

**AUDIT REPORT
OF
HAYES COUNTY COURT**

JULY 1, 2005 THROUGH JUNE 30, 2007

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Issued on April 15, 2008

HAYES COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Comment and Recommendation	1
<u>Financial Section</u>	
Independent Auditors' Report	2 - 3
Financial Statements:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2007	4
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2006	5
Notes to Financial Statements	6 - 7
<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>	8 - 9

HAYES COUNTY COURT

COMMENT AND RECOMMENDATION

During our audit of Hayes County Court, we noted a certain matter involving the internal control over financial reporting that is presented here. The comment and recommendation is intended to improve the internal control over financial reporting in the following area:

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.

It should be noted this report is critical in nature as it contains only our comment and recommendation on the area noted for improvement and does not include our observations on any accounting strengths of the County Court.

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 comment and recommendation 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.



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HAYES 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 Hayes 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.

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 Hayes County Court for the years then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, 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 Hayes 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 April 7, 2008, on our consideration of Hayes 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.

April 7, 2008


Assistant Deputy Auditor

HAYES COUNTY COURT
HAYES CENTER, 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	\$ 2,854	\$ 27,865	\$ 27,901	\$ 2,818
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 452	\$ 5,424	\$ 5,462	\$ 414
Law Enforcement Fees	65	593	615	43
State Judges Retirement Fund	156	1,873	1,862	167
Court Administrative Fees	166	2,203	2,183	186
Legal Services Fees	173	2,123	2,090	206
Due to County Treasurer:				
Regular Fines	1,574	12,927	12,976	1,525
Overload Fines	-	1,725	1,725	-
Regular Fees	-	45	45	-
Petty Cash Fund	50	-	-	50
Trust Fund Payable	218	952	943	227
Total Liabilities	\$ 2,854	\$ 27,865	\$ 27,901	\$ 2,818

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

HAYES COUNTY COURT
HAYES CENTER, 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	\$ 2,801	\$ 32,244	\$ 32,191	\$ 2,854
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 493	\$ 6,521	\$ 6,562	\$ 452
Law Enforcement Fees	69	804	808	65
State Judges Retirement Fund	122	2,095	2,061	156
Court Administrative Fees	194	2,314	2,342	166
Legal Services Fees	183	2,313	2,323	173
Due to County Treasurer:				
Regular Fines	1,109	16,531	16,066	1,574
Regular Fees	-	111	111	-
Petty Cash Fund	50	-	-	50
Trust Fund Payable	581	1,555	1,918	218
Total Liabilities	\$ 2,801	\$ 32,244	\$ 32,191	\$ 2,854

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

HAYES 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 Hayes 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 Hayes 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.

HAYES 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, 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, 2007	\$ 2,818	\$ 50	\$ 2,768	\$ 2,811
June 30, 2006	\$ 2,854	\$ 50	\$ 2,804	\$ 2,842

These funds were entirely covered by federal depository insurance.



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HAYES 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 Hayes County Court as of and for the years ended June 30, 2007, and June 30, 2006, and have issued our report thereon dated April 7, 2008. The report was modified to emphasize that the financial statements present only the Agency Funds of Hayes 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 Hayes 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the Comments Section of the report to be a significant deficiency in internal control over financial reporting: Segregation of Duties.

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, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hayes 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*.

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.

April 7, 2008


Assistant Deputy Auditor