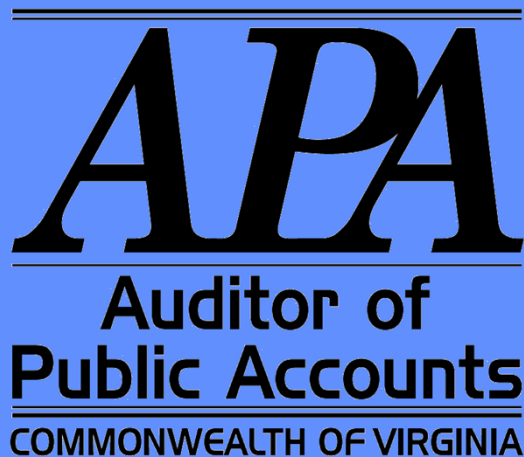


CHARLES V. MASON
GENERAL RECEIVER OF THE CIRCUIT COURT
FOR THE
COUNTY OF KING GEORGE

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010



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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 31, 2011

The Honorable Gordon F. Willis
Chief Judge of the Circuit Court
County of King George

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of fiduciary net assets arising from cash transactions of

CHARLES V. MASON
GENERAL RECEIVER OF THE CIRCUIT COURT
for the
COUNTY OF KING GEORGE

as of June 30, 2010, and the related statement of changes in fiduciary net assets for the year ended June 30, 2010. These financial statements are the responsibility of the General Receiver. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, these financial statements have been prepared on the basis of modified cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets arising from cash transactions of the General Receiver of the Circuit Court of the County of King George as of June 30, 2010, and the changes in fiduciary net assets for the year ended June 30, 2010, in conformity with the basis of accounting described in Notes 1-3.

AUDITOR OF PUBLIC ACCOUNTS

WJK: clj

cc: Paul F. DeLosh, Director of Judicial Services
Supreme Court of Virginia

COUNTY OF KING GEORGE
GENERAL RECEIVER OF THE CIRCUIT COURT
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2010

Exhibit A

A S S E T S

| | |
|--------------|----------------|
| Investments | \$ 774,248 |
| Total Assets | <u>774,248</u> |

L I A B I L I T I E S

| | |
|--|-------------------|
| Bond costs payable | <u>-</u> |
| Total Liabilities | <u>-</u> |
| Net Assets Held in Trust for Designees | <u>\$ 774,248</u> |

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

COUNTY OF KING GEORGE
GENERAL RECEIVER OF CIRCUIT COURT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE PERIOD ENDING JUNE 30, 2010

Exhibit A-1

Additions:

| | |
|-----------------|----------------|
| Trust Funds | \$ 225,193 |
| Interest | 2,423 |
| Other | <u>19,059</u> |
| Total additions | <u>246,676</u> |

Deductions:

| | |
|-----------------------|----------------|
| Bond Costs | 1,921 |
| General receiver fees | 601 |
| Trust Funds | 258,739 |
| Other | <u>84</u> |
| Total deductions | <u>261,343</u> |

Net Change (14,668)

Net Assets Held in Trust for Designees

July 1, 2009 788,856

June 30, 2010 \$ 774,188

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

COUNTY OF KING GEORGE
GENERAL RECEIVER OF THE CIRCUIT COURT
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Sections 8.01-582 through 8.01-590 of the Code of Virginia provide specific guidance to general receivers.

Any circuit court may appoint a general receiver of the court, whose duty shall be to receive, take charge of and hold all monies paid under any judgment, order or decree of the court, and also to pay out or dispose of same as the court so orders. General receivers are to maintain affidavits with the court providing beneficiary information as well as proposed dates of periodic and final disbursements.

Monies held pursuant to these sections shall be deemed public deposits and shall be invested in certificates of deposit or time deposits. Unless otherwise directed, general receivers shall collect dividends and interest on all investments and re-invest these collections.

General receivers shall keep an accurate and particular account of all monies received, invested and paid out. No later than October 1 of each year, the general receiver shall make a report to the circuit court including, but not limited to the whole amount invested, the manner of each investment, and the approximate date on which the monies held for the beneficiaries will become payable. A copy of this annual report is to be recorded in the court's trust fund order book.

A general receiver shall be liable for any loss of income which results from (i) failure to invest any money held within 60 days of receipt or (ii) failure to pay out any money so ordered by the court within 60 days of the court order. General receivers shall be charged with interest from the date of the court order until such investment or payment is made.

General receivers receive compensation and fees for services performed. No compensation shall be allowed until the general receiver has executed the required bond(s), made the required reports, and performed the duties previously described. The general receiver is entitled to an amount not to exceed ten dollars in each of the following circumstances: receipt of the originating court order; when all funds held for a beneficiary are disbursed; for each draft or check for periodic and final disbursements; for remitting funds to the State Treasurer; and per draft remitting those funds to the State Treasurer. The general receiver is also entitled to five percent of the interest income earned on each investment.

If a general receiver fails to keep the account, or to make out and return the statements as required, the general receiver shall be subject to a fine of not less than \$100 nor more than \$1,000 to be imposed by the court at its discretion.

B. Basis of Accounting

The financial statements of the General Receiver of the Circuit Court of the County of King George have been prepared using the modified cash basis of accounting. Under the modified cash basis of accounting, additions to trust fund accounts are recorded when received and deductions from trust fund accounts are recorded when made.

