

**AUDIT REPORT
OF
RED WILLOW COUNTY COURT
JULY 1, 2001 THROUGH JUNE 30, 2002**

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RED WILLOW COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 4
<u>Financial Section</u>	
Independent Auditors' Report	5 - 6
Financial Statement:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2002	7
Notes to Financial Statement	8 - 9
<u>Government Auditing Standards Section</u>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11

RED WILLOW COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Red Willow 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. ***Overdue Balances:*** Warrants and/or suspensions, or other continued follow-up actions, were not taken by the Court to follow up on overdue case balances in a timely manner.
3. ***Procedural Deficiencies:*** Overpayments were not refunded to defendants, checks were not restrictively endorsed immediately upon receipt, garnishment checks made payable to the Court were directly endorsed and sent to the plaintiffs, and case dismissals did not have proper documentation on file from prosecutors to support such dismissals.
4. ***Non-waiverable Court Costs:*** Contrary to State Statute, the Court was billing court costs on uncollectible and/or dismissed cases brought under a city municipal code to the County government rather than the city government.

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.

RED WILLOW 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. Overdue Balances

Good internal control and sound business practice require overdue balances of the County Court be reviewed on a regular basis to determine what action should be taken to collect on those accounts. Without a regular review of overdue case balances, there is an increased risk a case listed as outstanding will either not have proper further action taken, or that the amount overdue may have been previously paid and/or resolved and is incorrectly shown as overdue.

Three of twenty overdue case balances tested did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balance, such as the issuance of a warrant and/or suspension. Furthermore, it appeared the Court was not reviewing, on a regular, on going basis, the Overdue Case Account Report generated by the JUSTICE system. As of February 8, 2003, the Court had a total of \$37,431 in overdue case amounts.

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

3. Procedural Deficiencies

Good internal control, as well as sound accounting practices require refunding of overpayments received; restrictive endorsements of checks immediately upon receipt; receipt, deposit, and subsequent payout of all court-issued garnishment checks made payable to the Court; and, written dismissal documentation from prosecutors on all dismissed cases.

RED WILLOW COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. **Procedural Deficiencies** (Concluded)

During detailed testing as well as general inquiry of the Court regarding its internal control structure, the following was noted:

- The Court did not refund overpayments back to defendants, but instead assessed the overpayments as “copy” costs in order to avoid cutting a check back to the defendants’ for the amount of the overpayments.
- Checks were not restrictively endorsed immediately upon receipt.
- Garnishment checks made payable to the Court were not receipted and deposited into the Court’s bank account for subsequent payout to the plaintiff. Rather, the Court was directly endorsing these checks and sending them to the plaintiff.
- Two of thirty-five non-monetary receipts tested involved municipal code violations, which were dismissed by the Court without adequate supporting documentation. In both cases, the Clerk Magistrate had added a handwritten note to each case indicating she had telephone contact with the City Attorney who approved dismissal of the cases.

We recommend the following:

- All overpayments be refunded to defendants via court-issued checks,
- All checks received be restrictively endorsed immediately upon receipt,
- All garnishment checks which are made payable to the Court should be receipted, deposited into the Court’s bank account, and payment remitted to the plaintiff via court-issued check, and
- Dismissals should be supported by appropriate dismissal documentation received, in writing, from the prosecutor(s) filing the case to ensure dismissals are not done administratively by the Court.

4. **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

RED WILLOW COUNTY COURT

COMMENTS AND RECOMMENDATIONS

4. Non-waiverable Court Costs (Concluded)

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. This Statute further requires that in all cases brought under city or village ordinance, all such uncollectible costs shall be certified to the appropriate city or village officer authorized to receive claims who shall present the bills therefore to the governing body of the city or village in the same manner as other claims. Such governing body shall pay from the general fund of the city or village all such bills as are found to be lawful.

The Court was submitting all claims for court costs on uncollectible cases, including those brought under city or village ordinance, to the County Board. Two of thirty-five non-monetary receipts tested included claims to the County Board for costs on dismissed cases filed by the City Attorney under city municipal code.

We recommend the Court bill the appropriate prosecutors for the amount of all non-waiverable court costs on dismissed and/or otherwise uncollectible cases, as required by State Statute.

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RED WILLOW COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Red Willow 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 Red Willow 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 Red Willow 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 February 12, 2003, on our consideration of Red Willow 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.

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

Deputy State Auditor

February 12, 2003

RED WILLOW COUNTY COURT
 McCOOK, 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	\$ 29,641	\$ 352,256	\$ 338,590	\$ 43,307
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 4,566	\$ 73,485	\$ 69,447	\$ 8,604
Law Enforcement Fees	344	4,666	4,658	352
Interest	52	238	281	9
State Judges Retirement Fund	245	4,296	4,030	511
Legal Services Fees	360	4,926	4,916	370
Due to County Treasurer:				
Regular Fines	11,847	151,153	153,060	9,940
Overload Fines	1,200	8,000	8,875	325
Regular Fees	1,272	12,527	12,929	870
Due to Municipalities:				
Regular Fines	290	3,073	3,120	243
Regular Fees	-	181	181	-
Trust Fund Payable	9,465	89,711	77,093	22,083
Total Liabilities	\$ 29,641	\$ 352,256	\$ 338,590	\$ 43,307

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Red Willow 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 Red Willow 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 carrying amounts and bank balances of total deposits, which consisted of a checking account, were as follows:

RED WILLOW COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

	Total Cash and Deposit <u>Carrying Amount</u>	<u>Cash Amount</u>	Deposit <u>Carrying Amount</u>	<u>Bank Balance</u>
June 30, 2002	\$ 43,307	\$ 50	\$ 43,257	\$ 42,503

However, funds were 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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RED WILLOW 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 Red Willow County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated February 12, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Red Willow 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 Red Willow 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 Red Willow County Court in the Comments Section of this report as Comment Number 4 (Non-waiverable Court Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red Willow 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Red Willow 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 Red Willow County Court in the Comments Section of the report as Comment Number 2 (Overdue Balances) and Comment Number 3 (Procedural Deficiencies).

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.



Deputy State Auditor

February 12, 2003