NORTH CAROLINA

**WATAUGA COUNTY CLERK OF SUPERIOR COURT**  
**FISCAL CONTROL AUDIT**  
**BOONE, NORTH CAROLINA**

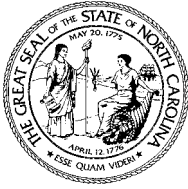
**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**WATAUGA COUNTY CLERK OF SUPERIOR COURT**  
**FISCAL CONTROL AUDIT**  
**BOONE, NORTH CAROLINA**

**THE HONORABLE DIANE C. DEAL, CLERK OF SUPERIOR COURT**



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State Auditor

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**AUDITOR'S TRANSMITTAL**

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August 24, 2011

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Diane C. Deal, Clerk of Superior Court

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

# TABLE OF CONTENTS

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	PAGE
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS .....	1
AUDIT FINDINGS AND RESPONSES .....	3
ORDERING INFORMATION .....	5

# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **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 Watauga 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 November 1, 2010 through April 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 April 30, 2011, the Clerk had \$3,292,647 in cash and cash equivalents.

*Investments* - This classification includes certificates of deposit and a money market 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 April 30, 2011, the Clerk had \$1,007,273 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 April 30, 2011, the Clerk had \$1,064,464 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

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### 1. DEFICIENCIES IN INFORMATION SYSTEMS ACCESS RIGHTS 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 *Clerk of Superior Court Financial Policies and Procedures Manual*, guidelines are established to maintain segregation of duties. Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees.

Seven employees that have cashier, head cashier, and/or head bookkeeper access rights in the Financial Management System (FMS) also have add, delete, and/or update access in the Automated Criminal/Infraction System (ACIS). Update status within ACIS allows these employees the ability to change or update information. Delete status within ACIS allows the ability to delete information from the system. Such access allows one employee to make an error or commit fraud without timely detection by another employee.

*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:* As Clerk of Superior Court of Watauga County, I have a staff of 12 employees. I have two primary cashiers, two deputy clerks and one assistant clerk who work out of the Criminal Division of the office. I have two deputy clerks and one assistant clerk in the Civil Division and two deputy clerks and one assistant clerk in the Estate and Special Proceeding Division. I also have one deputy clerk who is the bookkeeper for this office. Each of these Divisions are separated from the other Division making our staff spread over 4 sections of the Courthouse. It is normal for us to have 2 to 3 courts going on any given day thereby making it necessary for staff to be out of the office. I now have my two primary cashiers doing nothing but cashiering, filing, and answering phones and questions from the public. They are not entering or updating information in ACIS or in VCAP. In order to have back-up cashiers in my office to cover cashiering during lunch hours or when a cashier may be out sick or on vacation, I must have someone who is also authorized to do other duties in the office act as cashier. Two of my staff who have update access in ACIS or VCAP are my back-up cashiers. Three of my staff who have update access in ACIS or VCAP are my head cashiers. They rotate this duty depending on who might be in court or who might be covering the office in their respective divisions of the Clerk's office. I now have someone cross checking daily payments with daily dispositions as a way to offset any possibility of wrongdoing by anyone receipting funds or anyone updating information in ACIS or VCAP.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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### 2. LACK OF PROPER REVIEW AND APPROVAL

The Clerk's Office has not ensured that journal entries, bank reconciliations, and payment authorization forms are reviewed and approved by someone other than the preparer. As a result, there is an increased risk that an error or misappropriation could occur and not be detected in a timely manner.

The checking account bank reconciliations and all journal entries examined were not reviewed or approved. Two of the journal entries totaling \$165,962 were related to invested trusts.

Payment authorizations for two new investments, totaling \$92,159, and one closed investment, totaling \$7,223, were not reviewed or approved prior to being entered into the FMS system.

*Recommendation:* The Clerk's Office should strengthen internal controls by ensuring that significant transactions and functions are reviewed and approved.

*Clerk's Response:* It is the practice of this office to always review and sign payment authorizations. I have discussed with the staff the importance of always reviewing a file and confirming that the monies are ready to disburse before passing the authorization on to the bookkeeping department. The bookkeeper also reviews the file and confirms that there is an order or appropriate information to disburse or invest monies. I have also implemented the policy of reviewing all journal entries each day and bank reconciliations monthly. No investment funds will be deposited or disbursed without proper review and approval.



## **ORDERING INFORMATION**

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