

**AUDIT REPORT
OF
CUSTER COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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CUSTER COUNTY COURT

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CUSTER COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Custer 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. ***Non-waiverable Court Costs:*** Contrary to State Statute, the Court was inconsistently waiving the \$1 Judge's Retirement Fund Fee and \$2 Legal Services Fee on dismissed and/or uncollectible costs.
3. ***Bond Assignments:*** Bond Assignment Forms were not used by the Court to support assignment of bonds to fines and costs.

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.

CUSTER 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. Non-waiverable Court Costs

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2002, requires when any costs in misdemeanor, traffic, felony preliminary, or juvenile cases in County Court, except for those costs provided for in subsection (3) of section 24-703 (judge's retirement fee), two dollars of the fee provided in section 33-107.01 (legal services fee), and the court automation fee provided in section 33-107.03, are found by a county judge to be uncollectible for any reason, including the dismissal of the case, such costs shall be deemed waived unless the judge, in his or her discretion, enters an order assessing such portion of the costs as by law would be paid over by the Court to the State Treasurer.

Four of ten non-monetary receipts tested included the waiver of the \$1 Judge's Retirement Fund Fee and/or the \$2 Legal Services Fee on dismissed or otherwise uncollectible cases when, as required by State Statute, those costs should have been billed to the prosecutor. In addition, Court procedures do not include the timely billing of non-waiverable costs. At the time of audit, the Clerk Magistrate was unaware of when the last prosecutor billing was submitted, however, testing indicates it was likely prior to September 2001.

We recommend the Court bill prosecutors, at a minimum, the amount of all unwaiverable court costs on dismissed and/or otherwise uncollectible cases, as required by State Statute. Furthermore, we recommend such bills be submitted on a regular and timely basis.

CUSTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. Non-waiverable Court Costs (Concluded)

County Court's Response: Custer County Court will submit a claim to the County for the non-waiverable court costs as soon as possible. Also in the future, my plan is to submit a claim to the County for non-waiverable court costs in January and July.

3. Bond Assignments

The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states that when a defendant wants to apply any or all of the bond amount to fines and costs, the Assignment of Bond Form (Form No. 13:2) is to be used to document the defendant's assignment. Furthermore, the Court Procedure Manual, also issued by the Nebraska State Court Administrator's Office, also references the use of the Assignment of Bond Form when defendants elect to assign bond money to fines and costs. Good internal control requires the Court have procedures in place to ensure compliance with all applicable rules, regulations, and State Statutes, including any specific operating procedures directed to the Court by the Nebraska State Court Administrator's Office.

Four of five adjustments tested were related to the assignment of defendants' bonds to fines and costs. None of those four bond assignments were supported by Assignment of Bond Forms signed by the defendant. Inquiry of Court personnel determined staff was unfamiliar with Form 13:2 and its intended use.

We recommend the Court review the Court Accounting and Procedure Manuals sections related to bond assignments and, as instructed in those manuals, begin to document the assignment of bonds using the prescribed form.

County Court's Response: I do not agree with the statement that we were unfamiliar with the Form 13:2 and its use. We are familiar with this form but we were not using this form. We were using a different Bond Assignment form. We are now using Form 13:2 with some added language to the form.

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CUSTER COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Custer 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 Custer 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 Custer 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 March 19, 2003, on our consideration of Custer 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.

March 19, 2003

Pat Reding, CPA
Assistant Deputy Auditor

CUSTER COUNTY COURT
 BROKEN BOW, 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
ASSETS				
Cash and Deposits	\$ 30,278	\$ 263,084	\$ 254,135	\$ 39,227
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 4,903	\$ 56,990	\$ 56,665	\$ 5,228
Law Enforcement Fees	288	3,261	3,279	270
Interest	49	430	452	27
State Judges Retirement Fund	301	2,985	3,039	247
Legal Services Fees	323	3,594	3,610	307
Due to County Treasurer:				
Regular Fines	9,812	114,759	114,294	10,277
Overload Fines	521	8,865	9,386	-
Regular Fees	341	3,236	3,375	202
Due to Municipalities:				
Regular Fines	125	225	411	(61)
Regular Fees	-	3	3	-
Trust Fund Payable	13,615	68,736	59,621	22,730
Total Liabilities	\$ 30,278	\$ 263,084	\$ 254,135	\$ 39,227

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Custer 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 Custer 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, 2002, carrying amount of total deposits, which consisted of a checking account, was \$39,227. The bank balance was \$42,921. All funds were entirely covered by federal depository insurance.

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CUSTER 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 Custer County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated March 19, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Custer 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 Custer 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 management of Custer County Court in the Comments Section of this report as Comment Number 2 (Non-waiverable Court Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Custer 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 Custer 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 Custer County Court in the Comments Section of the report as Comment Number 3 (Bond Assignments).

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.

March 19, 2003

Pat Reding, CPA
Assistant Deputy Auditor