

# STATE OF NORTH CAROLINA

## FINANCIAL RELATED AUDIT REPORT OF HAYWOOD COUNTY CLERK OF SUPERIOR COURT

WAYNESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

THE HONORABLE WILLIAM G. HENRY, CLERK OF SUPERIOR COURT

OFFICE OF THE STATE AUDITOR

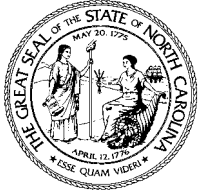
RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL RELATED AUDIT REPORT OF  
HAYWOOD COUNTY CLERK OF SUPERIOR COURT  
WAYNESVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2001**

**THE HONORABLE WILLIAM G. HENRY, 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  
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, 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 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 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**

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.

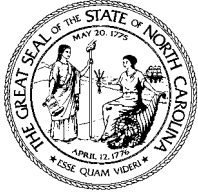


Ralph Campbell, Jr.  
State Auditor

## 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 .....	9



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 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, 2001. 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 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 Haywood 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 June 6, 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 cursive script that reads 'Ralph Campbell, Jr.'.

Ralph Campbell, Jr.  
State Auditor

June 6, 2002

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

<b><i>ASSETS</i></b>	
Cash and Cash Equivalents:	
Change Funds	\$ 350.00
Cash in Bank - Checking	991,603.19
Cash in Bank - Savings	538,562.87
Certificates of Deposit	123,266.38
Receivables	6,717.51
<b>Total Assets</b>	<b>\$ 1,660,499.95</b>
<b><i>LIABILITIES</i></b>	
Uniform Court Costs and Fees - State	\$ 4,351.13
Uniform Court Costs and Fees - County	48,873.94
Uniform Court Costs and Fees - Municipality	586.92
Supervision Fees	867.25
Community Service Fees	111.43
Other Fees Due to State Treasurer	5.00
Due to Escheat Fund	44,263.22
Due to Administrative Office of the Courts	1,735.00
Partial Payments	11,097.59
Judgments	604,566.58
Cash Bonds	162,184.75
Trusts	707,118.90
Deposits Payable	73,937.54
Refund of Fees	409.70
Due to Miscellaneous Parties	391.00
<b>Total Liabilities</b>	<b>\$ 1,660,499.95</b>

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, 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)**

---

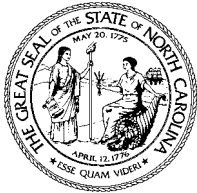
G.S. 7A-112 authorizes the Clerk to invest in certificates of deposit for time deposits or savings accounts in any bank, savings and loan, or trust company authorized to do business in North Carolina to the extent in each instance that such deposits are insured.

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 \$ 1,653,432.44 and the bank balance was \$1,750,002.32. 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.

### **NOTE 3 - CHANGE IN CLERK OF SUPERIOR COURT**

Effective June 1, 2002, Ms. June L. Ray succeeded Mr. William G. Henry as the Haywood County 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>

**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, 2001, and have issued our report thereon dated June 6, 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, 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 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)**

---

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 is 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

June 6, 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.

### 1. SEGREGATION OF DUTIES

One employee functions as both the cashier and the head bookkeeper. When one person performs these duties (or has the system rights to perform these duties), key internal control functions are not adequately segregated. As a result, errors material to the financial statements may occur and not be detected or corrected in a timely manner by employees performing their assigned duties.

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

*Recommendation:* The clerk should evaluate and, to the extent possible, reassign job duties and system access rights in order to better segregate duties and enhance internal controls.

*Clerk's Response:* In reply to the segregation of duties, the Head Bookkeeper has moved to the Civil Department as Assistant and is no longer in Bookkeeping. The Assistant Bookkeeper has been promoted to Head Bookkeeper and will not be doing cash receipting unless we have an emergency situation. The cashiers will be doing cash receipting but no bookkeeping. We feel that these changes will correct any overlapping of duties that would be detrimental to the internal financial control.

### 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. 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, and a large number of old reconciling items on the bank reconciliations.

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.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

---

*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 of their normal job duties.

*Clerk's Response:* Regarding the discrepancies in some of the summarized financial data and other related issues, our Field Auditor has been spending numerous visits working with our Bookkeeper to correct these matters. He has been very patient and helpful with the transitions that have been made since I became Clerk, June 1, 2002

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

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

### JUDICIAL BRANCH

The Honorable June L. Ray  
The Honorable John M. Kennedy  
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

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman  
Senator Charlie Albertson  
Senator Frank W. Ballance, Jr.  
Senator Charles Carter  
Senator Kever M. Clark  
Senator Daniel G. Clodfelter  
Senator Walter H. Dalton  
Senator James Forrester  
Senator Linda Garrou  
Senator Wilbur P. Gulley  
Senator Kay R. Hagan  
Senator David W. Hoyle.  
Senator Ellie Kinnaird  
Senator Howard N. Lee  
Senator Jeanne H. Lucas  
Senator R. L. Martin  
Senator William N. Martin  
Senator Stephen M. Metcalf  
Senator Fountain Odom  
Senator Aaron W. Plyler  
Senator Eric M. Reeves  
Senator Dan Robinson  
Senator Larry Shaw  
Senator Robert G. Shaw  
Senator R. C. Soles, Jr.  
Senator Ed N. Warren  
Senator David F. Weinstein  
Senator Allen H. Wellons

Representative James B. Black, Co-Chairman  
Representative Martha B. Alexander  
Representative Flossie Boyd-McIntyre  
Representative E. Nelson Cole  
Representative James W. Crawford, Jr.  
Representative William T. Culpepper, III  
Representative W. Pete Cunningham  
Representative Beverly M. Earle  
Representative Ruth M. Easterling  
Representative Stanley H. Fox  
Representative R. Phillip Haire  
Representative Dewey L. Hill  
Representative Mary L. Jarrell  
Representative Maggie Jeffus  
Representative Larry T. Justus  
Representative Edd Nye  
Representative Warren C. Oldham  
Representative William C. Owens, Jr.  
Representative E. David Redwine  
Representative R. Eugene Rogers  
Representative Drew P. Saunders  
Representative Wilma M. Sherrill  
Representative Ronald L. Smith  
Representative Gregg Thompson  
Representative Joe P. Tolson  
Representative Russell E. Tucker  
Representative Thomas E. Wright  
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

July 31, 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