

**AUDIT REPORT  
OF  
ADAMS COUNTY COURT**

**JULY 1, 2001 THROUGH JUNE 30, 2002**

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# ADAMS COUNTY COURT

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# ADAMS COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of Adams 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 remit outstanding checks, which were over three years old and had not been reported to the State Treasurer, in accordance with State Statute.
3. ***Non-Monetary Receipt Transactions:*** Supporting documentation was not retained on file for non-monetary receipts issued by the County Court.
4. ***Deposits Not Fully Insured:*** The County Court's deposits were not fully insured against bank failure.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features 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. Where no response has been included, the 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 audit.

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

# ADAMS 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 since 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. 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 25-2717 R.R.S. 1995 requires the County Judge to notify the State Treasurer regarding any fees, money, or costs due or belonging to persons which have not been paid or demanded within three years from the date the funds were paid to the County Court, and, at the direction of the State Treasurer, to remit such funds to the State Treasurer for deposit pursuant to the Unclaimed Property Act.

We noted the County Court had 24 checks, totaling \$1,140, which had been outstanding for at least three years in its JUSTICE checking account. These checks had not been remitted to the State Treasurer in accordance with the Unclaimed Property Act.

This comment 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 State Statute.

*County Court's Response: As of November 6, 2002, the unclaimed property for the JUSTICE system has been remitted to the State Treasurer.*

# ADAMS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

### 3. Non-Monetary Receipt Transactions

Good internal control requires that adequate documentation be retained by the County Court to support the issuance of non-monetary receipts. When documentation is not retained to support such receipts, there is an increased risk of loss, theft, or misuse of funds.

Three of fifteen non-monetary receipts tested, totaling \$144, did not have supporting documentation retained by the County Court. Two of the receipts were non-monetary jail receipts, however, there were no jailer's returns to support the time served by the defendants. One non-monetary receipt was issued to waive sheriff service fees that had inadvertently been omitted from the defendant's time payment agreement. In that case, there was no authorization for the waiver and it appeared to be a clerical decision made by County Court staff.

We recommend the County Court implement procedures to ensure non-monetary receipts are adequately documented. This would include the timely receipt and filing of jailer's returns as well as the requesting of Judge's authorization for waiver of uncollectible costs as may be deemed necessary.

*County Court's Response: The Court has instituted procedures to correct any problems that may have occurred with non-monetary receipting processes.*

### 4. Deposits Not Fully Insured

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. When deposits are not fully insured, the risk of loss increases. In addition, Neb. Rev. Stat. Section 77-23,100 R.S. Supp., 2001, requires that when a bank pledges a security interest in a single pool of securities, the qualified trustee is to provide, as of the last business day of the previous month: (1) a monthly report to each custodial official reflecting the amount of public money in excess of FDIC coverage and (2) the total value of securities pledged.

During the fiscal year ended June 30, 2002, the County Court's depository institution, with the approval of the Court, transferred the Court's collateral from a depository bond to joint public unit coverage. In doing so, the bank incorrectly grouped the County Court's bank accounts under coverage provided to the Nebraska State Treasurer. This was in error because the State Treasurer is not a custodial official for the County Court's bank accounts as the State Treasurer was not made a custodian of and has no control over the monies deposited therein. Therefore, despite the County Court's assumption, based upon information from its local bank, that the County Court's deposits were fully insured, such coverage

# ADAMS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

### 4. **Deposits Not Fully Insured** (Concluded)

was provided under the incorrect custodian. As a result, the County Court's funds in excess of FDIC coverage were not fully insured. Additionally, because the County Court was not reflected as being a custodial official for joint public unit coverage purposes, the Court received no monthly securities reports.

Both the offices of the Nebraska State Treasurer and Auditor of Public Accounts have been in contact with the County Court's depository institution regarding this matter and have been assured that all necessary changes will be made in order to provide joint public unit coverage to Adams County Court as its own custodial official. Once those changes occur, the Court should begin to receive the monthly securities reports required by Statute. These reports must come to the County Court from a qualified trustee financial institution.

When deposits in excess of FDIC coverage are not fully insured, not only is the Court non-compliant with State Statute, but funds on deposit are at risk of loss in the event of bank failure.

We recommend the County Court actively monitor this situation to ensure changes are made by its depository institution and all statutorily required reports are being received and retained.

*County Court's Response: It should be noted that when the Court changed to joint public unit coverage, the Court had contacted the State Auditor's office and was told that the Court would not be non-compliant if they chose to switch. The Court had no knowledge that the bank entity would not process the switchover correctly. The Court was under the impression that the funds of the Court were fully secured. It should also be noted that the bank entity has made the changes needed and the Court has received their first monthly reports.*

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## ADAMS COUNTY COURT

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Adams County Court as of and for the fiscal year ended June 30, 2002, 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.

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 Adams 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 Adams County Court as of June 30, 2002, 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 October 24, 2002, on our consideration of Adams County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 24, 2002

A handwritten signature in cursive script that reads "Dawn Hayfman CPA". The signature is written in dark ink and is positioned above the printed name of the Deputy State Auditor.

Deputy State Auditor



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

For the Fiscal Year Ended June 30, 2002

	Balance July 1, 2001	Receipts	Disbursements	Balance June 30, 2002
<b>ASSETS</b>				
Cash and Deposits	\$ 222,537	\$ 874,785	\$ 898,918	\$ 198,404
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	14,566	159,723	161,459	12,830
Law Enforcement Fees	701	8,315	8,376	640
Interest	40	242	265	17
State Judges Retirement Fund	723	8,117	8,300	540
Legal Services Fees	784	9,822	9,905	701
Due to County Treasurer:				
Regular Fines	22,309	273,193	270,150	25,352
Overload Fines	1,600	17,695	18,245	1,050
Regular Fees	2,660	23,362	25,167	855
Witness Fee Fund	910	9,400	9,255	1,055
Due to Municipalities:				
Regular Fines	557	3,255	3,612	200
Regular Fees	247	2,248	2,322	173
Trust Fund Payable	177,440	359,413	381,862	154,991
<b>Total Liabilities</b>	<b>\$ 222,537</b>	<b>\$ 874,785</b>	<b>\$ 898,918</b>	<b>\$ 198,404</b>

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

ADAMS COUNTY COURT  
NOTES TO FINANCIAL STATEMENT  
For the Fiscal Year Ended June 30, 2002

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Adams 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 Adams 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.S.Supp., 2001 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

ADAMS 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 and savings accounts, 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, 2002	\$ 198,404	\$ 290	\$ 198,114	\$ 212,958

However, funds were not entirely covered by federal depository insurance during the entire year.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## ADAMS COUNTY COURT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Adams County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated October 24, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Adams 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.

### Compliance

As part of obtaining reasonable assurance about whether Adams 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 that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to the management of Adams County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property) and Comment Number 4 (Deposits Not Fully Insured).

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams 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 assurance 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 Adams 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 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 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. We also noted another matter involving internal control over financial reporting that we have reported to the management of Adams County Court in the Comments Section of the report as Comment Number 3 (Non-Monetary Receipt Transactions).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.



Deputy State Auditor

October 24, 2002