

**AUDIT REPORT
OF
DOUGLAS COUNTY COURT**

JULY 1, 2000 THROUGH JUNE 30, 2001

DOUGLAS COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 3
<u>Financial Section</u>	
Independent Auditors' Report	4 - 5
Financial Statement:	
Statement of Changes in Assets and Liabilities - Agency Funds - For the Fiscal Year Ended June 30, 2001	6
Notes to Financial Statement	7 - 8
<u>Government Auditing Standards Section</u>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	9 - 10

DOUGLAS COUNTY COURT

SUMMARY OF COMMENTS

During our audit of the Douglas County Court, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

Civil/Small Claims Division

1. Balancing Procedures

Criminal/Traffic Division

2. Overdue Balances

Probate Division

3. Balancing Procedures

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the Court.

Draft copies of this report were furnished to the Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Court declined to respond.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

DOUGLAS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

CIVIL/SMALL CLAIMS DIVISION

1. Balancing Procedures

Sound accounting practice requires procedures be in place to ensure office records reconcile and agree to bank activity on at least a monthly basis and fees are correctly remitted.

We noted the Civil Division's checking account balance according to bank records was \$6,655 short when compared to the office records as of June 30, 2001. Of this total shortage, \$5,244 was due to the over-remittance of State Fees and interest, the remaining \$1,411 was the result of both uncorrected and unknown variances in the Division's balancing procedures. Without correct balancing procedures, variances cannot be identified and reconciled correctly, resulting in the possibility of loss or misuse of funds.

On August 7, 2001, the Court formally requested approval from the State Court Administrator's Office to use \$6,655 in interest earned on the Court's Justice checking account to cover the shortage in the Civil Division's account. The Court Administrator's Office subsequently approved the Court's request.

We recommend the Court identify and pay out the remaining trust balances and close the Civil Division's checking account.

CRIMINAL/TRAFFIC DIVISION

2. Overdue Balances

Good internal control and sound business practice require overdue balances of the Court be reviewed on a regular basis to determine what action should be taken to collect on those accounts.

We noted the Court did not conduct a periodic review of the cases with overdue balances and appropriate action was not being taken by the Court to collect on those accounts. As of May 5, 2001 the total in overdue balances was \$3,436,797. By August 11, 2001, the balances had increased to \$3,505,340; an increase of \$68,543 in three months. Thus, the number and dollar amount of overdue case balances was increasing rapidly and will continue to increase until some type of action is taken to collect on these case balances. In addition, without a periodic review of the overdue cases, there is an increased risk a case listed as outstanding will either not have proper action taken, or that the amount outstanding may have previously been paid.

DOUGLAS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

CRIMINAL/TRAFFIC DIVISION

2. **Overdue Balances** (Concluded)

We recommend, as we have in our prior audits, the Court immediately implement procedures to review the listing of overdue balances to ensure the balances are actually due the Court and to ensure warrants or suspensions have been issued on individuals owing money to the Court. We further recommend an effort be made by the Court to collect on these overdue case balances.

PROBATE DIVISION

3. **Balancing Procedures**

Sound accounting practice requires procedures be in place to ensure office records reconcile and agree to bank activity on at least a monthly basis and fees are correctly remitted. In addition, trust fund balances and fees on hand should agree to the assets available to pay those liabilities.

We noted the bank account balance was not being reconciled to the listing of trust balances on a monthly basis. Furthermore, in December 2000 the Probate Division's checking account was closed and the balance was transferred into the Court's main Justice checking account. The amount transferred was \$436 short. This shortage was due to the Probate Division using \$436 in accumulated interest earned on the checking account to cover its shortage in the office's records.

In the future, before any bank account is closed, we recommend a complete reconciliation be performed so that any variance that might exist can be identified and appropriately resolved prior to closing the account.

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DOUGLAS COUNTY COURT

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We have audited the financial statement of Douglas County Court as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. The financial statement is the responsibility of the Court's management. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as noted in the fourth paragraph, 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 our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement presents only the Court's Agency Funds activity and is not intended to present fairly the financial position and results of operations of Douglas County Court in conformity with generally accepted accounting principles.

We were unable to obtain a management representation letter from the Presiding Judge of Douglas County Court. The Presiding Judge declined to make the representation as required by generally accepted auditing standards.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain the management representation letter from the Presiding Judge, the financial statement referred to above presents fairly, in all material respects, the financial position of the Agency Funds of Douglas County Court as of June 30, 2001 and the related activity for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2001, on our consideration of Douglas County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

August 28, 2001

A handwritten signature in cursive script that reads "Deann Hayfman CPA".

