

**AUDIT REPORT  
OF  
CHEYENNE COUNTY COURT**

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

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# CHEYENNE COUNTY COURT

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# CHEYENNE COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of Cheyenne 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. ***Application of Payments to Fines/Costs:*** Payments from defendants were not consistently and accurately applied to defendants' fines/costs.
3. ***Overdue Balances:*** The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to ensure resolution and/or collection of overdue balances. As of April 19, 2003 the Court had a total of \$65,439 in overdue balances.
4. ***Garnishments:*** Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were endorsed directly over to the plaintiffs.

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.

# CHEYENNE 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. Application of Payments to Fines/Costs

Sound accounting practices require procedures be in place which ensure the complete and accurate posting of defendant payments to their respective cases, as well as the subsequent correct and timely distribution of all such payments received.

During the audit, we noted at June 30, 2002 the Court had a total of \$5,301 in traffic case type trust balances. Of that amount, 35 traffic case balances totaling \$5,200, represented payments made by defendants in prior months which had never been applied to the fines/costs once the actual citations were received by the Court.

- In 8 of the 35 cases, Court personnel incorrectly attempted to apply payments to fines/costs through the issuance of non-monetary receipts. The issuance of non-monetary receipts in each of those instances had no overall affect on the case balance, with the balance remaining in trust following the non-monetary transactions.
- As a result of the above noted non-application of defendant payments, six individuals who paid the fines/costs had their drivers license suspended for non-payment.

# CHEYENNE COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

### 2. Application of Payments to Fines/Costs (Concluded)

- Three of the 35 traffic cases were observed as having unrelated payments receipted into those cases, which indicated monies paid by a particular defendant were, in error, receipted towards another defendant's case.

The Court was unaware of the above noted errors prior to audit fieldwork. Once brought to the Court's attention, the Clerk Magistrate immediately began to work on correcting the errors, particularly the license suspensions. There is an increased risk of possible errors or irregularities if accounting reports are not reviewed on a routine basis.

We recommend the County Court apply all defendant payments completely and accurately. Furthermore, we recommend the County Court perform an adequate review of all daily and monthly accounting reports, including the Overdue Case Balance Report, Monthly Case Balance Report, and all Courtwide Receipt and Disbursement History Reports, particularly the non-monetary portion of the Receipt report.

### 3. Overdue Balances

Good internal control and sound business practice requires overdue balances of the County Court be reviewed on a regular and continual basis to determine what action should be taken to collect on those accounts.

Eleven of fifteen overdue balances tested, totaling \$2,258, did not have appropriate action taken to either collect or clear those accounts. The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to ensure subsequent collection and/or resolution of overdue balances. As of May 11, 2002 the County Court had \$44,225 in overdue balances. As of April 19, 2003 the total overdue amount had increased to \$65,439; an increase of \$21,214 within approximately 11 months.

Not following up on overdue balances increases the risk of possible errors or irregularities. This was also a prior year audit comment.

We recommend the County Court implement procedures which include a regular and continual review of the listing of overdue balances to both ensure the balances shown as overdue are accurate as well as to ensure that warrants or suspensions, and/or other collection efforts have been made in an attempt to resolve the accounts.

# CHEYENNE COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

### 4. Garnishments

Sound accounting practice requires the receipt and deposit of all monies received, including all checks made payable to the County Court. When checks made payable to the County Court are endorsed over to another party, rather than being deposited, there is an increased risk of liability in the event of loss, theft, or misuse.

Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were directly endorsed over to the plaintiffs.

This has been a comment in prior audits.

We recommend the County Court deposit all checks made payable to the County Court.

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## CHEYENNE COUNTY COURT

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Cheyenne 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 Cheyenne 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 Cheyenne 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 April 23, 2003, on our consideration of Cheyenne 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.

April 23, 2003



Deputy State Auditor



CHEYENNE COUNTY COURT  
 SIDNEY, 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	\$ 87,868	\$ 467,208	\$ 467,342	\$ 87,734
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 4,863	\$ 69,699	\$ 68,353	\$ 6,209
Law Enforcement Fees	361	4,812	4,799	374
Interest	73	717	757	33
State Judges Retirement Fund	311	3,892	3,801	402
Legal Services Fees	375	4,969	4,951	393
Due to County Treasurer:				
Regular Fines	12,253	164,224	164,100	12,377
Overload Fines	-	8,745	7,485	1,260
Regular Fees	320	13,582	13,089	813
Due to Municipalities:				
Regular Fines	1,058	11,006	10,730	1,334
Regular Fees	220	1,600	1,620	200
Trust Fund Payable	68,034	183,962	187,657	64,339
Total Liabilities	\$ 87,868	\$ 467,208	\$ 467,342	\$ 87,734

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

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

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Cheyenne 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 Cheyenne 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.

**CHEYENNE 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 certificates of deposit, 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	\$ 87,734	\$ 125	\$ 87,609	\$ 97,870

However, funds were not entirely covered by federal depository insurance for a total of two days during the audit period.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## CHEYENNE 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 Cheyenne County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated April 23, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cheyenne 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 Cheyenne 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 Cheyenne 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 Cheyenne 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 Cheyenne County Court in the Comments Section of the report as Comment Number 2 (Application of Payments to Fines/Costs), Comment Number 3 (Overdue Balances), and Comment Number 4 (Garnishments).

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.

April 23, 2003

  
Deputy State Auditor