

STATE OF NORTH CAROLINA

FINANCIAL RELATED AUDIT REPORT OF WATAUGA COUNTY CLERK OF SUPERIOR COURT

BOONE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

THE HONORABLE D. GLENN HODGES, CLERK OF SUPERIOR COURT

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

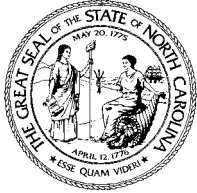
STATE AUDITOR

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial related audit of Watauga 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 Watauga 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 Watauga 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 – Noncompliance was detected in the area of the Investment of Funds Held by the Clerk.

AUDITOR'S TRANSMITTAL (CONCLUDED)

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Finding and Recommendation section of this report.

- 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 - Our tests disclosed no material weaknesses in internal control over financial reporting that require disclosure herein under *Government Auditing Standards*.

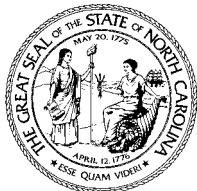
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

The Honorable D. Glenn Hodges, Clerk
Watauga County Clerk of Superior Court
Boone, North Carolina

We have audited the accompanying Statement of Assets and Liabilities of Watauga County Clerk of Superior Court as of June 30, 2001. This financial statement is the responsibility of Watauga 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 Watauga 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 August 6, 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 cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

August 6, 2001

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

ASSETS

Cash and Cash Equivalents:	
Change Funds	\$ 200.00
Cash in Bank - Checking	758,379.60
Cash in Bank - Savings	246,940.82
Certificates of Deposit	247,303.50
Receivables	4,882.86
	<hr/>
Total Assets	\$ 1,257,706.78
	<hr/>

LIABILITIES

Uniform Court Costs and Fees - State	\$ 2,254.29
Uniform Court Costs and Fees - County	41,765.92
Uniform Court Costs and Fees - Municipality	1,521.83
Supervision Fees	700.00
Community Service Fees	100.00
Due to Escheat Fund	505.52
Due to Administrative Office of the Courts	703.13
Partial Payments	28,479.33
Judgments	343,064.55
Cash Bonds	207,724.10
Trusts	544,143.44
Deposits Payable	85,999.55
Refund of Fees	115.46
Due to Other Counties	18.00
Due to Miscellaneous Parties	611.66
	<hr/>
Total Liabilities	\$ 1,257,706.78
	<hr/>

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

WATAUGA 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 \$1,252,623.92 and the bank balance was \$1,344,291.44. 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 - PROPERTY HELD FOR SAFEKEEPING

At June 30, 2001, property bonds held in lieu of security as authorized by G.S. §58-74 totaled \$46,360.00.



Ralph Campbell, Jr.
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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 D. Glenn Hodges, Clerk
Watauga County Clerk of Superior Court
Boone, North Carolina

We have audited the Statement of Assets and Liabilities of Watauga County Clerk of Superior Court as of June 30, 2001, and have issued our report thereon dated August 6, 2001. 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 Finding and Recommendation section of this report, disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Finding

Investment of Funds Held by the Clerk

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. 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.

**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)**

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be 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.

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

Ralph Campbell, Jr.
State Auditor

August 6, 2001

AUDIT FINDING AND RECOMMENDATION

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents noncompliance with G.S. §7A-112 regarding the investment of funds.

INVESTMENT OF FUNDS HELD BY THE CLERK

Our review of accounts placed with the Clerk disclosed six accounts greater than \$2,000 each that had been held by the Clerk from one to four years as of June 30, 2001. At the time of our audit, these accounts had not been invested as required by G.S. §7A-112. This statute states that when money in a single account in excess of \$2,000 is received, and it is expected to be held in excess of six months, the money exceeding \$2,000 should be invested within sixty days of receipt. Two of these accounts were estates for which the heirs could not be located. One of these accounts was a judgment held for a minor. The other three accounts were condemnations in which there was uncertainty concerning the time the Clerk would hold the funds.

Recommendation: We recommend that the Clerk implement procedures to periodically review uninvested accounts to ensure that accounts in excess of \$2,000 are properly invested as required by G.S. §7A-112. For accounts not expected to be held in excess of six months, the Clerk's Office should document review of the files and that as of the date(s) of the review, the funds were not expected to be held in excess of six months.

Clerk's Response: It appears that we have had a different understanding of the procedures that are to be followed in investing funds. It is not always clear when people will either apply for, or accept, payments from our office that makes the "expected to be held in excess of six months" hard to judge. Many times someone will indicate they will ask for the money at a particular time, and that is the last we hear from them until much later. Furthermore, the Administrative Office of the Courts has advised us that due to tax consequences for the beneficiaries, it is better to not invest the funds if there is doubt regarding the duration of time the Clerk will hold the funds. Due to IRS regulations and the AOC current method of reporting interest earned, beneficiaries may end up having taxable interest that does not exceed the commission taken on investment. In effect, beneficiaries may have to pay tax on money they never actually receive if an investment is withdrawn prior to "recouping" the commission in G.S. §7A-308.1(2). As such, the AOC has stated as far as investments, a "reasonable expectation" to invest should be construed conservatively in the best interest of the beneficiary. In five of the cases listed in the effects of Finding Number 1, our office had no way of knowing how long the submitted funds would be held. Consequently, we felt we could not definitively say we reasonably expected to hold the funds for six months. However, we will track all accounts on a regular basis that may be candidates for investment.

A form has been developed and put into place as a result of the audit that will be updated on a quarterly basis and reviewed by the Clerk. If, for any reason, investments are not made in a timely manner the Clerk will be aware of such and will make the appropriate decisions.

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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 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 D. Glenn Hodges
The Honorable Robert H. Hobgood
Mr. Steve Lusk

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

November 8, 2001

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