

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

**FOR THE PERIOD
JANUARY 1, 2005 THROUGH JUNE 30, 2006**

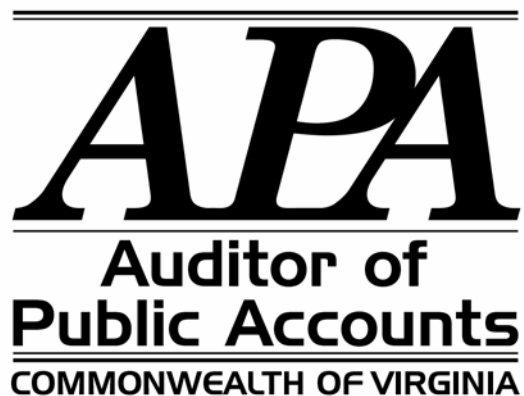


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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 12, 2006

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 January 1, 2005 through June 30, 2006.

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 certain matters involving internal control and its operation that we consider to be reportable conditions. 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 conditions are discussed in the section titled “Internal Control and Compliance Findings and Auditor’s Recommendations.”

We do not believe these conditions are material weaknesses. 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 instances of noncompliance that is required to be reported. These instances of noncompliance are discussed in the section entitled “Internal Control and Compliance Findings and Auditor Recommendations.”

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

AUDITOR OF PUBLIC ACCOUNTS

WJK:jth

cc: The Honorable James R. Swanson, Chief Judge
Forrest Jones, City Manager
Bruce Haynes, Executive Secretary
Compensation Board
Paul F. DeLosh, Director of Judicial Services
Supreme Court of Virginia
Director, Admin and Public Records
Department of Accounts

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND AUDITOR'S RECOMMENDATIONS

The following findings are reportable internal control matters that could lead to the loss of revenues, assets, or otherwise compromise the Clerk's fiscal accountability. The Clerk's response and written corrective action plan to remediate these findings are included as an enclosure to this report.

Reimburse the City

The Clerk did not properly reimburse the City \$16,738 received from the State Compensation Board in July 2005 for salary and wages paid by the City to his employees. The Clerk's employees receive their paychecks through the City's payroll system and the State Compensation Board pays the Clerk a portion of these payroll costs, which the Clerk then reimburses the City. The Clerk should immediately reimburse the City for this payroll.

Strengthen Controls Over Bank Reconciliations

As noted in the prior year audit and again in this audit for an 18-month period the Clerk failed to have the bookkeeper properly reconcile the bank account and resolve reconciling items. The Clerk should ensure the bookkeeper reconciles the bank account promptly and investigate and resolve any differences between the bank statement, checkbook and the automated system. Failure to properly and promptly reconcile the bank account increases the risk of errors going undetected.

Monitor and Disburse Liability Accounts

The Clerk does not properly monitor and disburse court liabilities as required by the Code of Virginia and the Financial Management System User's Guide. Liability accounts record amounts the Clerk is holding to disburse to individuals, other agencies or to pay fines and costs. Specifically, we found the following:

- The Clerk has not remitted nine outstanding checks over a year old totaling \$3,071 to the Division of Unclaimed Property as required by §55-210.9:2 of the Code of Virginia.
- The Clerk has not disbursed two bonds totaling \$575 for closed cases.
- The Clerk has not disbursed two restitution accounts totaling \$2680.
- The Clerk has not disbursed two law and chancery deposits totaling \$1000 for closed cases.
- The Clerk paid out \$1,162 too much from District Court Collections in March 2006.
- The Clerk has not disbursed one escrow account totaling \$100.

The Clerk should monitor liabilities, perform due diligence, and disburse liabilities on a regular basis. The Clerk should also send unclaimed property to the appropriate division or fund after due diligence procedures to locate the recipient have failed.

Improve Daily Accounting Functions

The Clerk does not provide proper oversight over daily cash receipts as required by Chapters Seven and Nine of the Financial Management System User's Guide. Specifically, we noted the following:

- The clerk failed to review and approve 11 of the 48 daily financial reports tested.
- The bookkeeper failed to complete the cash reconciliation worksheet in 6 of 30 tested.
- The bookkeeper does not document the use of manual receipts on the daily financial reports.
- The Clerk's staff does not consistently issue manual receipts in numerical order.
- The Clerk's staff failed to maintain all three copies of a void receipt.

Without effective internal controls over the daily accounting functions, fraud and a loss of revenue to the Commonwealth and locality could occur. The Clerk should immediately implement proper oversight and establish internal controls for proper management of daily cash receipts and financial reports.

Clerk of the Circuit Court

G. CHANCE CRAWFORD

CLERK

P.O. BOX 891

SALEM, VIRGINIA 24153

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TERMS OF COURT
THIRD FRIDAY
FEB. - MAY - JULY - SEPT.
SECOND FRIDAY
DECEMBER

City of Salem, Virginia

November 2, 2006

Auditor of Public Accounts

P.O. Box 1295

Richmond, VA 23218

In accordance with the requirements as outlined in Item 66, Paragraph 1 of the Appropriations Act, I am submitting my Comprehensive Action Plan to rectify the findings of the latest (audit) draft report. First and foremost, I along with my deputy accounting clerk are again reading Chapters 7 & 9 of the (FMS) manual to make sure that we have thorough knowledge of the FMS reports (Chapter 7) and court procedures (Chapter 9). My staff and I plan to attend as many of the Supreme Court education seminars as possible. Another area of concern is the cross training of our staff so that they have a better understanding of the financial principles used in the Circuit Court Clerk's Office.

In the draft copy of the internal control and compliance findings the auditors have made several findings and recommendations. Specifically:

Strengthen controls of our bank reconciliation

The deputy accountant and I are working together to ensure that our bank statements are reconciled promptly and accurately. We have taken the recommendation of the auditors and implemented a system of checks and balances to implement stronger measures of accuracy. I have also emphasized the need for better communication so that problems can be addressed promptly. Also, proper daily accounting and reconciliation will help in all areas of financial management in accordance with the FMS principles.

Monitor and Disburse Liability Accounts:

We have identified and disbursed our liability accounts that were brought to our attention by the auditor in their draft copy. These included unclaimed property, unpaid restitution and all monies as identified in the liabilities reports (FMS BR016). Again, better knowledge of the FMS guide and reports will ensure that liabilities will be properly disbursed.

Improve Daily Accounting Functions:

This is an area of great concern. We have implemented policies and procedures to ensure proper accounting methods are used. Specifically, I believe better training along with better communication will alleviate this problem. Also, a specific time has been set aside each day to analyze the previous days reports to make sure all transactions are accounted for and reconciled in accordance with proper use of the FMS user's guide.

The City has been reimbursed payroll that was due them from July 2005 and now receives monthly payroll from the Compensation Board.

We greatly realize the importance of compliance with all procedures and will work hard to continue to be worthy of our constituents trust. I would like to thank the auditors for their professionalism.

Sincerely,

G. Chance Crawford

G. Chance Crawford – Clerk
Circuit Court City of Salem