

**AUDIT REPORT
OF
CHEYENNE COUNTY COURT**

JULY 1, 2000 THROUGH JUNE 30, 2001

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CHEYENNE COUNTY COURT

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CHEYENNE COUNTY COURT

SUMMARY OF COMMENTS

During our audit of the Cheyenne 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 phases of a transaction from beginning to end.
2. ***Unclaimed Property:*** At June 30, 2001, the County Court had \$94 in outstanding checks and \$15,701 in trust balances which were over three years old and had not been reported to the State Treasurer in accordance with State Statute.
3. ***Records Retention:*** Manual Cash and Fee Sheets for the month of July 2000 as well as Trust Detail Reports for the month of June 2001 could not be located by the County Court, and therefore, were unavailable for audit.
4. ***Accounting Errors:*** At June 30, 2001, the County Court had \$16 in uncorrected accounting errors related to incorrect recording and remitting of earned interest. This occurred, in part, because the County Court had not reconciled its manual checking account since December 2000.
5. ***Emergency Receipts:*** Emergency receipts were not being subsequently recorded into the JUSTICE system in a timely manner.
6. ***Overdue Balances:*** The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to follow up on overdue balances. At May 11, 2002, the County Court had \$44,225 in overdue balances.
7. ***Garnishments:*** Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were endorsed over to the plaintiffs.
8. ***Depositing of Receipts:*** Receipts were not deposited in a timely manner.

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 County Court.

CHEYENNE COUNTY COURT

SUMMARY OF COMMENTS

(Concluded)

Draft copies of this report were furnished to the County Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. The County Court declined to respond.

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

CHEYENNE 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.

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 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.

2. Unclaimed Property

Neb. Rev. Stat. Section 25-2717 R.R.S. 1995 requires the County Judge to notify the State Treasurer regarding any fees, money, or costs due or belonging to persons which have not been paid or demanded within three years from the date the funds were paid to the County Court and, at the direction of the State Treasurer, to remit such funds to the State Treasurer for deposit pursuant to the Unclaimed Property Act.

At June 30, 2001, the County Court had \$94 in outstanding checks and \$15,701 in trust balances, which were over three years old and had not been reported to the State Treasurer in accordance with the Section 25-2717. The County Court remitted \$1,436 in unclaimed property to the State Treasurer in March 2002.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with the State Statute.

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. Records Retention

Nebraska Record Retention Schedule Number 18, as issued by the Nebraska State Records Administrator, Section 6-2 states the Cash and Fee Sheets of the County Court may be disposed of after the audit has been completed. Furthermore, Section 6-3 states trust fund ledgers/reports may be disposed of after the account is settled provided the audit has been completed. Lastly, sound accounting practice requires adequate financial records and supporting documentation be retained by the County Court. These records would include financial activity of the County Court as well as all related asset and liability balances.

Manual Cash and Fee Sheets for the month of July 2000 and JUSTICE monthly trust reports (e.g., case balance reports and non-case receipt reports) for the month of June 2001 could not be located by the County Court, and therefore, were unavailable for audit.

We recommend the County Court retain all records, at a minimum, according to the Nebraska Records Retention Schedule. We further recommend the County Court retain copies of all month-end balancing JUSTICE reports, including all trust reports, in order to fully support the asset and liability balances of the County Court.

4. Accounting Errors

Sound accounting practice requires procedures be in place to ensure office records agree to bank activity on at least a monthly basis. Reconciliation procedures must include the identification and resolution of all variances.

At June 30, 2001, the County Court had \$16 in uncorrected accounting errors related to incorrect recording and remitting of earned interest. This occurred, in part, because the County Court had not reconciled its manual checking account since December 2000.

We recommend the County Court perform bank reconciliations on at least a monthly basis. Furthermore, we recommend the County Court make all corrections necessary to resolve the noted accounting errors. Lastly, we recommend the County Court always promptly investigate and resolve variances between the County Court's bank and accounting records.

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

5. Emergency Receipts

Good internal control and sound business practice requires all monies received by the County Court be promptly received into the County Court's accounting system in order to reduce the risk of loss, theft, or misuse. The risk of loss, theft, or misuse is a particular concern when cash receipts are not timely recorded. In addition, the Nebraska Court Administrator's instructions for use of manual emergency receipts states that emergency receipts are only to be used when the JUSTICE system is inoperable and that all manual receipts must be entered into JUSTICE once the system becomes operable.

