

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



ASHE COUNTY CLERK OF SUPERIOR COURT

JEFFERSON, NORTH CAROLINA

FINANCIAL RELATED AUDIT

JUNE 2017



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

June 6, 2017

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
The Honorable Pam W. Barlow, Ashe County Clerk of Superior Court

This report presents the results of our financial related audit at Ashe 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 identified a deficiency in internal control that is considered reportable under *Government Auditing Standards*. This item is described in the *Audit Findings, Recommendations, 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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

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 of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that 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, 2016 through February 28, 2017. During our audit, we considered internal control related to the following objectives:

Cash – The Clerk’s Office collects various fines, fees, and court costs daily, as well as collections for bonds, judgments, and other matters. We examined internal controls designed to ensure that the Clerk properly safeguards and accounts for cash receipts. We also examined internal controls designed to ensure compliance with laws and regulations related to depositing cash receipts. During the audit period, the Clerk collected \$6,755,913 in cash.

Estates – The Clerk’s Office ensures all estates are charged an application fee plus an assessment based on the value of the estate’s inventory. An estate inventory is to be filed by the representative of the estate. We examined internal controls designed to ensure that the Clerk properly obtains an inventory for each estate in compliance with laws and regulations. We also examined internal controls designed to ensure compliance with laws and regulations related to the appropriate assessment and collection of estate fees. During the audit period, the Clerk collected \$59,579 in estate fees.

Bond Forfeitures – The Clerk’s Office ensures that all motions or orders to set aside bond forfeitures meet specified criteria and are supported by required documentation. We examined internal controls designed to ensure compliance with laws and regulations related to the processing of these bond forfeitures. During the audit period, \$55,200 in bond forfeitures were set aside.

To accomplish the audit objectives, auditors gained an understanding of the Clerk's internal control over matters described in the *Audit Objectives and Scope* section of this report and evaluated the design of the internal control. Auditors then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, auditors 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 as applicable but not quantify the sampling risk. This approach was determined to adequately support audit conclusions.

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: (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.

Based on the results of audit procedures described in the *Methodology* section of this report, auditors identified a deficiency in internal control that is considered reportable under *Government Auditing Standards*. This item is described in the *Audit Findings, Recommendations, 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 it.

UNTIMELY COMPLETION OF BANK RECONCILIATIONS

Required reconciling adjustments identified by the North Carolina Administrative Office of the Court (NCAOC) were not recorded in the Financial Management System in a timely manner. When identified adjustments to the bookkeeping and banking records are not investigated and recorded in a timely manner, the risk increases that an error or misappropriation could occur and not be detected.

Auditors found that three of eight (38%) bank reconciliations prepared during the audit period contained a total of \$366 required reconciling adjustments that were recorded 36 to 41 days after NCAOC prepared the reconciliations.

According to the Clerk, the head bookkeeper has several responsibilities within the office due to their small staff size and this was an oversight. The Clerk added that the head bookkeeper made a mistake by holding the reconciliations once they were received from NCAOC due to prioritizing other daily tasks.

The *Clerk of Superior Court Financial Policies and Procedures Manual* requires reconciliations be performed monthly and completed no later than the last day of the following month. The bank reconciliation is considered complete when all reconciling adjustments have been made in the Financial Management System.

Recommendation: The Clerk's Office should perform a timely review of the NCAOC prepared bank reconciliation each month and investigate all adjusting entries listed and, when appropriate, make adjusting entries in the Financial Management System in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Clerk's Response: See page 6 for the Clerk's response to this finding.

CLERK'S RESPONSE



*State of North Carolina
General Court of Justice*

CLERK OF SUPERIOR COURT

PAM W. BARLOW, CLERK
EX OFFICIO JUDGE OF PROBATE

ASHE COUNTY
150 GOVERNMENT CIRCLE, SUITE 3100
JEFFERSON NC 28540
(336) 219-1400

Michael D. Duncan
RESIDENT JUDGE

May 15, 2017

**Honorable Beth Wood
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600**

To whom it may concern:

Please see below concerning the recent audit in the office of the Ashe County Clerk of Superior Court.

Audit finding: UNTIMELY COMPLETION OF BANK RECONCILIATIONS

Recommendation: The Clerk's Office should perform a timely review of the NCAOC prepared bank reconciliation each month and investigate all adjusting entries listed and, when appropriate, make adjusting entries in the Financial Management System in accordance with the *Clerk of Superior Court Financial Policies and Procedures Manual*.

Agency Response

I concur with the audit finding that three of eight (38%) bank reconciliations prepared during the audit period contained a total of \$366 required reconciling adjustments that were recorded 36 to 41 days after NCAOC prepared the reconciliations.

The Head Bookkeeper has several other responsibilities due to the small number of staff in our office. This bookkeeping responsibility was pushed aside to devote time to other tasks. This delay caused the instances of reconciling adjustments to occur 6 to 11 days later than the CSC Financial Policies and Procedures recommendation for completion.

This was addressed with the Head Bookkeeper and corrective action was implemented as of March 24, 2017.

Sincerely,

A handwritten signature in black ink that reads "Pam W. Barlow". The signature is written in a cursive style.

Pam W. Barlow
Ashe County Clerk of Superior Court

ORDERING INFORMATION

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