

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

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Issued on January 26, 2006

DOUGLAS COUNTY COURT

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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. ***Unclaimed Property:*** The County Court did not report and remit trust balances to the State Treasurer that were over three years old as required by State Statute.
2. ***Records Retention:*** The County Court could not locate one case file.
3. ***Trust Balances:*** Trust balances which are not associated with a case need to be reviewed on an ongoing basis to determine what, if any, action needs to be taken to resolve the accounts.
4. ***Overdue Balances:*** Total overdue balances increased \$339,373 from November 13, 2004, to December 3, 2005. We also noted 2 out of 30 overdue balances tested did not have a warrant and/or suspension issued or the balance due was not restitution.

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. 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. 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 Nov. 1 of each year.

We noted 14 trust balances, totaling \$36,521, did not have any activity since June 30, 2002, and had not been remitted to the State Treasurer in accordance with the Unclaimed Property Act.

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

County Court's Response: Management concurs and is working to remit all unclaimed property in its possession in accordance with the State Statute.

2. Records Retention

Nebraska Records Retention and Disposition Schedule 18, as issued by the Nebraska State Records Administrator, Section 18-4-2 states civil and small claims case files are to be disposed five years after the date a case is dismissed or a judgment satisfied.

One of sixty checks tested could not be traced to supporting documentation. The County Court was unable to locate the case file.

We recommend the County Court retain all records, at a minimum, according to the Nebraska Records Retention Schedule.

County Court's Response: Management concurs.

3. Trust Balances

Good internal control and sound business practice require trust balances received by the County Court be reviewed on a regular basis to determine what action should be taken on those accounts.

We noted seven of ten case trust balances tested, totaling \$5,691, were not applied to cases in a timely manner. Without a regular review of trust balances, there is an increased risk a case listed as outstanding will either not have proper further action taken, or the amount collected may have erroneously been applied to the wrong case.

DOUGLAS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Trust Balances** (Concluded)

We recommend the County Court review trust balances on a regular basis to determine what action, if any, needs to be taken to resolve the accounts.

County Court's Response: Management concurs and is implementing a monthly check and balance to review trust balances.

4. **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.

We noted the grand total of overdue balances as of November 13, 2004, was \$5,088,179.89. As of December 3, 2005, the total overdue balances was \$5,427,552.64, which was an increase of \$339,372.75. We also noted 2 out of 30 overdue balances tested did not have a warrant and/or suspension issued or the balance due was not restitution.

We recommend 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: Management concurs and is working with Douglas County Corrections and Offender Work Program to resolve the accounts.

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DOUGLAS COUNTY COURT

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We have audited the accompanying financial statement of Douglas 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.

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, 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 December 13, 2005, 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 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.

December 13, 2005


Deputy State Auditor

DOUGLAS COUNTY COURT
 OMAHA, 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 |
|------------------------------|-------------------------|----------------------|----------------------|--------------------------|
| ASSETS | | | | |
| Cash and Deposits | \$ 4,375,399 | \$ 18,516,520 | \$ 19,192,819 | \$ 3,699,100 |
| LIABILITIES | | | | |
| Due to State Treasurer: | | | | |
| Regular Fees | \$ 47,340 | \$ 2,171,177 | \$ 2,155,690 | \$ 62,827 |
| Law Enforcement Fees | 1,379 | 195,405 | 195,161 | 1,623 |
| State Judges Retirement Fund | 2,633 | 480,133 | 478,640 | 4,126 |
| Court Administrative Fees | 12,637 | 1,405,510 | 1,405,416 | 12,731 |
| Legal Services Fees | 3,674 | 510,924 | 510,342 | 4,256 |
| Due to County Treasurer: | | | | |
| Regular Fines | 24,680 | 3,097,305 | 3,094,887 | 27,098 |
| Overload Fines | 750 | 108,258 | 108,233 | 775 |
| Regular Fees | 596 | 276,266 | 275,624 | 1,238 |
| Due to Municipalities: | | | | |
| Regular Fines | 21,825 | 1,982,957 | 1,985,159 | 19,623 |
| Regular Fees | 4,739 | 85,731 | 84,734 | 5,736 |
| Trust Fund Payable | 4,255,146 | 8,202,854 | 8,898,933 | 3,559,067 |
| Total Liabilities | \$ 4,375,399 | \$ 18,516,520 | \$ 19,192,819 | \$ 3,699,100 |

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

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

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.R.S. 2003 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, savings accounts, money market accounts, and certificates 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 | \$ 3,699,100 | \$ 3,535 | \$ 3,695,565 | \$ 4,300,469 |

These 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.

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DOUGLAS 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 Douglas County Court as of and for the year ended June 30, 2005, and have issued our report thereon dated December 13, 2005. 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.

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Internal Control Over Financial Reporting

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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 an opinion 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

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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.

Compliance and Other Matters

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 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 Douglas County Court in the Comments Section of this report as Comment Number 1 (Unclaimed Property), Comment Number 2 (Records Retention), Comment Number 3 (Trust Balances), and Comment Number 4 (Overdue Balances).

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

December 13, 2005