

**AUDIT REPORT  
OF  
CHEYENNE COUNTY COURT  
JULY 1, 2004 THROUGH JUNE 30, 2005**

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**Issued on February 23, 2006**

# CHEYENNE COUNTY COURT

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# CHEYENNE COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of 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:*** The County Court did not report and remit trust balances to the State Treasurer in accordance with the timely remittance required by the Unclaimed Property Act.
3. ***Investments:*** At June 30, 2005, the County Court had a \$3,245 savings account investment which had not been recorded in the financial accounting system of the County Court and \$20,000 in the County Court's checking account which had not been separately invested despite a March 2003 order requiring investment.
4. ***Overdue Balances:*** The County Court did not have follow up procedures in place, including the issuance of warrants and/or suspensions, to ensure resolution and/or collection of overdue balances.
5. ***Office Accountability:*** Deficiencies were observed in office procedures related to the timely recording and depositing of monies received by the County Court and retention of original case file documents.

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.

# 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 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. Further, 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, the Unclaimed Property Act, provides any unclaimed property, after three years, is presumed abandoned. Any presumed abandoned property, as of June 30 each year, must be reported, and remitted to the State Treasurer by November 1 of each year.

At June 30, 2005, the County Court had 49 checks, totaling \$313, and at least five case balances, totaling \$1,381, which had been outstanding and/or inactive for at least three years. On January 31, 2006, the County Court remitted a total of \$2,026 in unclaimed property to the State Treasurer; three months after the timely remittance deadline of November 1.

When unclaimed property is not remitted to the State Treasurer in accordance with State Statute, there is an increased risk of loss or misuse. This was also a comment in the prior audit.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with the timely remittance required by the Unclaimed Property Act.

# CHEYENNE COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. Investments

Good internal control and sound accounting practices require the complete and accurate recording of all assets and related financial activity. In addition, sound accounting practices also require all court ordered investments be made in a timely manner to maximize interest earnings.

At June 30, 2005, the following was noted:

- The County Court had a \$3,245 savings account which had been established in the name of the County Judge, the Clerk Magistrate, and a protected person in a conservatorship case. The deposits to this savings account, which were made directly at the financial institution, related to court-ordered restitution. The County Court did not record the actual monetary value of this asset in the JUSTICE system, the financial accounting and case management system of the County Court; however, the County Court did record the restitution payments as non-monetary receipts in the system. In 2005, the County Court submitted documentation regarding this account to the State Court Administrator's Office for their assistance in getting the investment properly recorded in the system. As of February 2, 2006, this account continued to be an unrecorded asset of the County Court.
- The County Court had \$20,000 in the County Court's checking account related to a wrongful death settlement which had not been separately invested despite a March 2003 order requiring investment until distribution of the proceeds had been agreed upon and approved by the County Court. As a result, the \$20,000 settlement had no accrued interest earnings.

When investments are not made in accordance with court orders and completely and accurately recorded in the JUSTICE system, there is an increased risk of loss or misuse.

We recommend all assets of the County Court be completely and accurately recorded in the JUSTICE system in order to provide a true accounting of the funds held in the County Court's name. Furthermore, we recommend the County Court make all court ordered investments in a timely manner.

### 4. Overdue Balances

Good internal control and sound business practices require overdue balances of the County Court be reviewed on a regular and continual basis to determine what action should be taken to collect and/or resolve those balances.

# CHEYENNE COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Overdue Balances (Concluded)

Fifteen of twenty-five overdue balances tested did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balance, such as the issuance of warrants and/or suspensions. All fifteen exceptions noted were criminal case types. As of May 21, 2005, the County Court had \$110,167 in overdue balances. As of January 28, 2006, the total in overdue balances had increased to \$133,248; an increase of \$23,081 or 21% in just 8 months.

When the County Court does not actively pursue collection and/or resolution of amounts due, there is an increased risk that such balances will not be adequately resolved. This was also a comment in the prior four audits.

We continue to strongly recommend the County Court perform regular and continual review of its overdue case balances to ensure the balances are accurate and to ensure that warrants, suspensions, and/or other collection efforts have been made in an attempt to resolve the accounts.

