

**AUDIT REPORT
OF
BUFFALO COUNTY COURT**

JULY 1, 2000 THROUGH JUNE 30, 2001

BUFFALO COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 4
<u>Financial Section</u>	
Independent Auditors' Report	5 - 6
Financial Statement:	
Statement of Changes in Assets and Liabilities - Agency Funds - For the Fiscal Year Ended June 30, 2001	7
Notes to Financial Statement	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

BUFFALO COUNTY COURT

SUMMARY OF COMMENTS

During our audit of the Buffalo 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:

1. ***Segregation of Duties:*** One individual was capable of handling all aspects of processing transactions from beginning to end.
2. ***Bond Assignments:*** Bond Assignment Forms were not used by the Court to support assignment of bonds to fines and costs.
3. ***Change Funds:*** Change funds in the Court's possession were not recorded on the JUSTICE system.
4. ***Checking Account Authorizations:*** Checks were pre-signed prior to being completely filled out.
5. ***Restrictive Endorsement of Checks:*** Checks on hand were not restrictively endorsed.

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.

BUFFALO COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end. Good internal control further requires employees involved in the cash receipt process not be allowed to issue receipts for non-monetary transactions.

We noted the office of the County Court had a lack of segregation of duties since one person was capable of handling all aspects of processing transactions from beginning to end. However, due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. Personnel are under the direction of both the Nebraska State Court Administrator and the Presiding Judge. We have noted this comment in previous audits.

We also noted all County Court cashiers are capable of issuing non-monetary receipts and the voided and adjusted transactions are not being reviewed by management.

We recommend the County Court along with the Nebraska State Court Administrator review this situation. As always, the cost of hiring additional personnel versus the benefit of a proper segregation of duties must be weighed. We also recommend the County Court restrict the issuance of non-monetary receipts to a limited number of County Court employees who are not involved in the cash receipts process. Should the Court decide not to restrict issuance of non-monetary receipts due to a limited number of personnel, we recommend the Clerk Magistrate review "Courtwide Receipt/Disbursement History" reports to ensure the propriety of non-monetary receipts issued. These reviews should be documented by initialing the reports and retaining them for subsequent inspection. We further recommend similar review and documentation procedures for the voided and adjusted transaction reports.

2. Bond Assignments

The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states that when a defendant wants to apply any or all of the bond amount to fines and costs, the Assignment of Bond Form (Form No. 13:2) is to be used to document the defendant's assignment. Furthermore, the Court Procedure Manual, also issued by the Nebraska State Court Administrator's Office, also references the use of the Assignment of Bond Form when defendants elect to assign bond money to fines and costs.

BUFFALO COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. Bond Assignments (Concluded)

The County Court did not use the Assignment of Bond Form as supporting documentation of a defendant's election to assign bond money to fines and costs. Rather, the Court asked defendants to submit their original bond receipts to the Court, and those receipts alone served as the Court's documentation of assignment. For example, one particular instance was noted during testing in which an individual submitted to the Court the original bond receipt issued by the Sheriff's Office. This receipt alone was considered by the Court to be supporting documentation for the individual's election to assign bond money to fines and costs.

We recommend the Court review the Court Accounting and Procedure Manual sections related to bond assignments and, as instructed in those manuals, begin to document the assignment of bonds using the prescribed Form.

3. Change Funds

Sound accounting practice requires all monies in the possession of the Court be accounted for in the Court's financial system.

During a surprise cash count, it was observed the Court had \$150 in cash used to make change, which it had received from the Buffalo County Board. However, at the time of cash count, these funds were not recorded on the JUSTICE system, the Court's computerized financial and case management system.

We recommend all change funds maintained on hand be reflected on the JUSTICE system.

4. Checking Account Authorizations

Good internal control requires checks not be signed in advance of their being completely filled out. Pre-signing of checks increases the risk of loss, theft, or misuse of funds.

