

**ATTESTATION REPORT  
OF  
BUFFALO COUNTY COURT  
JULY 1, 2009 THROUGH JUNE 30, 2011**

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**Issued on June 5, 2012**

# BUFFALO COUNTY COURT

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# BUFFALO COUNTY COURT

## SUMMARY OF COMMENTS

During our examination of Buffalo County Court, we noted a certain deficiency in internal control that we consider to be a material weakness and other operational matters that are presented here.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial schedule will not be prevented, or detected and corrected on a timely basis.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

- 1. *Segregation of Duties:*** Considered to be a material weakness, one individual was capable of handling all phases of a transaction from beginning to end.
- 2. *IRS 1099 Forms:*** The County Court did not file a U.S Department of the Treasury, Internal Revenue Service (IRS) form 1099 for individuals in accordance with IRS requirements.

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.

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. All formal responses received have been incorporated into this report. Where no response has been included, the County Court declined to respond. 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 examination.

# BUFFALO 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 examinations.

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. IRS 1099 Forms

The U.S. Department of the Treasury Internal Revenue Service (IRS) Code specific instructions for form 1099-MISC require filing of a 1099 form for each nonemployee paid compensation of \$600 or more. The instructions state:

*“If the following four conditions are met, you must generally report a payment as nonemployee compensation.*

- *You made the payment to someone who is not your employee;*
- *You made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations);*
- *You made the payment to an individual, partnership, estate, or, in some cases, a corporation; and*
- *You made payments to the payee of at least \$600 during the year.”*

During testing, it was determined the County Court paid \$1,400 in calendar year 2011 to one individual for appraiser services in a civil condemnation case. Additionally, the County Court paid \$3,612 in interest to an individual in a separate civil condemnation case. In this particular case, the condemner, the University of Nebraska Board of Regents, sent a formal notice to the County Court in December 2011, informing the County Court of its responsibility for filing a 2011 Form 1099-INT for the interest paid.

# BUFFALO COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 2. IRS 1099 Forms (Concluded)

The County Court has not historically prepared any 1099 forms and did not in these two instances for 2011.

When procedures are not in place to ensure conformity with all IRS 1099 reporting requirements, there is an increased risk of potential liability related to any noncompliance.

We strongly recommend the County Court immediately review this situation with the Nebraska State Court Administrator's Office and seek specific, documented guidance on 1099 issuance responsibilities of County Courts.

*County Court's Response: One incident with Buffalo County Court was in 2011 with a condemnation case. \$480,000.00 was deposited with Buffalo County Court until a decision was made on eminent domain procedures.*

*Through the investment of these funds by the Court, \$3,612.16 interest was earned on the principle amount. The plaintiff in this case was told by their tax advisor, that the entity that paid the interest, Buffalo County Court, was responsible for filing and furnishing a Form 1099-INT for the interest paid to the defendants.*

*We did contact the Business Analysis help desk in Lincoln, Nebraska for advice and was told that they had never heard of a court sending out 1099 forms. That was the last we heard about these forms.*

*This court presently has a case where there are funds being held in the bank earning interest since February, 2012, on a probate matter. We are not anticipating that we will be asked to provide a 1099 form, but we might.*

*Because of our recent audit concerning this matter, I would request that the Court Administrator's office, provide some direction or a policy to be put in place state wide to address this issue in the future.*



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### BUFFALO COUNTY COURT

#### INDEPENDENT ACCOUNTANT'S REPORT

We have examined the accompanying Schedules of Changes in Assets and Liabilities Arising from Cash Transactions of Buffalo County Court as of and for the fiscal years ended June 30, 2011, and June 30, 2010. The County Court's management is responsible for the Schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Buffalo County Court as of June 30, 2011, and June 30, 2010, and the related activity for the fiscal years then ended, based on the accounting system and procedures prescribed by the Nebraska Supreme Court as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedules and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We performed our examination to express an opinion on whether the Schedules are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedules or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the Comments Section of the report.

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

SIGNED ORIGINAL ON FILE

May 22, 2012

Deann Haeffner, CPA  
Assistant Deputy Auditor

**BUFFALO COUNTY COURT**  
**KEARNEY, NEBRASKA**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Cash and Deposits	\$ 351,376	\$ 2,593,787	\$ 2,595,620	\$ 349,543
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 21,678	262,751	\$ 262,726	\$ 21,703
Law Enforcement Fees	2,031	23,550	23,689	1,892
State Judges Retirement Fund	7,501	80,864	81,948	6,417
Court Administrative Fees	12,700	146,923	149,588	10,035
Legal Services Fees	7,642	85,622	86,130	7,134
Due to County Treasurer:				
Regular Fines	45,548	578,259	574,707	49,100
Overload Fines	798	12,052	12,275	575
Regular Fees	4,875	85,889	86,789	3,975
Petty Cash Fund	50	-	-	50
Due to Municipalities:				
Regular Fines	2,890	64,930	64,214	3,606
Trust Fund Payable	245,663	1,252,947	1,253,554	245,056
Total Liabilities	\$ 351,376	\$ 2,593,787	\$ 2,595,620	\$ 349,543

The accompanying notes are an integral part of the schedule.

**BUFFALO COUNTY COURT**  
**KEARNEY, NEBRASKA**  
**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>ASSETS</b>				
Cash and Deposits	\$ 821,897	\$ 2,369,946	\$ 2,840,467	\$ 351,376
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 25,256	\$ 242,588	\$ 246,166	\$ 21,678
Law Enforcement Fees	1,615	20,125	19,709	2,031
State Judges Retirement Fund	6,901	79,093	78,493	7,501
Court Administrative Fees	11,476	137,967	136,743	12,700
Legal Services Fees	8,321	84,543	85,222	7,642
Due to County Treasurer:				
Regular Fines	52,309	595,526	602,287	45,548
Overload Fines	1,050	23,844	24,096	798
Regular Fees	20,733	73,242	89,100	4,875
Petty Cash Fund	-	50	-	50
Due to Municipalities:				
Regular Fines	5,686	59,221	62,017	2,890
Trust Fund Payable	688,550	1,053,747	1,496,634	245,663
Total Liabilities	\$ 821,897	\$ 2,369,946	\$ 2,840,467	\$ 351,376

The accompanying notes are an integral part of the schedule.

**BUFFALO COUNTY COURT**  
**NOTES TO FINANCIAL SCHEDULES**  
For the Fiscal Years Ended June 30, 2011, and June 30, 2010

**1. Criteria**

**A. Reporting Entity**

The Buffalo 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 Schedules 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 Schedules 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 Buffalo County.

**B. Basis of Accounting**

The accounting records of the County Court Agency Funds are maintained, and the Schedules of Changes in Assets and Liabilities Arising from Cash Transactions have been prepared, based on the accounting system and procedures prescribed by the Nebraska Supreme Court. Under this system 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.

**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. § 25-2713 (Reissue 2008). 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. § 77-2326.04 (Reissue 2009) to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.