

**AUDIT REPORT
OF
LINCOLN COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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LINCOLN COUNTY COURT

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LINCOLN COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Lincoln 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. ***Deposits Not Fully Secured:*** Several times during the audit period the Court had monies on deposit in excess of Federal Deposit Insurance Corporation (FDIC) and pledged securities coverage.
2. ***Non-waiverable Court Costs:*** Contrary to State Statute, the Court was waiving the \$2 Legal Services fee on dismissed and/or uncollectible cases rather than billing those fees to the prosecutor.
3. ***Assessed Court Costs:*** Two of twenty-five receipts tested waived court costs even though the respective case files show the Judge as having assessed these costs to the defendants.

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.

LINCOLN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Deposits Not Fully Secured

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 secured, the risk of loss increases.

At June 30, 2002, the Court's deposits were fully secured. However, at several different times during the audit period, the Court's deposits were in excess of its combined FDIC and pledged securities coverage. The unsecured excess ranged from a low of \$553 at one financial institution to as high as \$491,271 at another institution. The instances of significant unsecured deposits appear to have occurred due to: 1) the Court, for a time, having insufficient securities at one institution and 2) the Court not obtaining additional securities when two large probate transactions, \$400,000 and \$500,000 respectively, were run through the Court's bank account.

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

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.

The Court was submitting monthly claims to Lincoln County for reimbursement of the one dollar Judge's retirement fee on all dismissed and/or otherwise uncollectible cases. However, the Court was waiving the \$2 legal services fee on these cases during the entire audit period.

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.

LINCOLN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. Assessed Court Costs

Good internal control requires procedures be in place to ensure the assessment of costs to a defendant, as so ordered by the Judge, are collected.

Two of twenty-five receipts tested waived court costs even though the case file showed the Judge as having assessed the costs to the defendants.

- The first receipt noted a criminal complaint was dismissed by a motion of the County Attorney's Office. The Judge's order granting the dismissal assessed the \$23 in court costs to the defendant. However, the accounting system noted all costs, except for the judge's retirement fee of \$1, were waived. Court personnel indicated at the time of the audit this was a clerical error on the Court's behalf.
- The second receipt noted a criminal judgement including a \$600 fine which could be offset with "dollar for dollar" credit toward alcohol treatment. The Judge also assessed \$48 in court costs and fees to the defendant. However, when applied to the case by Court personnel, the \$600 fine as well as all court costs and fees, except for the judge's retirement fee of \$1, were receipted off of the case using "dollar for dollar" alcohol treatment credit. Court personnel thought they likely had the Judge's verbal approval to also apply credit to the costs and fees, however, there was no documentation in the case file to indicate such.

We recommend court costs and fees be collected in accordance with Judge's orders and/or judgements. Any subsequent changes to those orders and/or judgements, such as the case of subsequent extension of "dollar for dollar" credit to court costs or fees, should be documented within the defendant's case files.

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LINCOLN COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Lincoln 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 Lincoln 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 Lincoln 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 January 8, 2003, on our consideration of Lincoln 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.

January 8, 2003

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

Deputy State Auditor

LINCOLN COUNTY COURT
 NORTH PLATTE, 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	\$ 730,080	\$ 2,646,076	\$ 2,665,987	\$ 710,169
Total Assets	<u>\$ 730,080</u>	<u>\$ 2,646,076</u>	<u>\$ 2,665,987</u>	<u>\$ 710,169</u>
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 24,369	\$ 256,005	\$ 259,091	\$ 21,283
Law Enforcement Fees	1,527	17,002	17,131	1,398
Interest	-	1,834	1,544	290
State Judges Retirement Fund	1,191	13,408	13,509	1,090
Legal Services Fees	1,606	17,769	17,941	1,434
Due to County Treasurer:				
Regular Fines	42,094	589,160	586,943	44,311
Overload Fines	13,077	77,860	88,010	2,927
Regular Fees	6,088	36,850	40,269	2,669
Due to Municipalities:				
Regular Fines	2,475	24,602	24,986	2,091
Regular Fees	175	3,375	3,350	200
Trust Fund Payable	<u>637,478</u>	<u>1,608,211</u>	<u>1,613,213</u>	<u>632,476</u>
Total Liabilities	<u>\$ 730,080</u>	<u>\$ 2,646,076</u>	<u>\$ 2,665,987</u>	<u>\$ 710,169</u>

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Lincoln 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 Lincoln 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.

LINCOLN 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, savings accounts, money market 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	\$ 710,169	\$ 400	\$ 709,769	\$ 712,706

However, funds were not 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.

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LINCOLN 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 Lincoln County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated January 8, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Lincoln 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 Lincoln 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 management of Lincoln County Court in the Comments Section of this report as Comment Number 1 (Deposits Not Fully Secured) and Comment Number 2 (Non-waiverable Court Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that we have reported to the management of the Lincoln County Court in the Comments Section of this report as Comment Number 3 (Assessed Court Costs).

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.

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

Deputy State Auditor

January 8, 2003