Four of ten emergency receipts tested, totaling \$287, were not subsequently recorded into the JUSTICE system in a timely manner. Two of the four receipts were received in cash by the County Court, however, those cash receipts were not recorded in the JUSTICE system until 9 and 48 days following the initial emergency receipt. The remaining two receipts were received as check payments by the County Court, however, those checks were not recorded in the JUSTICE system until 14 and 42 days following the initial emergency receipts.

We recommend the County Court promptly record all emergency receipts into the JUSTICE system.

6. Overdue Balances

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

Eleven of fifteen overdue balances tested, totaling \$1,519, did not have appropriate action taken to either collect on or clear those accounts. The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to ensure subsequent collection of overdue balances. As of May 11, 2002, the County Court had \$44,225 in overdue balances.

We recommend the County Court implement procedures to review the listing of overdue balances to ensure the balances are actually due the County Court, and to ensure warrants and/or suspensions have been issued on individuals owing money to the County Court.

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

7. Garnishments

Sound accounting practice requires the receipt and deposit of all monies received, including all checks made payable to the County Court. When checks made payable to the County Court are endorsed over to another party, rather than being deposited, there is an increased risk of liability in the event of loss, theft, or misuse.

Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were endorsed over to the plaintiffs. This has been a comment in prior audits.

We recommend the County Court deposit all checks made payable to the County Court.

8. Depositing of Receipts

Good internal control and sound business practice requires receipts be deposited in a timely manner. When receipts are kept on hand rather than being promptly deposited, there is an increased risk of loss, theft, or misuse.

The three deposits tested, totaling \$6,028, were not deposited in a timely manner. All three of these deposits consisted of multiple days of receipts, ranging from 3 to 9 working days from the time of receipt until time of deposit. Deposits tested included deposits from the months of October 2000, January 2001, and March 2001.

We recommend all receipts be deposited in a timely manner.

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CHEYENNE COUNTY COURT

INDEPENDENT AUDITORS' REPORT

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We have audited the financial statement of Cheyenne 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 County Court's management. Our responsibility is to express an opinion on the financial statement based on our audit.

Tim Channer, CPA
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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.

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

Robert Hotz, JD
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In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Agency Funds of Cheyenne 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 May 16, 2002, on our consideration of Cheyenne 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 Haffner CPA". The signature is written in dark ink and is positioned to the right of the date.

Deputy State Auditor

May 16, 2002

CHEYENNE COUNTY COURT
 SIDNEY, 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>\$ 36,890</u>	<u>\$ 350,992</u>	<u>\$ 300,014</u>	<u>\$ 87,868</u>
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 1,890	\$ 59,231	\$ 56,258	\$ 4,863
Law Enforcement Fees	210	3,673	3,522	361
Interest	75	976	978	73
State Judges Retirement Fund	104	3,532	3,325	311
Automation Fees	-	39	39	-
Legal Services Fees	208	3,807	3,640	375
Due to County Treasurer:				
Regular Fines	7,513	125,786	121,046	12,253
Overload Fines	-	2,352	2,352	-
Regular Fees	15	6,177	5,872	320
Due to Municipalities:				
Regular Fines	1,030	11,054	11,026	1,058
Regular Fees	-	970	750	220
Trust Fund Benefits Payable	<u>25,845</u>	<u>133,395</u>	<u>91,206</u>	<u>68,034</u>
Total Liabilities	<u>\$ 36,890</u>	<u>\$ 350,992</u>	<u>\$ 300,014</u>	<u>\$ 87,868</u>

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

CHEYENNE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Year Ended June 30, 2001

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cheyenne 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 Cheyenne 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 carrying amounts and bank balances of total deposits, consisting of checking accounts and certificates of deposit, were as follows:

	Total Cash and Deposit Carrying Amount	Cash Amount	Deposit Carrying Amount	Bank Balance
June 30, 2001	\$ 87,868	\$ 125	\$ 87,743	\$ 88,340

However, funds were entirely covered by federal depository insurance.

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CHEYENNE 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 Cheyenne County Court as of and for the year ended June 30, 2001, and have issued our report thereon dated May 16, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cheyenne 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 Cheyenne 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. We noted a certain immaterial instance of noncompliance that we have reported to management of Cheyenne County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cheyenne 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 Cheyenne 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 (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 Cheyenne County Court in the Comments Section of the report as Comment Number 3 (Records Retention), Comment Number 4 (Accounting Errors), Comment Number 5 (Emergency Receipts), Comment Number 6 (Overdue Balances), Comment Number 7 (Garnishments), and Comment Number 8 (Depositing of Receipts).

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

May 16, 2002