

**AUDIT REPORT
OF
FILLMORE COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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FILLMORE COUNTY COURT

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FILLMORE COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Fillmore 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 trust balances which were over three years old and had not been reported to the State Treasurer in accordance with State Statute.
3. ***Deposits Not Fully Insured:*** The County Court's bank deposits exceeded FDIC coverage during the year.
4. ***Case Management:*** Procedures were not in place to ensure all balances overdue to the County Court would be collected.

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.

FILLMORE 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.

As of June 30, 2003, the County Court had five checks, totaling \$213, which were outstanding in excess of three years. As a result, the County Court was not in compliance with statutory requirements related to the Unclaimed Property Act.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with the State Statute.

County Court's Response: This was remedied the following week after the audit of the Fillmore County Court. What had happened was I thought the only time to turn unclaimed property in, was after receipt of the post card from the State Treasurer until November 1st. This was cleared up after discussing this with you regarding government agencies.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Deposits Not Fully Insured

Neb. Rev. Stat. Section 77-2326.04 R.S. Supp., 2002 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.

We noted the County Court's bank deposits exceeded FDIC coverage by \$52,604 at June 30, 2003. The Court did not obtain any additional security during the fiscal year, although deposits exceeded coverage throughout the year.

We recommend the County Court actively monitor deposit balances and obtain additional securities, as necessary, to ensure the County Court's deposits are fully insured at all times.

County Court's Response: During the audit of 2002, Audit Manager Sandy Steinbrecher personally went to the Geneva State Bank and spoke to Dave Ochsner who had informed this magistrate that since the amount at that time was under \$100,000.00, there was no need to pledge the securities in question. Since a State Auditor approached the said bank employee, I was under the assumption they had insured the account in question. It was not until the Friday prior to my 2003 audit that I discovered they had not pledged said securities. I had called the bank for a copy since I did not have one, thus finding out the bank did not follow through after talking to Ms. Steinbrecher. As you will recall, Cheryl Myers, a bank employee, personally hand delivered the security pledge on Monday, October 20, 2003. These funds are now fully insured as per Neb. Rev. Stat. Section 77-2326.04 R.S.Supp., 2002.

4. Case Management

Good internal control and sound accounting practices require procedures be in place to ensure collection of balances overdue to the County Court.

We noted five of ten cases tested with overdue balances did not have warrants or suspensions issued. As a result, there was an increased risk that all funds due the County Court would not be collected.

We recommend the County Court implement procedures, including continual review of the Overdue Case Account report, and issuance of suspensions and warrants, when necessary, to ensure collection of all monies due the County Court.

FILLMORE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Case Management (Concluded)

County Court's Response: I have discussed this issue with our County Attorney who will also assist the Court in clearing up some of these cases. There are some cases where the warrants have expired, etc. Due to the caseload in this county and limited office staff, this area has been neglected. I will try to make this a top priority in the future.

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FILLMORE COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Fillmore 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 Fillmore 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 Fillmore 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 October 21, 2003, on our consideration of Fillmore 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 21, 2003



Deputy State Auditor

FILLMORE COUNTY COURT
 GENEVA, 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	\$ 123,968	\$ 307,300	\$ 276,704	\$ 154,564
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 3,007	\$ 45,424	\$ 41,075	\$ 7,356
Law Enforcement Fees	170	2,728	2,564	334
Interest	23	342	352	13
State Judges Retirement Fund	185	2,732	2,163	754
Automation Fees	-	7,126	5,986	1,140
Legal Services Fees	184	6,233	5,556	861
Due to County Treasurer:				
Regular Fines	11,491	192,349	178,218	25,622
Overload Fines	625	7,113	7,238	500
Regular Fees	14	4,533	4,460	87
Petty Cash Fund	25	-	25	-
Due to Municipalities:				
Regular Fines	-	610	610	-
Trust Fund Payable	108,244	38,110	28,457	117,897
Total Liabilities	\$ 123,968	\$ 307,300	\$ 276,704	\$ 154,564

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Fillmore 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 Fillmore 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.

FILLMORE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The June 30, 2003, carrying amount of total deposits, which includes checking accounts and money market accounts, was \$154,564. The bank balance was \$152,604. Funds were not entirely covered by federal depository insurance, see Comment Number 3 (Deposits Not Fully Insured).

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FILLMORE 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 Fillmore County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated October 21, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Fillmore 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 Fillmore 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 Fillmore County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property) and Comment Number 3 (Deposits Not Fully Insured).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fillmore 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 Fillmore 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 Fillmore County Court in the Comments Section of the report as Comment Number 4 (Case Management).

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.

October 21, 2003



Deputy State Auditor