



# STATE OF NORTH CAROLINA

**POLK COUNTY CLERK OF SUPERIOR COURT**  
**FINANCIAL RELATED AUDIT**  
**MARCH 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**POLK COUNTY CLERK OF SUPERIOR COURT**

**COLUMBUS, NORTH CAROLINA**

**FINANCIAL RELATED AUDIT**

**MARCH 2013**

**THE HONORABLE PAMELA G. HYDER**

**CLERK OF SUPERIOR COURT**



**Beth A. Wood, CPA**  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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March 14, 2013

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
The Honorable Pamela G. Hyder, Polk County Clerk of Superior Court

This report presents the results of our financial related audit at the Polk 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 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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## BACKGROUND

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As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Polk 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 voters of each county elect a Clerk of Superior Court for a four-year term. Clerks are responsible for all clerical and record-keeping functions of the superior court and district court. The Clerks' Offices collect, invest, and distribute assets in a fiduciary capacity. For example, the Clerks' Offices collect fines and court costs, hold cash and property bonds, administer estates on behalf of minors, and distribute resources to governmental and private parties as required.

The North Carolina Administrative Office of the Courts (NCAOC) provides statewide support services for the courts, including court programs and management services; information technology; human resources services; financial, legal, and legislative support; and purchasing services. In addition, the NCAOC prepares and administers the court system's budget.

## AUDIT SCOPE AND OBJECTIVES

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The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. 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. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations in internal control. 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. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period July 1, 2011 through June 30, 2012. During our audit, we considered internal control related to the following accounts and objectives:

*Cash* - This classification includes cash on deposit with private bank accounts. We examined internal control designed to ensure that the Clerk properly safeguards and accounts for these assets. We also examined internal control designed to ensure compliance with laws and regulations related to depositing cash receipts. As of June 30, 2012, the Clerk had \$168,060 in cash on deposit with private banks.

*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 distributions from the accounts are proper, including internal control designed to ensure compliance with laws and regulations governing distributions where applicable. As of June 30, 2012, the Clerk had \$590,700 in trust accounts.

## METHODOLOGY

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To accomplish our audit objectives, we gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report 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 provide evidence about our audit objectives. Specifically, we interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. 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 professional auditing standards. As discussed in the standards, 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 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.

## RESULTS AND CONCLUSIONS

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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. Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them.



## AUDIT FINDINGS AND RESPONSES

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### 1. INADEQUATE SEGREGATION OF DUTIES

The Clerk's Office has given staff access rights to information systems and assigned job functions that are incompatible with adequate segregation of duties and are 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.

During our review of the information system access, we noted the following deficiencies:

- The backup bookkeeper has been given the cashiering function which allows her to receipt cash in the financial system. As bookkeeper, she can also create and post journal entries, giving her the ability to receipt cash and post transactions in the accounting records.
- Three employees with head bookkeeper or cashier access in the financial system also have the ability to update case information in the Automated Criminal/Infraction System (ACIS) and/or the Civil Case Processing System (VCAP). Update capabilities to enter, change, 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.

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 such that the duties of one employee automatically provide a cross-check on the work of other employees.

*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* or implement alternative compensating controls.

*Agency Response:* Due to our small number of personnel, establishing proper segregation of duties and providing adequate service to the public is a challenge. To follow the guidelines for proper segregation of duties, a cashier is limited to only receipting cash and cannot assist in either the criminal, civil or bookkeeping departments. Since we only have 6 employees counting myself, there are not enough individuals in the office to exclusively fulfill the primary roles necessary and also have a designated back-up for all roles.

In an effort to be in the best compliance possible, I have implemented the following:

I no longer have my back-up bookkeeper set up with full time bookkeeping access. Her access will be set up only when the bookkeeper is not in the office. When the back-up bookkeeper is performing bookkeeping duties, she will not be allowed to receipt cash.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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For situations where individuals need to update criminal cases but also have financial security access, I have another individual who does not have access to financial security review the cases that have been closed out in the criminal system.

### 2. DEFICIENCIES IN THE CASH CLOSEOUT PROCEDURES

The forms used by the Clerk's Office in the daily cash closeout process were pre-signed with the head cashier's and cashier's signatures. Signatures on the closeout forms are presumed to indicate that the person signing the form has verified that the amounts collected for the day are accurate and agree to the amount to be deposited. The practice of pre-signing the forms makes this control ineffective.

The Clerk's Office made photocopies of the *CSC Daily Cash Balance Summary* form and the *CSC Daily Cash Balance Report by Cashier* form that had been pre-signed by the head cashier and the cashier. These pre-signed forms were then used during the daily cash balancing procedures to verify register contents and prepare the daily deposit.

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that internal processes should provide for safeguarding cash. The practice described above increases the risk that balancing procedures would not be performed and increases the risk of errors. However our test of a sample of 40 deposits did not reveal any errors.

*Recommendation:* The Clerk's Office should require cashiers and head cashiers to sign daily cash balancing forms to ensure proper verification and documentation of cash receipts and deposit preparation.

*Agency Response:* Closeout forms are no longer pre-signed. Cashiers and head cashiers are required to sign the daily cash balancing forms after the closeout procedures have been implemented.

### 3. BANK RECONCILIATIONS NOT PREPARED OR REVIEWED TIMELY

Preparation of bank reconciliations and/or management reviews and approvals of reconciliations were not always timely. Timely preparation and reviews of bank reconciliations ensure that errors or irregularities will be detected and corrected without delays creating any additional potential problems.

A review of the twelve monthly bank reconciliations for the fiscal year ended June 30, 2012 showed the following:

- The October bank reconciliation was not prepared until December 19, 2011.
- The bank reconciliations for the months of July through October were not approved until December 20, 2011.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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- There was no indication that the February bank reconciliation had been reviewed or approved.
- The bank reconciliations for the period March through June were prepared by the Administrative Office of the Court financial analyst but there was no indication of the date prepared and no indication that these reconciliations were reviewed by someone other than the preparer.

*Recommendation:* Bank reconciliations should be performed monthly in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*. The Clerk or her designee should review and approve monthly bank reconciliations to ensure they have been performed.

*Agency Response:* As a result of following the proper segregation of duties, the NCAOC field representative had been reconciling the bank statement and, as a result of his inability to visit monthly, the statement was not always reconciled in a timely manner. Beginning September 2012, the bank reconciliation function was transferred to the NCAOC centralized reconciliation service. Since that time, the bank reconciliations have been completed timely. I will review and approve all reconciliations in a timely manner.

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## ORDERING INFORMATION

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This audit required 254 audit hours at an approximate cost of \$18,288. The cost represents 2.2% of the \$798,760 in total assets subjected to audit.