



STATE OF NORTH CAROLINA

MITCHELL COUNTY CLERK OF SUPERIOR COURT

FISCAL CONTROL AUDIT

BAKERSVILLE, NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

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THE HONORABLE JANET L. COOK, CLERK OF SUPERIOR COURT



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
The Honorable Janet L. Cook, Clerk of Superior Court

This report presents the results of our fiscal control audit of the Mitchell 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 standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about 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 that are considered reportable under *Government Auditing Standards*. These matters are described in the Audit Findings and Recommendations 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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BACKGROUND INFORMATION

The office of the Clerk of Superior Court is created by the North Carolina Constitution which mandates that there be a Clerk of Superior Court for each county. Under the constitution, it is the responsibility of the General Assembly to prescribe jurisdiction and the powers of the Clerk. Laws of the General Assembly regarding clerks must be uniformly applied in every county in the State.

Voters of each county elect the Clerk of Superior Court to a four-year term. Clerks are paid by the State, with their salaries scaled in accordance with the population of their counties. The Clerk appoints the assistants, deputies and employees in his or her office. The number of assistants and deputies that each clerk may employ varies from county to county depending on the volume of business. Assistant and deputy clerks are paid on a salary schedule fixed by the Administrative Office of the Courts based on education and years of service in the Clerk's office; the maximum and minimum salaries within that scale are fixed by the General Assembly.

The responsibilities of the Clerk are numerous and varied. The Clerk, as a judicial officer of the Superior Court, has judicial responsibilities. The Clerk is judge of probate; that is, the Clerk handles the probate of wills (proceedings to determine if a paper writing is a valid will) and the administration of estates of decedents, minors and incompetents. The Clerk also hears a variety of special proceedings such as adoptions, incompetency determinations and partitions of land and is empowered to issue arrest and search warrants and to exercise the same powers as a magistrate with respect to taking pleas of guilty to minor littering, traffic, wildlife, boating, marine fisheries, alcoholic beverage, State park recreation and worthless-check offenses.

The Clerk is also responsible for all clerical and record-keeping functions of the Superior Court and District Court. The Clerk operates a unified record-keeping system for all civil actions, special proceedings, estates, criminal actions, juvenile actions, minutes of the court, judgments, liens, lis pendens, and numerous other records required by law. The Clerk maintains the judgment docket, is custodian of evidence in civil and criminal trials, and issues civil summons and subpoenas. In addition, the Clerk invests money received and held by his or her office in trust and receives and administers insurance or other money on behalf of minors and incapacitated adults.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Mitchell County Clerk of Superior Court.

The objective of a fiscal control audit is to gather and evaluate evidence about 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 issuing 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.

SCOPE

Our audit scope covered the period October 1, 2006, through March 31, 2007. 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, accounts for and reports these assets. As of March 31, 2007, the Clerk had \$59,123.07 in Cash and Cash Equivalents.

Investments - This classification includes certificates of deposit. We examined internal control designed to ensure that the Clerk properly safeguards, accounts for and reports 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 March 31, 2007, the Clerk had \$480,708.13 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, accounts for and reports these funds. 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 March 31, 2007, the Clerk had \$498,342.88 in Trust accounts.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the accounts and transactions as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records and examining documentation supporting recorded transactions and balances.

RESULTS

The results of our audit disclosed deficiencies in internal control that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Recommendations section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. LACK OF INTERNAL CONTROLS TO SAFEGUARD ASSETS

The Clerk's Office had internal control weaknesses related to daily closeout procedures and handling of manual receipts. The cashiers do not count their own cash drawers or consistently sign the Daily Cash Balance Report by Cashier. The Head Cashier counted cash drawers in view of the public. One manual receipt book was used by several employees and a Magistrate. This receipt book was assigned to another Magistrate. Manual receipts written by Magistrates were not submitted to the Cashier in a timely manner.

Recommendation: We recommend that the Clerk's personnel follow the internal control guidelines established by the Administrative Office of the Courts relating to the safeguarding of assets. Cashiers need to implement procedures to ensure the accuracy of the daily closeout process. Manual receipt books should be issued to and used by individual Cashiers or Magistrates in order to restrict accountability of receipts to one person.

Clerk's Response: Steps were taken to ensure that the cashier closes out each day, balances the cash drawer, and signs the Daily Cash Balance Report before the Head Cashier performs her close out duties. This procedure is now corrected and is not being performed in view of the public. One of the cash reporting sheets not signed was prior to this Administration. Cashiers will be following the Internal Control Guidelines set up by the AOC to safeguard all assets. Magistrate receipt books have been issued to and are being used only by these individuals. We are following the recommendations of the audit. On 11-01-2006, it was determined that a magistrate had failed to turn in a receipt and monies (\$15,000.00) in a timely manner. This receipt and two other receipts mentioned in this audit were prior to this Administration entering office.

2. LACK OF SEGREGATION OF DUTIES OVER BANK RECONCILIATIONS

The checking account is reconciled by the back-up Bookkeeper. Bank reconciliations are not performed in a timely manner. Reconciliations from October 2006 through March 2007 were performed on April 30, 2007. The audit engagement began May 7, 2007. There is greater opportunity for misuse of funds or the manipulation of account balances which may be difficult to detect when the same person is performing several duties within the financial area of the office and when the reconciliations are not performed on a monthly basis.

Recommendation: We recommend that the Clerk's office follow the guidelines established by the Administrative Office of the Courts regarding the segregation of duties relating to the financial area of the office and the reconciliation of the bank statements. Bank statements should be reconciled by an employee who does not have Cashier, Head Cashier, Bookkeeper, or Head Bookkeeper status.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Clerk's Response: Our backup bookkeeper had received an e-mail from the AOC FMA to wait until they could be here to reconcile the bank statements. There were two bank accounts open at the time we came into office and we were in the process of closing one out. Since all reconciliations have been caught up, we are on a schedule now and the May reconciliation has been completed in a timely manner. We only have five employees in the office and four of them have Cashier, Head Cashier, Bookkeeper, or Head Bookkeeper status. Duties have been segregated to come into compliance as to the reconciliation reports. The only employee that does not have Cashier or Bookkeeper status is my Estate Clerk and she will be preparing these reports.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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