The Court had four individuals authorized to sign on the Court's checking account. These four individuals consisted of two Judges, the Clerk Magistrate, and the Accounting Clerk. However, at times the Court found it necessary, due to the absence of these individuals, to pre-sign checks in advance of completely filling out who the checks were payable to and the amounts to be paid.

BUFFALO COUNTY COURT

COMMENTS AND RECOMMENDATIONS

4. **Checking Account Authorizations** (Concluded)

We recommend the Court immediately discontinue the practice of pre-signing checks. In addition, the Court will need to consider whether or not additional authorizations are needed.

5. **Restrictive Endorsement of Checks**

Good internal control requires checks be restrictively endorsed immediately upon receipt. The practice of holding checks unendorsed increases the risk of loss, theft, or misuse of Court funds.

During a surprise cash count, we noted seven of twenty-six checks on hand, totaling \$361, were not restrictively endorsed. All unrestricted checks were confined to one particular cash drawer.

We recommend all checks received be restrictively endorsed immediately upon receipt.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

Mr. Joseph C. Steele
State Court Administrator
Room 1220 - State Capitol Building
Lincoln, Nebraska 68509

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

BUFFALO COUNTY COURT

INDEPENDENT AUDITORS' REPORT

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

We have audited the financial statement of Buffalo 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.

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

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.

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

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 Buffalo County Court in conformity with generally accepted accounting principles.

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Agency Funds of Buffalo 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 March 27, 2002, on our consideration of Buffalo 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.

A handwritten signature in cursive script that reads "Deann Haefliger CPA". The signature is written in dark ink and is positioned to the right of the date.

March 27, 2002

Deputy State Auditor

BUFFALO COUNTY COURT
KEARNEY, 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	<u>\$ 383,340</u>	<u>\$ 1,949,741</u>	<u>\$ 2,010,654</u>	<u>\$ 322,427</u>
 LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 20,959	\$ 197,497	\$ 199,569	\$ 18,887
Law Enforcement Fees	1,183	11,137	11,299	1,021
Interest	509	5,462	5,614	357
State Judges Retirement Fund	947	9,970	10,089	828
Automation Fees	9	117	117	9
Legal Services Fees	1,226	11,717	11,850	1,093
 Due to County Treasurer:				
Regular Fines	44,871	368,210	381,601	31,480
Overload Fines	625	3,575	4,050	150
Regular Fees	3,121	48,523	48,398	3,246
 Due to Municipalities:				
Regular Fines	1,657	38,511	37,316	2,852
Trust Fund Benefits Payable	<u>308,233</u>	<u>1,255,022</u>	<u>1,300,751</u>	<u>262,504</u>
Total Liabilities	<u><u>\$ 383,340</u></u>	<u><u>\$ 1,949,741</u></u>	<u><u>\$ 2,010,654</u></u>	<u><u>\$ 322,427</u></u>

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

BUFFALO COUNTY COURT
NOTES TO FINANCIAL STATEMENT

For the Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Buffalo 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 Buffalo 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.S.Supp., 2001 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2001, carrying amount of total deposits, which includes a checking account, a savings account, and money market accounts, was \$322,427. The bank balance was \$331,231. All funds were entirely covered by federal depository insurance or by collateral securities pledged to the Court and held by a Federal Reserve Bank or a bank or trust company in this State other than the depository bank.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

BUFFALO 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

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statement of Buffalo County Court as of and for the year ended June 30, 2001, and have issued our report thereon dated March 27, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Buffalo 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 Buffalo 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Buffalo 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Buffalo County Court's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the Comments Section of the report as Comment Number 1 (Segregation of Duties).

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, we believe the reportable condition described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Buffalo County Court in the Comments Section of the report as Comment Number 2 (Bond Assignments), Comment Number 3 (Change Funds), Comment Number 4 (Checking Account Authorizations), and Comment Number 5 (Restrictive Endorsement of Checks).

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.



Deputy State Auditor

March 27, 2002