C. Assets, Liabilities and Net Assets Held in Trust for Designees

1. Deposits and Investments

The general receiver's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are principally comprised of monies held by the general receiver in a fiduciary capacity, as previously described. The general receiver should invest funds in an instrument or account insured by the Federal Deposit insurance corporation or Federal Savings and Loan Insurance Corporation. Generally, trust funds are invested in certificates of deposit. All investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

2. Receivables

Additions to trust funds subject to accrual include investment interest earnings that are not yet recorded in the individual investment accounts at close of the fiscal year.

3. Liabilities

Deductions to trust funds subject to accrual include surety bond costs or General Receiver fees not yet recorded in the individual trust fund accounts at close of the fiscal year.

General receiver fees are monies owed by each trust fund account to the general receiver as compensation for the investment and record-keeping services performed.

Surety bonds are a liability of each trust fund account. The general receiver calculates the bond costs based on the year-end total balance of the invested accounts. The bond fee is then proportionally allocated to each trust fund account.

Each of these liability types are recorded against the trust fund account records at fiscal year end, in order to prepare an annual report that properly reflects trust fund additions, deductions and liabilities. Soon after fiscal year end, the general receiver will process the transactions and satisfy the liabilities.

2. SURETY BOND

Section 8.01-588 of the Code of Virginia requires that a general receiver shall annually give before the court a bond with surety sufficient at least to cover the probable amount under his control in any one year. The general receiver was bonded under a Trust Fund Administrators Bond with the Firemen's Insurance Company of Newark, New Jersey, as surety. The Virginia Department of

Treasury, Division of Risk Management, establishes the rate used to calculate surety bond costs. The current rate is \$3.00 per \$1,000 invested, or .003 percent.

3. UNCLAIMED PROPERTY

Per Sections 8.01–602 and 55-210.9:2 of the Code of Virginia, in those instances where trust funds have become payable or distributable and have not been claimed by the owner for more than a year, the General Receiver is required to petition the Court to remit the unclaimed money to the State Treasurer.

COMMENTS TO MANAGEMENT

COUNTY OF KING GEORGE

GENERAL RECEIVER OF THE CIRCUIT COURT

AS OF JUNE 30, 2010

Properly Record Financial Transactions

According to the accounting system records, the General Receiver, who is also the Clerk of the Circuit Court has recorded all of the financial transactions in the court accounting system using his Clerk's logon identification. Therefore, we cannot determine if he was acting as either the Clerk of the Circuit Court or the General Receiver.

Because General Receivers receive and retain fees differently from the Clerk of the Circuit Court, we cannot determine in what capacity he received the funds and whether the fees paid him as a General Receiver were appropriate. Since the Chief Judge appoints the General Receiver, we requested that the judge review and approve as appropriate all individual transactions and fees retained by the by the General Receiver.

We have commented on this practice in the past, but both the Clerk of the Circuit Court and the judge believe the practice is appropriate; however there is not an adequate audit trail in the existing system to determine in which capacity the court is receiving the funds. Therefore, at least quarterly, the judge and the General Receiver should determine in what capacity the court is receiving the funds and whether each transaction is appropriate. As an alternative, the General Receiver could, like all other General Receivers maintain a separate accounting system and not record these transactions in the Circuit Court accounting system.

January 05, 2011

John Rutan
Auditor of Public Accounts
321 Gray Avenue
Staunton, VA 24401

IN RE: Dec 10, 2010 Audit Finding

Mr. Rutan,

I disagree with Memorandum regarding dated December 10, 2010. I have noted below, in the same order as your Memorandum, my disputation and my reasons.

- 1) **Your Memorandum states:** According to the accounting system records "we cannot determine if he was acting as either Clerk of Circuit Court or General Receiver".

Response: All Trust Funds in King George are held by the General Receiver and not by the Court and all Trust Funds are receipted under Account Code #424. Therefore all Trust Funds receipted are held by the General Receiver by authority of a Court Order.

- 2) **Your Memorandum states:** Because General receivers receive and retain fees differently from the Clerk of the Circuit Court, We cannot determine in what capacity he received the funds and whether the fees paid him as General receiver were appropriate

Response: All Trust Funds in King George are held by the General Receiver and not by the Court and therefore there is no necessity to differentiate. All questions regarding fees paid were answered at the time of the audit and I am unaware of any unanswered questions arising since. After speaking with John Rutan I understand that there needs to be a easier accounting trail. Based upon that conversation I have implemented changes that will make the audit process easier.

- 3) **Your Memorandum states:** A) "there is not an adequate audit trail in the existing system to determine which capacity the Court is receiving funds". B) "As an alternative, the General Receiver could, like other General Receivers maintain a separate accounting system and not record these transactions in the Circuit Court accounting system."

Response: A) All Trust Funds in King George are held by the General Receiver and not by the Court and all Trust Funds are receipted under Account Code #424. All Court Orders reflect the same. B) The General receiver keeps both paper files and an electronic spreadsheet on each individual account and a detailed accounting is kept on each. All funds are accounted for. In an era of governmental inefficiency to add another layer, whether it be a separate software accounting system, separate bank account or any other additional requirements is unnecessary. While the current system may not be a model of APA Preferred Practices it is an efficient use of resources, all funds are accounted for, there is a complete audit trail and the current accounting system has been in place and worked for the past 15 years with no funds missing.

While I disagree with the Memorandum conclusions I would like to commend the auditor, John Rutan, for the professional and courteous manner that he handled himself at all times. I would be glad to meet with Mr. Rutan to make the process more efficient for all.

Please do not hesitate to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles V. Mason", with a long horizontal line extending to the right.

Charles V. Mason, General Receiver