



STATE OF NORTH CAROLINA

FINANCIAL RELATED AUDIT REPORT OF GATES COUNTY CLERK OF SUPERIOR COURT

GATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

THE HONORABLE TERRY L. RIDDICK, CLERK OF SUPERIOR
COURT

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL RELATED AUDIT REPORT OF
GATES COUNTY CLERK OF SUPERIOR COURT
GATESVILLE, NORTH CAROLINA**

FOR THE YEAR ENDED JUNE 30, 2001

**THE HONORABLE TERRY L. RIDDICK, CLERK OF SUPERIOR
COURT**



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial related audit of Gates County Clerk of Superior Court for the year ended June 30, 2001. 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 Gates 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 Gates County Clerk of Superior Court. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America 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:

Finding

Internal Controls Over Cash Receipts and Disbursements

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENT	
Statement of Assets and Liabilities	2
Notes to the Financial Statement	3
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 <i>GOVERNMENT AUDITING STANDARDS</i>	5
AUDIT FINDINGS AND RECOMMENDATIONS	7
DISTRIBUTION OF AUDIT REPORT.....	8



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

The Honorable Terry L. Riddick, Clerk
Gates County Clerk of Superior Court
Gatesville, North Carolina

We have audited the accompanying Statement of Assets and Liabilities of Gates County Clerk of Superior Court as of June 30, 2001. This financial statement is the responsibility of Gates 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 auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the assets and liabilities of Gates County Clerk of Superior Court as of June 30, 2001, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2002 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

March 21, 2002

***Gates County Clerk of Superior Court
Statement of Assets and Liabilities
June 30, 2001***

<i>ASSETS</i>	
Cash and Cash Equivalents:	
Change Funds	\$ 100.00
Cash in Bank - Checking	107,069.03
Cash in Bank - Savings	4,233.42
Certificates of Deposit	695,390.14
Receivables	1,574.37
Total Assets	\$ 808,366.96
<i>LIABILITIES</i>	
Uniform Court Costs and Fees - State	\$ 617.00
Uniform Court Costs and Fees - County	9,969.00
Uniform Court Costs and Fees - Municipality	172.00
Supervision Fees	230.00
Due to Escheat Fund	69,238.55
Due to Administrative Office of the Courts	50.00
Partial Payments	4,283.65
Judgments	496.00
Cash Bonds	9,685.00
Trusts	712,690.76
Deposits Payable	750.00
Refund of Fees	185.00
Total Liabilities	\$ 808,366.96
The accompanying notes to the financial statement are an integral part of this statement.	

**GATES COUNTY CLERK OF SUPERIOR COURT
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2001**

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 accounting principles generally accepted in the United States of America 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.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

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.

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, 2001, the carrying amount of deposits was \$806,692.59 and the bank balance was \$820,696.98. 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.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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 Terry L. Riddick, Clerk
Gates County Clerk of Superior Court
Gatesville, North Carolina

We have audited the Statement of Assets and Liabilities of Gates County Clerk of Superior Court as of June 30, 2001, and have issued our report thereon dated March 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 disclosed no 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 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:

**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)**

Finding

Internal Controls Over Cash Receipts and Disbursements

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, of the reportable conditions described above, we consider our finding to be a material weakness.

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

March 21, 2002

AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control or noncompliance with laws and regulations.

1. INTERNAL CONTROLS OVER CASH RECEIPTS AND DISBURSEMENTS

The Clerk's Financial Management System (FMS) access rights allow all five employees both cashier and head cashier access rights within the two shared cash drawers. This allows employees to close their cash drawers, void their own receipts and open closed batches without independent review. Two of the employees also have head bookkeeper access rights, allowing them to make disbursement and journal entries. In addition, the daily deposits and monthly bank reconciliations are performed by the head bookkeeper.

Given this environment, the Clerk's ability to properly record, process, summarize and report financial data is compromised. Errors or irregularities in amounts material to the financial statements may not be detected in a timely manner by employees performing their normal job duties.

Chapter 2 of the Administrative Office of the Courts Fiscal Policies and Procedures Manual requires that the duties of cashier, head cashier and head bookkeeper be separated. The manual also states that cash drawers should not be shared. Bank deposits and reconciliations should be performed or reviewed by an independent person.

Recommendation:

Job duties should be segregated and system access rights established to comply with the Administrative Office of the Courts Fiscal Policies and Procedures Manual. In addition, individual accountability of change funds and undeposited receipts should be established and maintained.

Clerk's Response:

Due to the small size of the staff in the Gates County Clerk of Superior Courts office, it is not practical to segregate duties to the extent required by Chapter 2 of the Administrative Office Of The Courts Fiscal Policies and Procedures Manual. I do ask you to note that your staff found no financial irregularities, only this procedural flaw.

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller

JUDICIAL BRANCH

The Honorable Terry L. Riddick	Gates County Clerk of Superior Court
The Honorable John M. Kennedy	Director, Administrative Office of the Courts
Mr. Steve Lusk	Deputy Director for Administrative Services
	Administrative Office of the Courts

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Luther H. Jordan, Jr.	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Larry T. Justus
Senator R. L. Martin	Representative Edd Nye
Senator William N. Martin	Representative Warren C. Oldham
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Fountain Odom	Representative E. David Redwine
Senator Aaron W. Plyler	Representative R. Eugene Rogers
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Dan Robinson	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Ronald L. Smith
Senator Robert G. Shaw	Representative Gregg Thompson
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator Ed N. Warren	Representative Russell E. Tucker
Senator David F. Weinstein	Representative Thomas E. Wright
Senator Allen H. Wellons	Representative Douglas Y. Yongue

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

April 23, 2002

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647