

**AUDIT REPORT
OF
BANNER COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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BANNER COUNTY COURT

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BANNER COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Banner 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. ***Receipt Application:*** Money received by the Court was not accurately applied to fines and costs.
3. ***Overdue Balances:*** The Court was not taking subsequent action on overdue balances to ensure collection and/or resolution of those outstanding 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.

BANNER 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. Receipt Application

Effective July 20, 2002, Neb. Rev. Stat. Section 33-107.01 R.S.Supp., 2002, increased the legal services fee (LASF) from two dollars to five dollars. Also, effective September 1, 2002, Neb. Rev. Stat. Section 33-107.03 R.S.Supp., 2002, established a court automation fee of six dollars.

During the audit, the following was noted:

1. Three of ten non-monetary receipts tested were related to cases in which the date of the defendant's offense occurred prior to the effective date of the LASF increase. When the cases were entered into the JUSTICE system the \$3 LASF increase should have been waived, however, in each of the cases tested the County Court instead receipted the increased LASF amount and then waived \$3 in State fines.
2. One of ten non-monetary receipts tested was related to a case in which the date of the defendant's offense occurred prior to the effective date of the court automation fee. When the citation was entered into the JUSTICE system the \$6 automation fee should have been waived, however, the County Court instead receipted the full \$6 automation fee and then waived \$6 in State fines.

BANNER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Receipt Application (Concluded)

It appears these application errors occurred as a result of the County Court using the “F10-Auto Apply” JUSTICE feature, which prioritizes fees above fines and applies monies received according to that priority. The County Court needs to be careful in their use of the JUSTICE F10 function when applying receipts during the time of new fees and/or fee increases taking effect, as it may result in misapplication of costs by the Court. In the cases noted above, the misapplication of fees resulted in fees going to the State Treasurer which should have gone to School Fines & Licenses.

We recommend the County Court handle all waivers related to fee implementations and/or increases in a consistent and accurate manner.

3. Overdue Balances

Good internal control and sound business practices require overdue balances of the Court be reviewed on a regular basis to determine what action should be taken to collect on and/or resolve those accounts. Without a regular review of overdue cases, there is an increased risk a case listed as outstanding may not have proper follow-up action taken.

Three of ten overdue balances tested involved misdemeanor criminal cases in which the defendants, all of whom lived outside of Nebraska, were delinquent on time-pay agreements. The County Court had not taken steps to collect and/or resolve these overdue balances.

This comment was also noted in the prior two audits.

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

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BANNER COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Banner County Court as of and for the fiscal year ended June 30, 2003, 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 Banner 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 Banner County Court as of June 30, 2003, 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 November 12, 2003, on our consideration of Banner 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.

November 12, 2003



Deputy State Auditor

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

For the Fiscal Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
ASSETS				
Cash and Deposits	\$ 8,383	\$ 102,887	\$ 101,534	\$ 9,736
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 1,313	\$ 15,928	\$ 15,891	\$ 1,350
Law Enforcement Fees	128	1,596	1,606	118
State Judges Retirement Fund	69	971	859	181
Automation Fees	-	3,102	2,748	354
Legal Services Fees	130	3,588	3,426	292
Due to County Treasurer:				
Regular Fines	5,880	74,521	74,630	5,771
Overload Fines	-	250	250	-
Regular Fees	-	159	159	-
Trust Fund Payable	863	2,772	1,965	1,670
Total Liabilities	\$ 8,383	\$ 102,887	\$ 101,534	\$ 9,736

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

BANNER COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2003

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Banner 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 Banner 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., 2002 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2003, carrying amount of total deposits, which consisted of a checking account, was \$9,736. The bank balance was \$9,137. All funds were entirely covered by federal depository insurance.

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BANNER 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 Banner County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated November 12, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Banner 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 Banner 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 a certain immaterial instance of noncompliance that we have reported to the management of Banner County Court in the Comments Section of this report as Comment Number 2 (Receipt Application).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Banner 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 Banner 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 Banner County Court in the Comments Section of the report as 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.

November 12, 2003


Deputy State Auditor