### 5. Office Accountability

Neb. Rev. Stat. Section 24-511, R.R.S. 1995, states, in part, “. . . the clerk shall receive and account for all fees and money received by the court and shall deposit all money received . . .” State of Nebraska Records Retention Schedule 18, *County Courts*, Section 18-7-4 regarding Misdemeanor Case Files requires that original papers filed in misdemeanor cases be retained for a varying number of years based on disposition, with the minimum being 2 years after the court’s order on dismissed cases and significantly longer for those cases with judgment dispositions.

During the audit, the following was observed:

- One money order dated November 7, 2005, was located on the Clerk Magistrate’s desk and had not been receipted into the JUSTICE system.
- The entire contents of an open criminal case file with scheduled activity pending, including the original signed complaint, the original “minute sheet” initialed by the Judge, and the original signed approval of court appointed counsel, were found in the garbage can next to the Clerk Magistrate’s desk on the Clerk Magistrate’s last day in office. Auditor subsequently removed these items from the garbage can and returned them to other County Court personnel, who, as it turned out, had been searching for the items.

# CHEYENNE COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 5. Office Accountability (Concluded)

When all fees and money received are not promptly accounted for by the County Court, there is an increased risk of loss, theft, or misuse. In addition, when original case file documents are not properly handled and retained by the County Court, there is an increased risk of harm to prosecution cases.

We recommend all fees and money received be accounted for in a timely manner. We also recommend all original case documents be retained, at a minimum, in compliance with State of Nebraska Records Retention requirements.

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## CHEYENNE COUNTY COURT

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## INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statement of Cheyenne County Court as of and for the fiscal year ended June 30, 2005, 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.

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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 Cheyenne 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 Cheyenne County Court as of June 30, 2005, 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 2, 2006, 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 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.

February 2, 2006

  
Dawn Haefner CPA  
Deputy State Auditor

CHEYENNE COUNTY COURT  
 SIDNEY, NEBRASKA  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>ASSETS</b>				
Cash and Deposits	\$ 88,076	\$ 377,765	\$ 373,221	\$ 92,620
 <b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 4,350	\$ 63,755	\$ 62,468	\$ 5,637
Law Enforcement Fees	468	6,468	6,296	640
State Judges Retirement Fund	975	13,907	13,577	1,305
Court Administrative Fees	2,256	24,867	24,796	2,327
Legal Services Fees	1,212	17,355	16,865	1,702
Due to County Treasurer:				
Regular Fines	11,666	137,854	135,762	13,758
Overload Fines	75	8,333	8,158	250
Regular Fees	500	7,805	7,528	777
Due to Municipalities:				
Regular Fines	1,516	13,367	13,523	1,360
Regular Fees	385	3,136	3,396	125
Trust Fund Payable	64,673	80,918	80,852	64,739
<b>Total Liabilities</b>	<b>\$ 88,076</b>	<b>\$ 377,765</b>	<b>\$ 373,221</b>	<b>\$ 92,620</b>

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

CHEYENNE COUNTY COURT  
NOTES TO FINANCIAL STATEMENT  
For the Fiscal Year Ended June 30, 2005

**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 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 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 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.

**CHEYENNE COUNTY COURT**  
**NOTES TO FINANCIAL STATEMENT**  
(Continued)

**2. Deposits and Investments** (Concluded)

The carrying amounts and bank balances of total deposits, consisting of a checking account and a certificate of deposit, 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, 2005	\$ 92,620	\$ 75	\$ 92,545	\$ 94,532

These funds were entirely covered by federal depository insurance.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## CHEYENNE 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 Cheyenne County Court as of and for the year ended June 30, 2005, and have issued our report thereon dated February 2, 2006. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cheyenne 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 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 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 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 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 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 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 Cheyenne County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property), Comment Number 3 (Investments), Comment Number 4 (Overdue Balances), and Comment Number 5 (Office Accountability).

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.



Deputy State Auditor

February 2, 2006