

**AUDIT REPORT
OF
DEUEL COUNTY COURT**

JULY 1, 2003 THROUGH JUNE 30, 2004

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Issued on February 24, 2005

DEUEL COUNTY COURT

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DEUEL COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Deuel 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:*** The County Court did not remit outstanding checks and trust balances which were over three years old in accordance with State Statute.
3. ***Fine and Waiver Over/Underpayments:*** The County Court administratively changed fine amounts to adjust for defendant over/underpayments without having documented authorization from a judge to support such changes.

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

DEUEL 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 as one person was capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of possible errors or irregularities. 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 and 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 69-1310 R.R.S. 2003 requires the County Court 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 before November 1 of each year.

As of June 30, 2004, the County Court had four checks, totaling \$8, which were over three years old. Additionally, five of ten June 30, 2004 trust balances tested, totaling \$1,215, were defendant bonds on cases which had not had any case activity in at least three years. As of February 7, 2005, these monies had not been reported or remitted to the State Treasurer.

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

3. Fine and Waiver Over/Underpayments

The Nebraska Waiver/Fine Schedule records the numerous Nebraska State Statutes which set the fines to be assessed for various offenses. County Court personnel, without a documented County Court Judge's authorization, should not administratively alter these statutorily set fine amounts. Additionally, good internal control requires any authorization for alteration of statutorily set fine amounts be documented in writing and consistently applied by the County Court.

DEUEL COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Fine and Waiver Over/Underpayments (Concluded)

During testing of receipts, voided transactions, and case file activity several instances were noted in which the County Court had administratively changed fine amounts to adjust for over/underpayments from the defendants. The County Court did not have a written County Court Judge's authorization of such changes in either the form of individual documented approval of each changed citation or a Judge's blanket authorization for such changes up to a set dollar amount.

We recommend the County Court either refund overpayments and pursue collection of underpayments, or obtain written authorization from the Judge approving the County Court's alteration of the defendant's amount due. A Judge's written authorization could occur either on each changed individual citation or as a blanket authorization up to a set dollar amount.

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DEUEL COUNTY COURT

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INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statement of Deuel County Court as of and for the fiscal year ended June 30, 2004, 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.

Mary Avery
SAE/Finance Manager
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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 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 Deuel County Court for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, 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 Deuel County Court as of June 30, 2004, 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 February 7, 2005, on our consideration of Deuel County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Handwritten signature of Timothy J. Chamber CPA in black ink.

Assistant Deputy Auditor

February 7, 2005

DEUEL COUNTY COURT
 CHAPPELL, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Deposits	\$ 14,000	\$ 113,144	\$ 99,186	\$ 27,958
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 1,313	\$ 17,613	\$ 16,640	\$ 2,286
Law Enforcement Fees	104	1,986	1,851	239
State Judges Retirement Fund	177	3,710	3,391	496
Court Administrative Fees	327	6,914	6,431	810
Legal Services Fees	262	5,259	4,905	616
Due to County Treasurer:				
Regular Fines	4,225	50,050	47,054	7,221
Overload Fines	-	300	300	-
Regular Fees	93	646	689	50
Trust Fund Payable	7,499	26,666	17,925	16,240
Total Liabilities	\$ 14,000	\$ 113,144	\$ 99,186	\$ 27,958

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

DEUEL COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2004

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Deuel 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 Deuel 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.R.S. 2003 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2004, carrying amount of total deposits, which included a checking account, was \$27,958. The bank balance was \$25,405. All funds were entirely covered by federal depository insurance.

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DEUEL COUNTY COURT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 Deuel County Court as of and for the year ended June 30, 2004, and have issued our report thereon dated February 7, 2005. The report was modified to emphasize that the financial statement presents only the Agency Funds of Deuel 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Deuel 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 an opinion 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 Deuel 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Deuel 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the management of Deuel County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property) and Comment Number 3 (Fine and Waiver Over/Underpayments).

This report is intended solely for the information and use of the Court, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

February 7, 2005