Deputy State Auditor

DOUGLAS COUNTY COURT
 OMAHA, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2001

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
ASSETS				
Cash and Deposits	\$ 5,755,692	\$ 19,609,791	\$ 19,855,111	\$ 5,510,372
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 18,999	\$ 1,822,733	\$ 1,817,982	\$ 23,750
Law Enforcement Fees	1,345	121,912	121,702	1,555
Interest	3,079	174,322	181,778	(4,377)
State Judges Retirement Fund	945	103,188	102,932	1,201
Automation Fees	48	3,955	3,977	26
Legal Services Fees	1,336	123,109	122,867	1,578
Bond Retainage Fee	21,030	445,639	427,762	38,907
Due to County Treasurer:				
Regular Fines	31,379	2,191,415	2,191,459	31,335
Overload Fines	1,750	80,350	80,675	1,425
Regular Fees	1,283	38,034	37,156	2,161
Bond Forfeiture Fees	1,147	219,623	218,546	2,224
Due to Municipalities:				
Regular Fines	25,688	1,881,175	1,876,517	30,346
Regular Fees	7,837	83,375	85,564	5,648
Trust Fund Benefits:				
Payable	5,639,826	12,320,961	12,586,194	5,374,593
Total Liabilities	\$ 5,755,692	\$ 19,609,791	\$ 19,855,111	\$ 5,510,372

See Notes to Financial Statement.

**DOUGLAS COUNTY COURT
NOTES TO FINANCIAL STATEMENT**

June 30, 2001

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Douglas County Court is established by State Statute and is administratively operated through the Court Administrator's Office of the Nebraska Supreme Court, which is part of the State of Nebraska reporting entity. The Statement of Changes in Assets and Liabilities of the County Court reflects only the Agency Funds activity of the Court; the receipts, and their subsequent disbursement to the appropriate entities for which they were collected. The financial statement does not reflect the personal services expenses of the Court, which are paid by the Nebraska Supreme Court, or the operating expenses, which are paid by Douglas County.

B. Basis of Accounting

The accounting records of the County Court Agency Funds are maintained, and the Statement of Changes in Assets and Liabilities has been prepared, on the modified accrual basis of accounting. Under this basis of accounting, fines, fees, and receipts relating to trust funds are shown as additions to assets and as an increase in the related liability when received because they are generally not measurable until actually received. Likewise, disbursements are shown as deductions to assets and a decrease in the related liability when a check is written.

2. Deposits and Investments

Funds held by the County Court are deposited and invested in accordance with rules issued by the Supreme Court as directed by Neb. Rev. Stat. Section 25-2713 R.R.S., 1995. Funds are generally consolidated in an interest-bearing checking account; however, the Court may order certain trust funds to be invested separately. Any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation are required by Neb. Rev. Stat. Section 77-2326.04 R.R.S., 1996, to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The carrying amounts and bank balances of total deposits consisting of checking accounts, savings accounts and money market accounts, were as follows:

	Total Cash and Deposit Carrying Amount	Cash Amount	Deposit Carrying Amount	Bank Balance
June 30, 2001	\$ 5,510,372	\$ 3,535	\$ 5,506,837	\$ 5,785,574

DOUGLAS COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. **Deposits and Investments** (Concluded)

However, Funds were entirely covered by federal depository insurance or by collateral securities pledged to the Court and held by a Federal Reserve Bank, or by a Bank or trust company in this State other than the depository bank, during the entire year.

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DOUGLAS COUNTY COURT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statement of Douglas County Court as of and for the year ended June 30, 2001, and have issued our report thereon dated August 28, 2001. Our opinion on the financial statement of Douglas County Court was qualified because we were unable to obtain a management representation letter from the Presiding Judge of Douglas County Court. The report was also modified to emphasize that the financial statement presents only the Agency Funds of Douglas County Court. 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 Douglas County Court's financial statement is free of material misstatement, we performed tests of its 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 disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. The results of our tests disclosed no 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 Douglas County Court'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 Douglas County Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Balancing Procedures).

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 statements 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, of the reportable conditions described above, we consider comment number 1 to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Douglas County Court in the Comments Section of the report as Comment Number 2 (Overdue Balances) and Comment Number 3 (Balancing Procedures).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

August 28, 2001


Deputy State Auditor