

**AUDIT REPORT
OF
DOUGLAS COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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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 Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2002 | 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 <i>Government Auditing Standards</i> | 9 - 10 |

DOUGLAS COUNTY COURT

SUMMARY OF COMMENTS

During our audit of 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:

1. ***Overdue Balances:*** Overdue case balances need to be aggressively reviewed on an ongoing basis to determine what, if any, action needs to be taken to resolve the accounts.
2. ***Unclaimed Property:*** At June 30, 2002, the County Court had \$6,505 in outstanding checks which were over three years old and had not been reported to the State Treasurer in accordance with State Statute.
3. ***Records Retention:*** The County Court could not locate citations for two of sixty receipts selected for testing.

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. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

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

DOUGLAS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Overdue Balances

Good internal control and sound business practice require overdue balances of the County 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 case balances there is an increased risk a case listed as outstanding will either not have proper further action taken, or that the amount overdue may have previously been paid and/or resolved and is incorrectly shown as overdue.

Three of thirty overdue balances tested involved criminal cases in which the defendants had been unsatisfactorily released from probation. However, in each of the three cases, any fines, restitution, or costs which remained due at the time of unsatisfactory release were not waived and/or claimed and instead continued to be reflected as overdue balances. Furthermore, as was noted in the prior audit, as of August 11, 2001, the grand total of overdue balances totaled \$3,505,340. As of May 10, 2003, the grand total of overdue balances totaled \$4,024,177, an increase of \$518,837. The number and dollar amount of overdue case balances will continue to increase until some type of aggressive review/action is taken to either collect on or otherwise resolve these overdue case balances.

We recommend, as we have in our prior audits, the County Court review overdue balances on a regular basis to determine what action, if any, needs to be taken to resolve the accounts.

County Court's Response: There has been a cooperative effort between the County Court and the City Prosecutors' Office to actively review these cases and bring them to disposition. However, due to a staffing shortage over the past year not all of the dispositions have been finalized and or entered into the system.

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.

As of June 30, 2002, the Court had 415 checks, totaling \$6,505, which had been outstanding for at least three years in its JUSTICE checking account and had not been remitted to the State Treasurer.

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

DOUGLAS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. **Unclaimed Property** (Concluded)

County Court's Response: We are currently in the process of remitting the \$6,505.00 to the State Treasurer.

3. **Records Retention**

Nebraska Records Retention and Disposition Schedule 18, as issued by the Nebraska State Records Administrator, Section 18-7-7 states the original documents in traffic cases, including the Court's copy of the actual traffic citation, may be disposed of two years after the judgment was entered provided an audit has been completed. Good internal control requires adequate financial records and supporting documentation be retained by the County Court.

Two of sixty receipts selected for testing could not be verified to the case file/citation because the Court could not locate the files and believed them to have been destroyed during the normal records destruction procedures. Both citations were paid in December 2001.

We recommend the County Court retain all records, at a minimum, according to the Nebraska Records Retention Schedule. We also recommend the Court implement filing procedures adequate to ensure all citations necessary for audit are readily available.

County Court's Response: To the best of my information and belief the Court is complying with State Record Retention requirements. We will review our filing procedures and institute changes if necessary.

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DOUGLAS COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Douglas County Court as of and for the fiscal year ended June 30, 2002, 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 fifth 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 was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statement presents only the Court's Agency Funds activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of Douglas County Court for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

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 assets and liabilities arising from cash transactions of the Agency Funds of Douglas County Court as of June 30, 2002, and the related activity for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2003, 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.

May 21, 2003



Deputy State Auditor

DOUGLAS COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2002

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 Arising from Cash Transactions 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 Arising from Cash Transactions has been prepared, on the cash receipts and disbursements 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. Likewise, disbursements are shown as deductions to assets and a decrease in the related liability when a check is written. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting. Under GAAP, Agency Funds would be reported in the Statement of Net Assets. Agency Funds are not reported in the Statement of Changes of Fiduciary Net Assets. Agency Funds are used to report resources held by the reporting government in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

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., 2002 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

DOUGLAS COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

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

| | Total Cash and Deposit <u>Carrying Amount</u> | <u>Cash Amount</u> | Deposit <u>Carrying Amount</u> | <u>Bank Balance</u> |
|---------------|---|--------------------|-----------------------------------|---------------------|
| June 30, 2002 | \$ 5,769,744 | \$ 3,535 | \$ 5,766,209 | \$ 6,120,437 |

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, 2002, and have issued our report thereon dated May 21, 2003. 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 prepared on the basis of cash receipts and disbursements. 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*. We noted a certain immaterial instance of noncompliance that we have reported to the management of Douglas 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Douglas County Court in the Comments Section of this report as Comment Number 1 (Overdue Balances) and Comment Number 3 (Records Retention).

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 21, 2003