

**AUDIT REPORT
OF
GARDEN COUNTY COURT**

JULY 1, 2005 THROUGH JUNE 30, 2007

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Issued on May 6, 2008

GARDEN COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1 - 2
Comments and Recommendations	3 - 7
<u>Financial Section</u>	
Independent Auditors' Report	8 - 9
Financial Statements:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2007	10
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2006	11
Notes to Financial Statements	12 - 13
<u>Government Auditing Standards Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 - 15

GARDEN COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Garden 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. ***Emergency Receipts:*** Nineteen instances were noted in which both original and duplicate emergency receipt copies had been torn from the County Court's bound receipt book.
3. ***Deposit Coverage:*** Deposits were not fully secured against bank failure throughout the entire audit period.
4. ***Bond Assignments:*** Assignment of defendants' appearance bonds to fines and costs were not documented in writing.
5. ***Investment Interest:*** The County Court did not record investment interest earnings in a timely manner.
6. ***Unclaimed Property:*** The County Court did not report and remit outstanding checks to the State Treasurer that were over three years old as required by State statute.
7. ***Overdue Balances:*** The County Court did not review its overdue balances on an ongoing, timely basis to ensure collection and/or resolution of such balances.
8. ***Nonwaiverable Court Costs:*** The County Court was inconsistent in its application of nonwaiverable court costs on dismissed, transferred, or uncollectible cases.
9. ***Non-Case Receipts:*** Monthly non-case receipt reports were not reviewed by the County Court to ensure subsequent posting and/or attachment of defendant payments in a timely manner.

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 County Court.

GARDEN COUNTY COURT

SUMMARY OF COMMENTS

(Continued)

Draft copies of this report were furnished to the County Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The County Court declined to respond.

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

GARDEN 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. 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 this does not occur, accountability is lost and there is an increased risk of error or misuse of funds.

The Court Administrator's Office has issued emergency receipt books for County Courts to use on an emergency basis when the JUSTICE system, the official accounting and case management system of the County Court, is inoperable. Whenever an emergency receipt is used, it must subsequently be receipted into the computerized JUSTICE system. During our review of the County Court's emergency receipt book, 19 instances were observed in which both the original and duplicate copies of emergency receipts had been torn from the 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 County 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 accounting of the County Court's financial activity.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Deposit Coverage

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.

Review of the County Court's bank statements noted for one day during the audit period, the County Court had \$5,394 in bank deposits in excess of FDIC coverage. The County Court's bank asserted deposits were covered by pledged securities provided to the Garden County Treasurer; however, the County Court is not a part of County government and cannot be covered by securities provided to another governmental entity. When deposits are not fully secured, the risk of loss increases. This was also noted in the prior audit.

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

4. Bond Assignments

Neb. Rev. Stat. Section 29-901 R.S.Supp., 2006, related to the execution of an appearance bond, requires return of a bond deposit and/or bond deposit proceeds to defendants upon various circumstances such as the performance of the defendant's appearance(s), declined and/or dismissed prosecution, bond reduction, etc. Financial Procedures Manual Checklist No. 9, "How to Apply a Bond to Pay Fines, Costs, Etc.," as issued by the Office of the Nebraska State Court Administrator, requires defendant and/or assignee signature authorization for assignment of bond deposit and/or proceeds to fines, costs, restitution, other judgments, etc. Lastly, good internal control requires County Courts have adequate procedures in place to ensure statutory compliance.

The County Court did not consistently obtain written documentation of defendants' elections to assign their bond deposit or proceeds to fines and/or court costs. Of six adjustments tested, four were bond assignments to fines and/or court costs which were not supported by written assignments from defendants.

When bond assignments are not consistently documented in writing, there is an increased risk of a defendant subsequently disputing such assignments.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Bond Assignments** (Concluded)

We recommend the County Court consistently document, in writing, defendant assignment of bond deposits or proceeds to fines and/or court costs.

5. **Investment Interest**

Sound accounting practices and good internal controls require the prompt and consistent recording of all investment interest earnings so that the accounting records of the County Court provide a complete and accurate reflection of the assets and liabilities of the County Court.

