

**AUDIT REPORT
OF
SCOTTS BLUFF COUNTY COURT
JULY 1, 2001 THROUGH JUNE 30, 2002**

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SCOTTS BLUFF COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 3
<u>Financial Section</u>	
Independent Auditors' Report	4 - 5
Financial Statement:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2002	6
Notes to Financial Statement	7 - 8
<u>Government Auditing Standards Section</u>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9 - 10

SCOTTS BLUFF COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Scotts Bluff 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. ***Bonds:*** As of June 30, 2002, the County Court's listing of trust accounts included 49 bonds totaling \$8,734, which were between four and eight years old. The validity of several of the bonds included on the listing is in question, which would result in the Court's bank account being long by the amount of those bonds.
3. ***Overdue Balances:*** Warrants and/or suspensions were not being issued in a timely manner on overdue case balances.

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. The Court declined to respond.

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

SCOTTS BLUFF 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. Good internal control further requires employees involved in the cash receipt process not be allowed to issue receipts for non-monetary transactions.

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. We also recommend the County Court restrict the issuance of non-monetary receipts to a limited number of County Court employees who are not involved in the cash receipts process. Should the Court decide not to restrict issuance of non-monetary receipts due to a limited number of personnel, we recommend the Clerk Magistrate review "Courtwide Receipt/ Disbursement History" reports to ensure the propriety of non-monetary receipts issued. These reviews should be documented by initialing the reports and retaining them for subsequent inspection. We further recommend similar review and documentation procedures for the voided and adjusted transaction reports.

2. Bonds

Good internal control and sound business practice require regular review of bond monies held by the Court in order to keep such activity current.

As of June 30, 2002, the County Court's listing of trust accounts included 49 bonds, totaling \$8,734, which were between four and eight years old. However, some of the 49 bonds included on the list may not be valid. The County Court has been researching the bonds, to date four bonds, totaling \$585, appear to have been previously paid out by assignment to fines/costs. It is possible some bonds may have been previously misidentified by the County Court. We also noted five bonds tested had documentation indicating the related cases had previously either been dismissed or bail had been declared forfeit. We noted this comment in the prior audit.

SCOTTS BLUFF COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. **Bonds** (Concluded)

We recommend the County Court continue to work on reviewing its bond holdings. When doing so, the County Court must determine the validity of the bonds included in its trust listing as well as whether or not such bonds should be forfeited, refunded to defendant and/or assignee, or paid out to the State Treasurer as unclaimed property.

3. **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. Without a regular review of overdue cases, there is an increased risk a case listed as outstanding will either not have proper further action taken, or that the amount outstanding may have previously been paid.

Eight of twenty-five overdue case balances tested did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balance, such as the issuance of a warrant and/or suspension. All eight cases in question were delinquent time payments on criminal cases. As of August 31, 2002, the County Court had a total of \$208,663 in overdue case amounts. This was a \$45,163 increase from the December 15, 2001 overdue balance total noted in the prior audit.

We recommend the County Court review overdue balances on a more regular basis to determine what action needs to be taken to resolve the accounts.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



Kate Witek
State Auditor
kwitek@mail.state.ne.us

Mr. Joseph C. Steele
State Court Administrator
Room 1220 - State Capitol Building
Lincoln, Nebraska 68509

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

SCOTTS BLUFF COUNTY COURT

INDEPENDENT AUDITORS' REPORT

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the accompanying financial statement of Scotts Bluff 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 Scotts Bluff 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 Scotts Bluff 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 September 5, 2002, on our consideration of Scotts Bluff 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.

A handwritten signature in cursive script that reads "Deann Hayffner CPA".

Deputy State Auditor

September 5, 2002

SCOTTS BLUFF COUNTY COURT
GERING, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Fiscal Year Ended June 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
ASSETS				
Cash and Deposits	\$ 225,488	\$ 1,332,183	\$ 1,232,805	\$ 324,866
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 14,111	\$ 187,719	\$ 185,596	\$ 16,234
Law Enforcement Fees	843	10,217	10,138	922
Interest	448	3,521	3,700	269
State Judges Retirement Fund	661	8,434	8,432	663
Automation Fees	-	16	16	-
Legal Services Fees	910	11,150	11,103	957
Due to County Treasurer:				
Regular Fines	23,117	319,102	310,992	31,227
Overload Fines	-	9,075	8,500	575
Regular Fees	3,587	57,037	55,405	5,219
Due to Municipalities:				
Regular Fines	8,350	88,376	89,538	7,188
Regular Fees	996	14,225	14,237	984
Trust Fund Benefits Payable	172,465	623,311	535,148	260,628
Total Liabilities	\$ 225,488	\$ 1,332,183	\$ 1,232,805	\$ 324,866

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Scotts Bluff 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 Scotts Bluff 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.

SCOTTS BLUFF 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, were as follows:

	Total Cash and Deposit		Deposit	
	<u>Carrying Amount</u>	<u>Cash Amount</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
June 30, 2002	\$ 324,866	\$ 400	\$ 324,466	\$ 333,314

However, 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, during the entire year.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

SCOTTS BLUFF 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*

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statement of Scotts Bluff County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated September 5, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Scotts Bluff 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 Scotts Bluff 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scotts Bluff 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 Scotts Bluff 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 other matters involving internal control over financial reporting that we have reported to the management of Scotts Bluff County Court in the Comments Section of the report as Comment Number 2 (Bonds) and Comment Number 3 (Overdue Balances).

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

September 5, 2002