

STATE OF NORTH CAROLINA

FINANCIAL RELATED AUDIT REPORT OF HAYWOOD COUNTY CLERK OF SUPERIOR COURT

WAYNESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

THE HONORABLE WILLIAM G. HENRY, CLERK OF SUPERIOR COURT

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Haywood County Clerk of Superior Court

This report presents the results of our financial related audit of Haywood County Clerk of Superior Court for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Clerk are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws and regulations applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of Haywood County Clerk of Superior Court were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statement that relates solely to Haywood County Clerk of Superior Court. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statement. A summary of our reporting objectives and audit results are:

1. Objective - Express an opinion on the financial statement.

Results - The financial statement presents fairly, in all material respects, the amounts and disclosures made in accordance with the cash basis of accounting. These matters are described in the Independent Auditor's Report on the financial statement.

2. Objective - Present instances of noncompliance, if any, with laws and regulations.

Results - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

AUDITOR'S TRANSMITTAL (CONCLUDED)

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Clerk's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiencies were detected in internal control over financial reporting:

Findings

1. Segregation of Duties
2. Financial Oversight

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

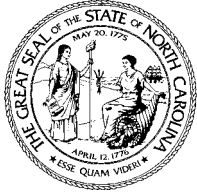
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

The Honorable William G. Henry, Clerk
Haywood County Clerk of Superior Court
Waynesville, North Carolina

We have audited the accompanying Statement of Assets and Liabilities of Haywood County Clerk of Superior Court as of June 30, 2000. This financial statement is the responsibility of Haywood County Clerk of Superior Court. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying Statement of Assets and Liabilities presents the agency funds for which the Clerk is responsible and is not intended to be a complete presentation of the Clerk's financial operations. This financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets and liabilities of Haywood County Clerk of Superior Court as of June 30, 2000, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2001 on the results of our tests of the Clerk's compliance with certain provisions of laws and regulations and our consideration of the Clerk's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

June 12, 2001

***Haywood County Clerk of Superior Court
Statement of Assets and Liabilities
June 30, 2000***

ASSETS

Cash and Cash Equivalents:	
Change Funds	\$ 350.00
Cash in Bank - Checking	397,253.86
Cash in Bank - Savings	356,687.69
Certificates of Deposit	194,678.58
Receivables	2,301.63
	<hr/>
Total Assets	\$ 951,271.76
	<hr/> <hr/>

LIABILITIES

Uniform Court Costs and Fees - State	\$ 2,721.18
Uniform Court Costs and Fees - County	44,977.27
Uniform Court Costs and Fees - Municipality	596.15
Supervision Fees	1,080.54
Community Service Fees	188.00
Due to Escheat Fund	44,591.43
Due to Administrative Office of the Courts	1,460.30
Partial Payments	9,248.28
Judgments	98,312.93
Cash Bonds	99,252.68
Trusts	619,493.29
Alimony and Support	1,057.09
Deposits Payable	28,146.92
Refund of Fees	145.70
	<hr/>
Total Liabilities	\$ 951,271.76
	<hr/> <hr/>

The accompanying notes to the financial statement are an integral part of this statement.

**HAYWOOD COUNTY CLERK OF SUPERIOR COURT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2000**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. Although the Clerk is an elected official, the Clerk's office is administratively under the Administrative Office of the Courts, a division of the North Carolina Judicial Branch. The accompanying financial statement presents the agency funds for which the Clerk is accountable. The county in which the Clerk officiates provides office space and utilities. The Administrative Office of the Courts provides the other operating costs of the Clerk's office. Therefore, the operating costs of the Clerk's office are not reflected in the accompanying financial statement.
- B. Basis of Presentation** - The accompanying financial statement presents the agency funds under the authority of the Clerk and follows the cash basis of accounting. This basis differs from generally accepted accounting principles primarily because the effects of outstanding receivables and payables resulting from court actions are not included in this statement.
- C. Fund Structure** - An agency fund type is used to account for assets held by the Clerk as custodian or as an agent for individuals or agencies. Agency funds are purely custodial and thus do not involve measurement of results of operations.

NOTE 2 - DEPOSITS

Deposits include cash and cash equivalents and certificates of deposit.

G.S. 7A-112.1 requires the Clerk to deposit any funds received in an interest-bearing checking account or accounts in a bank, savings and loan, or trust company licensed to do business in North Carolina to the extent in each instance that such deposits are insured. When money in a single account in excess of \$2,000 is received, and it is expected that the money will remain on deposit in excess of six months, the money exceeding \$2,000 shall be invested within sixty days of receipt in securities authorized by G.S. 7A-112.