Despite receiving monthly investment statements, as of June 30, 2006, the County Court had interest earnings amounting to \$477 which had been earned but not recorded in the County Court's accounting system. In addition, during the fiscal year ended June 30, 2007, interest of \$1,215, representing sixteen months of interest, was posted at the time of investment redemption.

When investment interest earnings are not posted in a consistent and timely manner, there is an increased risk of loss or misuse of funds. In addition, the accounting records do not accurately reflect the true asset and liability balances of the County Court.

We recommend all investment interest earnings be recorded into the accounting records as soon as the County Court becomes aware of such earnings.

6. **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.

As of June 30, 2007, the Court had five issued checks, totaling \$17, which had been outstanding in excess of three years. These checks should have been remitted to the State Treasurer by November 1, 2007, in accordance with the Unclaimed Property Act. As of March 22, 2008, these checks had not been remitted to the State Treasurer.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Unclaimed Property** (Concluded)

Noncompliance with the Unclaimed Property Act was also noted in the prior audit.

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

7. **Overdue Balances**

Good internal control and sound business practices require overdue balances of the County Court be reviewed on an ongoing, timely basis to determine what action should be taken to collect and/or otherwise resolve those balances.

Six of ten overdue balances tested, totaling \$341, did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balances, such as the issuance of warrants and/or suspensions or declaration of certain overdue balances uncollectible. As of March 15, 2008, overdue balances, excluding restitution, totaled \$8,266.

Without regular review of overdue case balances, there is an increased risk overdue balances may either not have proper follow up action taken or the balances may have been previously resolved and should no longer be reflected as being overdue.

Lack of follow-up on overdue balances was also noted in the prior audit.

We strongly recommend the County Court implement active review of its Overdue Case Account Report to ensure balances are adequately resolved.

8. **Nonwaiverable Court Costs**

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2006, requires when any costs in misdemeanor, traffic, felony preliminary, or juvenile cases in county court, except for those costs provided for in subsection (3) of Section 24-703 (Judges Retirement Fee), two dollars of the fee provided in Section 33-107.01 (Legal Services Fee), the Court Automation Fee provided in Section 33-107.03, and the Uniform Data Analysis Fee provided in Section 47-633, are found by a county judge to be uncollectible for any reason, including the dismissal of the case, such costs shall be deemed waived unless the judge, in his or her discretion, enters an order assessing such portion of the costs as by law would be paid over by the County Court to the State Treasurer.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Nonwaiverable Court Costs (Concluded)

During testing of 15 nonmonetary receipts, the following was noted:

- Three instances in which nonwaiverable court costs received from Garden County had not been accurately applied when receipted into the JUSTICE system, the official accounting and case management system of the County Court.
- The County Court was inconsistent in its claiming of nonwaiverable court costs on criminal cases which had been transferred to Juvenile court.

Inconsistency in the claiming of court costs increases the risk of error. This was also noted in the prior audit.

We recommend the County Court consistently and accurately claim and receipt nonwaiverable court costs on dismissed, transferred, or uncollectible cases consistent with State Statute.

9. Non-Case Receipts

Good internal control and sound business practice require the County Court conduct regular reviews of non-case receipt balances to ensure subsequent posting and/or attachment of defendant payments in a timely manner.

Two of four non-case receipts tested, totaling \$92, at June 30, 2006, were not subsequently resolved by the County Court as of March 22, 2008.

Without a regular review of non-case receipt balances, there is an increased risk defendant payments will not be posted and/or attached to defendant cases in a timely manner.

We recommend the County Court include in its review of monthly cases balance reports, a comprehensive review of the monthly non-case receipt reports in order to assist in posting and/or attaching defendant payments to their related cases in a timely manner.



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GARDEN COUNTY COURT

INDEPENDENT AUDITORS' REPORT

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the accompanying financial statements of Garden County Court as of and for the fiscal years ended June 30, 2007, and June 30, 2006, as listed in the Table of Contents. The financial statements are the responsibility of the County Court's management. Our responsibility is to express an opinion on the financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 statements were 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 statements present only the County Court's Agency Funds activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of Garden County Court for the years then ended in conformity with the cash receipts and disbursements basis of accounting.

