

**REPORT ON
CLERK OF THE CIRCUIT COURT
of the
CITY OF SALEM, VIRGINIA
G. CHANCE CRAWFORD**

**FOR THE PERIOD
OCTOBER 1, 2003 THROUGH DECEMBER 31, 2004**

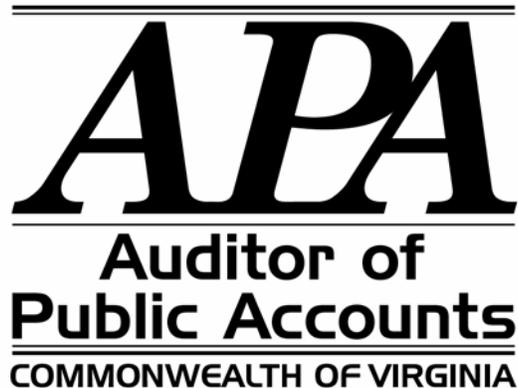


TABLE OF CONTENTS

	<u>Pages</u>
AUDIT LETTER	1-2
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND AUDITOR'S RECOMMENDATIONS	3
CLERK'S RESPONSE AND CORRECTIVE ACTION PLAN	4



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

March 2, 2005

The Honorable G. Chance Crawford
Clerk of the Circuit Court
City of Salem

City Council
City of Salem

We have audited the cash receipts and disbursements of the Clerk of the Circuit Court of the City of Salem for the period October 1, 2003 through December 31, 2004.

Our primary objectives were to test the accuracy of financial transactions recorded on the Court's financial management system; evaluate the Court's internal controls; and test its compliance with significant state laws, regulations, and policies. However, our audit was more limited than would be necessary to provide assurance on the internal controls or on overall compliance with applicable laws, regulations, and policies.

Court management has responsibility for establishing and maintaining internal controls and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal controls or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal controls, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

The results of our tests found the Court properly stated, in all material respects, the amounts recorded and reported in the financial management system.

However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a deficiency in the design or operation of internal controls that, in our judgment, could reasonably lead to the loss of revenues or assets, or otherwise compromise fiscal

accountability. The reportable condition is discussed in the section titled “Internal Control and Compliance Findings and Auditor’s Recommendations.”

We do not believe this condition is a material weakness. A material weakness is a significant deficiency in the design or operation of internal controls that, in our judgment, could reasonably lead to the loss of revenues or assets, or otherwise compromise fiscal accountability and go undetected.

The results of our tests of compliance with applicable laws and regulations disclosed an instance of noncompliance that is required to be reported. This instance of noncompliance is discussed in the section entitled “Internal Control and Compliance Findings and Auditor Recommendations.”

We discussed these comments with the Clerk on February 23, 2005 and we acknowledge the cooperation extended to us by the court during this engagement.

AUDITOR OF PUBLIC ACCOUNTS

WJK:slb

cc: The Honorable Jonathan M. Apgar, Chief Judge
Forest Jones, City Manager
Bruce Haynes, Executive Secretary
Compensation Board
Paul Delosh, Director of Technical Assistance
Supreme Court of Virginia
Martin Watts, Court Analyst
Supreme Court of Virginia
Director, Admin and Public Records
Department of Accounts

Internal Control and Compliance Findings and Auditor Recommendations

Properly Manage Trust Funds

The Clerk does not properly report and reconcile trust funds. Specifically, we found the following weaknesses.

- The Clerk did not file an annual report with the court as required by section 8.01-600 of the Code of Virginia.
- The automated record indexing and imaging system did not contain the most recent annual trust fund report as required by Section 8.01-600 of the Code of Virginia.
- The Clerk does not reconcile trust fund balances on the automated financial system to the bank balances.
- The Clerk does not post the interest earned on trust funds to the individual accounts on a regular basis, and two trust fund accounts have had no interest posted in over a year.
- The Clerk does not reconcile his automated general ledger reports to the automated subsidiary ledger reports.
- The Clerk fails to maintain bank notices and statements to support the funds recorded in the financial management system. For two accounts totaling \$6,926, the clerk did not have documentation from the bank to support the amounts invested. At our request, the Clerk requested a statement from the bank detailing the invested funds.
- The Clerk failed to escheat one trust fund account totaling \$6,136 as required by Section 55-210.9:2 of the Code of Virginia.

Without an adequate reconciliation process, the Clerk cannot ensure proper reporting and payout of trust fund accounts. By law, the Clerk has personal liability for any loss of income that results from inadequate procedures. The Clerk should ensure he and his staff review and understand reporting requirements and trust fund procedures as outlined by the Code of Virginia and the Financial Management System User's Guide.

Strengthen Controls Over Bank Reconciliations

The Clerk failed to ensure that the bookkeeper was promptly resolving reconciling items. Specifically, the bookkeeper failed to resolve a \$250 reconciling item from April 2004 until asked by the auditor. Further, the bank reconciliation had an unidentified difference of \$3. The Clerk should ensure that the bookkeeper reconciles the bank account promptly after receiving the bank statement and promptly correct any reconciling items identified. Failure to properly and promptly reconcile the bank account increases the risk of errors going undetected.

Clerk of the Circuit Court

G. CHANCE CRAWFORD
CLERK
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TERMS OF COURT
THIRD FRIDAY
FEB. - MAY - JULY - SEPT.
SECOND FRIDAY
DECEMBER

City of Salem, Virginia

March 15, 2005

Auditor of Public Accounts
Richmond, Virginia

TO WHOM IT MAY CONCERN

I am writing this response in regards to our management of Trust funds. The annual trust fund report that is required to be given to the Court was submitted but mistakenly never got filed in the Court. Also, the report was immediately imaged and indexed in the Supreme Court Record Management System.

With regards to the Trust fund issues, I immediately called Martin Watts, Supreme Court Financial Analyst. Mr. Watts, worked with Wanda and I throughout the day on problem areas and simplification of our methodology. During that day we were able to get everything reconciled.

The other issues that the auditor brought to our attention have been addressed. We have instructed the banks that we will need monthly statements for interest earned so that we will always have up to date ledgers. Also, we have obtained the proper documentation for the two accounts totaling \$6926.00.

As far as the trust funds totaling \$6136.00, we just got authorization from the Judge to escheat those monies to the Commonwealth.

I feel that we have taken necessary steps to insure proper reconciliation of all monies under the control of the Clerk.

Sincerely,

G. Chance Crawford

G. Chance Crawford
Clerk, Circuit Court