

**AUDIT REPORT
OF
SCOTTS BLUFF COUNTY COURT
JULY 1, 2000 THROUGH JUNE 30, 2001**

SCOTTS BLUFF COUNTY COURT

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SCOTTS BLUFF COUNTY COURT

SUMMARY OF COMMENTS

During our audit of the Scotts Bluff 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. ***Deposits Not Fully Insured:*** For 60 days during the audit period the Court's deposits were not fully insured against bank failure.
3. ***Restrictive Endorsement of Checks:*** Two of seven checks on hand were not restrictively endorsed upon receipt.
4. ***Overdue Balances:*** Warrants and/or suspensions were not being issued in a timely manner on overdue case balances.
5. ***Bonds:*** As of June 30, 2001 the Court was holding 90 bonds totaling \$18,049, which were between three and seven years old.
6. ***Change Funds:*** Only \$100 of the Court's \$400 in change funds were reflected on the Court's accounting records.
7. ***Balancing Procedures:*** The Court was not following up on bank variances.
8. ***Emergency Receipts:*** An instance was noted in which both the original and a duplicate receipt were torn from a receipt book.

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.

SCOTTS BLUFF 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 were capable of issuing non-monetary receipts and the voided and adjusted transactions were 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. **Deposits Not Fully Insured**

Neb. Rev. Stat. Section 77-2326.04 R.S. Supp., 2001, requires that any deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) be secured by either a surety bond or as provided in the Public Funds Deposit Security Act. When deposits are not fully insured, the risk of loss increases.

Review of the Court's bank statements noted 60 days of the audit period during which the Court had deposits in excess of its combined FDIC and pledged security coverage. Deposits at times exceeded coverage by as much as \$36,000.

SCOTTS BLUFF COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. **Deposits Not Fully Insured** (Concluded)

We recommend the Court actively monitor deposit balances and obtain additional securities, as necessary, to ensure the Court's deposits are fully insured at all times.

3. **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 two of seven checks on hand, totaling \$85, were not restrictively endorsed. Both checks were located at the Traffic desk, which does not have a restrictive endorsement stamp. All other desks have restrictive endorsement stamps available.

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

4. **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. Without a regular review of 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.

Five of ten overdue case balances tested did not have subsequent action taken by the Court to ensure collection and/or resolution of the balance, such as the issuance of a warrant and/or suspension. All five cases in question were criminal case types. As of June 30, 2001 the Court had a total of \$163,500 in overdue case amounts due the Court. The Court periodically reviews overdue case balances as time permits.

We recommend the Court review overdue balances on a more regular basis to determine what action needs to be taken to resolve the accounts.

5. **Bonds**

Good internal control and sound business practice require regular review of bond monies held by the Court in order to keep such activity current.

SCOTTS BLUFF COUNTY COURT

COMMENTS AND RECOMMENDATIONS

5. **Bonds** (Concluded)

As of June 30, 2001 the Court was holding 90 bonds, totaling \$18,049, in its pre-Justice bank account, which were between three and seven years old. Court staff stated that most of these older bonds were likely eligible for forfeiture to Scotts Bluff County; however, the Court had not had the time to research and resolve these older bonds.

We recommend the Court work to review its bond holdings, particularly those older than three years, to determine case status and whether or not such bonds should be forfeited or paid out.

6. **Change Funds**

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

During a surprise cash count, it was observed that the Court had \$400 in change funds which it had received from the Scotts Bluff County Board. However, at the time of cash count, only \$100 in change funds was accounted for on the Court's accounting records.

We recommend all change funds maintained on hand be reflected in the Court's accounting records.

7. **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. All variances should be identified and resolved in a timely manner.

Beginning in February 2001, the Court was reconciling its pre-Justice bank account by including a \$6 insufficient fund entry as a reconciling item. However, no such reconciling item existed. Review of the Court's bank deposits detected a \$6 error made by the bank when recording a Court deposit. This error was the actual reason the Court had a \$6 variance when reconciling its books. When contacted by the Court during the audit, the bank refused to correct the variance since it was not brought to their attention within 90 days after the statement date. During the audit, we also noted the pre-Justice bank account included a \$.68 unidentified long.