G.S. 7A-112 authorizes the Clerk to invest in certificates of deposit for time deposits or savings accounts in any bank, savings and loan, or trust company authorized to do business in North Carolina to the extent in each instance that such deposits are insured.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

If the Clerk desires to deposit moneys beyond the extent that such deposits are insured, the Clerk shall require such depository to furnish a corporate surety bond or obligations of the United States or obligations fully guaranteed both as to principal and interest of the United States or obligations of the State of North Carolina, or of counties and municipalities of North Carolina whose obligations have been approved by the Local Government Commission.

At June 30, 2000, the carrying amount of deposits was \$948,620.13 and the bank balance was \$1,033,603.78. All of the deposits were insured or collateralized with securities held by the Clerk or by the Clerk's agent in the Clerk's name.



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE
FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable William G. Henry, Clerk
Haywood County Clerk of Superior Court
Waynesville, North Carolina

We have audited the Statement of Assets and Liabilities of Haywood County Clerk of Superior Court as of June 30, 2000, and have issued our report thereon dated June 12, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Statement of Assets and Liabilities is free of material misstatement, we performed tests of the Clerk's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Clerk's ability to record, process, summarize and

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE
FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

report financial data consistent with the assertions of management in the financial statement. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Findings

1. Segregation of Duties
2. Financial Oversight

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Clerk, the Clerk's staff, the Administrative Office of the Courts, the Governor, the State Controller, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

June 12, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Findings and Recommendations from Current Audit - The following presents findings and recommendations, determined during the current audit, which represent significant deficiencies in internal controls.

1. SEGREGATION OF DUTIES

The bookkeeper and the assistant bookkeeper have Financial Management System (FMS) access rights allowing them to function as cashiers and head cashiers in addition to their bookkeeping duties. Two other employees have FMS access rights allowing them to function as cashiers and head cashiers as well. Such access gives these employees the ability to perform transactions without independent review. Given these conditions, the Clerk's ability to properly record, process, summarize, and report financial data may be adversely affected.

The Administrative Office of the Courts Fiscal Policies and Procedures Manual states that the duties of cashier, head cashier and head bookkeeper should be separated whether efficiency or inefficiency is the consequence.

Recommendation: The Clerk should evaluate and reassign job duties and system access rights in order to better segregate duties and enhance internal controls.

Clerk's Response: The following reassignments will be made. The Head Bookkeeper will not have any duties or access to Cashier Position. The Deputy Bookkeeper will access Cashier Position only in dire circumstances. I will assign Child Support Monitor to position of back-up Cashier. The Head Cashier will retain that position in that she cannot access bookkeeping duties.

I hope these reassignments will enhance our ability to better record and report financial data generated in the Financial Management Systems.

2. FINANCIAL OVERSIGHT

We noted discrepancies in some summarized financial data and other financial related issues that should have been identified and resolved in a timely manner. Prior audits show a history of similar and related audit concerns dating back to the early 1980's. Such issues continue to exist as of June 30, 2001. Specifically, we noted negative balances in some invested assets, negative balances in some invested trusts, differences in balances between some invested assets and their related invested trusts, a large number of older reconciling items on the bank reconciliations, and untimely posting of interest to some trust accounts

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

The cause of these issues varies with the specifics of each incident. However cumulatively, they indicate a lack of understanding and oversight of such matters. The risk of undetected errors is compounded by the segregation of duties issue noted previously.

Recommendation: The Clerk's office should seek guidance from the Administrative Office of the Courts to strengthen its understanding of the Financial Management System accounting system, with emphasis on how to record transactions and to detect and correct errors within the system. Duties and responsibilities should be evaluated and reassigned as necessary so that errors are detected and corrected in a timely manner by employees in the performance their normal job duties.

Clerk's Response: We realize that some accounting errors have been made. These are honest errors that occurred because of the lack of training in the accounting area of bookkeeping. I will ask the Administrative Office of the Courts to provide training in these areas, and also ask for their help in reconciling the negative balances in our accounts.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell

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Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller

JUDICIAL BRANCH

The Honorable William G. Henry
The Honorable Robert H. Hobgood
Mr. Steve Lusk

Haywood County Clerk of Superior Court
Director, Administrative Office of the Courts
Deputy Director for Administrative Services
Administrative Office of the Courts

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