

STATE OF NORTH CAROLINA

WASHINGTON COUNTY CLERK OF SUPERIOR COURT
FINANCIAL RELATED AUDIT
APRIL 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

WASHINGTON COUNTY CLERK OF SUPERIOR COURT

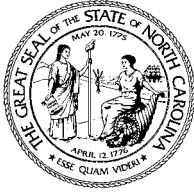
PLYMOUTH, NORTH CAROLINA

FINANCIAL RELATED AUDIT

APRIL 2013

THE HONORABLE DENISE M. MOULDEN

CLERK OF SUPERIOR COURT



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

April 16, 2013

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
The Honorable Denise M. Moulden, Washington County Clerk of Superior Court

This report presents the results of our financial related audit at the Washington 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 a deficiency in internal control that is considered reportable under *Government Auditing Standards*. This issue 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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BACKGROUND

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Washington 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

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. 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. 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, 2012 through December 31, 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 December 31, 2012, the Clerk had \$47,551 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 December 31, 2012, the Clerk had \$332,488 in trust accounts.

Cash Bonds – We examined internal control designed to ensure compliance with laws and regulations governing the distribution of forfeited cash bonds. These laws and regulations require the Clerk to remit such funds to the county once a final judgment of forfeiture is entered. As of December 31, 2012, the Clerk had \$20,800 in cash bonds.

METHODOLOGY

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 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 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

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. Management's response is presented after the audit finding. We did not audit the response, and accordingly, we express no opinion on the response.

AUDIT FINDINGS AND RESPONSES

BANK RECONCILIATIONS NOT PERFORMED TIMELY

The Clerk's Office did not perform timely bank reconciliations as required by the North Carolina Administrative Office of the Courts' (AOC) policies and procedures manual. Delays in performing bank reconciliations increases the risk that errors or misappropriation may occur and not be detected timely.

The *Clerk of Superior Court Financial Policies and Procedures Manual* states that bank reconciliations should be performed monthly and in a timely manner. The reconciliation is considered timely if completed and finalized no later than the last day of the following month.

A review of the bank reconciliations for the period of July 1, 2012 through December 31, 2012 revealed that the July and August reconciliations were prepared in October 2012 and the September through November reconciliations were prepared in January 2013. The Clerk switched banks in April 2012, which resulted in two complications:

- Information from the bank with the closed account was not provided timely.
- Having activity in two bank accounts made the reconciliations more difficult.

The Clerk's Office sought assistance with the reconciliations from the AOC field representative, which is how the July and August reconciliations were completed in October. Afterwards, the Clerk's Office was still unable to complete the reconciliations, and further assistance from the AOC representative was provided in January 2013 to complete the September 2012 through November 2012 reconciliations.

Recommendation: The Clerk's Office should ensure that bank reconciliations are performed monthly in accordance with guidance contained in the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: It was determined that this Clerk's office did not perform timely bank reconciliations as required by the North Carolina Administrative Office of the Courts' policies and procedures manual. It was not the intent of this office to exhibit noncompliance, however we feel that extenuating circumstances existed in that we were going through the process of changing banks. Reports and statements were coming from the old bank and the new facility where we had moved our accounts to. I was unable to reconcile the statements without the assistance of the financial field representative that is available to us through the AOC. At the time of the period of noncompliance, she had been contacted that we were unable to reconcile the statements but she was unable to come to Washington County in a timely manner because of sickness and her 18-county workload. When she did come, she was busy with our bookkeeper working on escheats and CAFR which left her only a short amount of time to work on reconciliations. Thus, the statements for July and August were done October 8, 2012, only a few days more than one month after the end of August. The same circumstances existed for the September, October and November statements. And she was not able to reconcile those until January 3, 2013, one month after the end of November.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

In the future, bank statements that cannot be reconciled in a timely manner by the clerk will be sent directly to the Administrative Office of the Courts where there will be someone available to perform the task in a timely manner. At present, and since the changing of banks no longer requires reporting from the old banking institution, all bank statement reconciliation is performed as according to policy.

ORDERING INFORMATION

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This audit required 175 audit hours at an approximate cost of \$12,600. The cost represents 2.54% of the Clerk's total assets.