We recommend the Court promptly and accurately identify and correct all variances when reconciling the Court's accounts.

SCOTTS BLUFF COUNTY COURT

COMMENTS AND RECOMMENDATIONS

8. Emergency Receipts

Sound accounting practices require whenever a receipt book is used the duplicate (or carbon) copy, at a minimum, always be retained in the receipt book for subsequent inspection. When both original and duplicate receipts are removed accountability is lost.

The Court Administrator's Office has issued emergency receipt books for Courts to use on an emergency basis. Whenever an emergency receipt is used, it must subsequently be receipted into the computerized Justice system. During our review of the Court's emergency receipt books, one instance was observed in which both the original and duplicate copy of a receipt had been torn from a bound emergency receipt book.

We recommend, at a minimum, duplicate receipt copies never be removed from emergency receipt books. If a receipt needs to be voided it should be marked void and both copies retained for subsequent inspection. If the Court or a customer needs another receipt copy, a photocopy of the original should be used. In all instances, the duplicate must be retained to provide an accurate account of the Court's financial activity.

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SCOTTS BLUFF COUNTY COURT

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We have audited the financial statement of Scotts Bluff 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.

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 Scotts Bluff County Court in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Agency Funds of Scotts Bluff 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 December 20, 2001 on our consideration of Scotts Bluff 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.

December 20, 2001

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

Deputy State Auditor

SCOTTS BLUFF COUNTY COURT
GERING, 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>\$ 231,067</u>	<u>\$ 1,161,730</u>	<u>\$ 1,167,309</u>	<u>\$ 225,488</u>
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 10,146	\$ 184,654	\$ 180,689	\$ 14,111
Law Enforcement Fees	833	10,353	10,343	843
Interest	-	8,475	8,027	448
State Judges Retirement Fund	419	7,916	7,674	661
Automation Fees	-	66	66	-
Legal Services Fees	830	11,046	10,966	910
Due to County Treasurer:				
Regular Fines	24,795	330,887	332,565	23,117
Overload Fines	1,675	11,620	13,295	-
Regular Fees	2,939	47,290	46,642	3,587
Due to Municipalities:				
Regular Fines	6,935	112,734	111,319	8,350
Regular Fees	1,467	19,176	19,647	996
Trust Fund Benefits Payable	<u>181,028</u>	<u>417,513</u>	<u>426,076</u>	<u>172,465</u>
Total Liabilities	<u>\$ 231,067</u>	<u>\$ 1,161,730</u>	<u>\$ 1,167,309</u>	<u>\$ 225,488</u>

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Scotts Bluff 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 Scotts Bluff 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 were as follows:

	Total Cash and Deposit Carrying Amount	Cash Amount	Deposit Carrying Amount	Bank Balance
June 30, 2001	\$ 225,488	\$ 100	\$ 225,388	\$ 225,493

However, Funds were not 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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SCOTTS BLUFF 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 Scotts Bluff County Court as of and for the year ended June 30, 2001, and have issued our report thereon dated December 20, 2001. The report was modified to emphasize that the financial statement presents only the Agency Funds of Scotts Bluff 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 Scotts Bluff 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 also noted a certain immaterial instance of noncompliance that we have reported to management of Scotts Bluff County Court in the Comments Section of this report as Comment Number 2 (Deposits Not Fully Insured).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scotts Bluff 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 Scotts Bluff 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 the Scotts Bluff County Court in the Comments Section of the report as Comment Number 3 (Restrictive Endorsement of Checks), Comment Number 4 (Overdue Balances), Comment Number 5 (Bonds), Comment Number 6 (Change Funds), Comment Number 7 (Balancing Procedures), and Comment Number 8 (Emergency 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.

A handwritten signature in cursive script that reads "Deann Hauffman CPA". The signature is written in dark ink and is positioned above the printed name of the Deputy State Auditor.

Deputy State Auditor

December 20, 2001