We were unable to obtain a management representation letter from the Clerk Magistrate of Garden County Court. The Clerk Magistrate was unable 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 Clerk Magistrate, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Garden County Court as of June 30, 2007, and June 30, 2006, and the related activity for the fiscal years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008, on our consideration of Garden County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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.

March 27, 2008

A handwritten signature in black ink that reads "Dawn Huffman CPA". The signature is written in a cursive, flowing style.

Assistant Deputy Auditor

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

For the Fiscal Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Deposits	\$ 45,063	\$ 173,535	\$ 207,552	\$ 11,046
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 2,154	\$ 19,825	\$ 20,257	\$ 1,722
Law Enforcement Fees	312	2,220	2,367	165
State Judges Retirement Fund	773	6,338	6,504	607
Court Administrative Fees	856	7,999	8,183	672
Legal Services Fees	914	7,408	7,542	780
Due to County Treasurer:				
Regular Fines	5,830	45,465	45,917	5,378
Overload Fines	-	400	400	-
Regular Fees	91	913	840	164
Trust Fund Payable	34,133	82,967	115,542	1,558
Total Liabilities	\$ 45,063	\$ 173,535	\$ 207,552	\$ 11,046

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

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

For the Fiscal Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Deposits	\$ 45,424	\$ 119,166	\$ 119,527	\$ 45,063
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 2,743	\$ 25,597	\$ 26,186	\$ 2,154
Law Enforcement Fees	341	2,866	2,895	312
State Judges Retirement Fund	590	7,211	7,028	773
Court Administrative Fees	973	8,424	8,541	856
Legal Services Fees	887	8,347	8,320	914
Due to County Treasurer:				
Regular Fines	6,530	56,252	56,952	5,830
Regular Fees	69	754	732	91
Due to Municipalities:				
Regular Fines	-	50	50	-
Trust Fund Payable	33,291	9,665	8,823	34,133
Total Liabilities	\$ 45,424	\$ 119,166	\$ 119,527	\$ 45,063

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

GARDEN COUNTY COURT
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2007, and June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Garden 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 Statements of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflect only the Agency Funds activity of the County Court; the receipts, and their subsequent disbursement to the appropriate entities for which they were collected. The financial statements do not reflect the personal services expenses of the County Court, which are paid by the Nebraska Supreme Court, or the operating expenses, which are paid by Garden County.

B. Basis of Accounting

The accounting records of the County Court Agency Funds are maintained, and the Statements of Changes in Assets and Liabilities Arising from Cash Transactions have 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 County 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.

GARDEN COUNTY COURT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisted of a checking account and a money market account, were as follows:

	Total Cash and Deposit Carrying Amount	<u>Cash Amount</u>	Deposit Carrying Amount	<u>Bank Balance</u>
June 30, 2007	\$ 11,046	\$ -	\$ 11,046	\$ 11,083
June 30, 2006	\$ 45,063	\$ -	\$ 45,063	\$ 45,160

These funds were entirely covered by federal depository insurance.



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GARDEN 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*

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the financial statements of Garden County Court as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated March 27, 2008. Our opinion on the financial statements of Garden County Court was qualified because we were unable to obtain a management representation letter from the Clerk Magistrate of Garden County Court. The report was also modified to emphasize that the financial statements present only the Agency Funds of Garden 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 Garden County Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Court's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Segregation of Duties), Comment Number 2 (Emergency Receipts), and Comment Number 4 (Bond Assignments).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County Court's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Comment Number 1 (Segregation of Duties) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garden County Court's financial statements are 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 Garden County Court in the Comments Section of this report as Comment Number 3 (Deposit Coverage), Comment Number 5 (Investment Interest), Comment Number 6 (Unclaimed Property), Comment Number 7 (Overdue Balances), Comment Number 8 (Nonwaiverable Court Costs), and Comment Number 9 (Non-Case Receipts).

This report is intended solely for the information and use of management, the Supreme Court, others within the Court, and the appropriate Federal and regulatory agencies; however, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

March 27, 2008