

**AUDIT REPORT
OF
ROCK COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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ROCK COUNTY COURT

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ROCK COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Rock 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. ***Investment Interest:*** The County Court did not post investment interest in a timely manner.

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.

ROCK 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. Investment Interest

Sound accounting practices, as well as good internal control require the prompt and accurate recording of all interest earnings in a timely manner.

In August 2002, the County Court opened a separate money market investment account to hold a \$5,000 supersedeas bond, which had been posted in relation to a Probate appeal. The County Court received monthly bank statements on the investment account; however, the interest earnings on the account, a total of \$79, were not receipted by the County Court until the investment was redeemed in August 2003. At the time of redemption \$77 was receipted as investment interest. The additional \$2 of investment interest, which had accrued to the account in August 2003, prior to redemption, was later receipted directly into the Refund account rather than being receipted as investment interest.

The need to record investment interest in a timely manner was previously brought to the County Court's attention during prior year audit fieldwork in April 2003.

When interest earnings are not completely and accurately posted in a timely manner, there is an increased risk of loss or misuse of funds. In addition, the JUSTICE system (the County Court's computerized accounting and case management system) does not accurately reflect the true asset balances of the Court.

ROCK COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Investment Interest (Concluded)

We recommend the County Court completely and accurately receipt all interest earnings promptly following written notification from the bank that such interest earnings have been credited.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

Mr. Joseph C. Steele
State Court Administrator
Room 1220 - State Capitol Building
Lincoln, Nebraska 68509

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmcyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

ROCK COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Rock 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 Rock 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 Rock 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 August 21, 2003, on our consideration of Rock 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.

August 21, 2003

A handwritten signature in cursive script that reads "Dawn Hauffman CPA".

Deputy State Auditor

ROCK COUNTY COURT
BASSETT, 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	\$ 10,638	\$ 41,636	\$ 42,548	\$ 9,726
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 1,063	\$ 9,557	\$ 9,599	\$ 1,021
Law Enforcement Fees	44	570	568	46
State Judges Retirement Fund	80	616	564	132
Automation Fees	-	1,468	1,276	192
Legal Services Fees	56	1,316	1,240	132
Due to County Treasurer:				
Regular Fines	1,784	19,268	18,850	2,202
Overload Fines	-	100	100	-
Regular Fees	83	527	608	2
Due to Municipalities:				
Regular Fines	50	50	100	-
Trust Fund Payable	7,478	8,164	9,643	5,999
Total Liabilities	\$ 10,638	\$ 41,636	\$ 42,548	\$ 9,726

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Rock 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 Rock 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.

ROCK COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisting of a checking account and a money market account, 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, 2003	\$ 9,726	\$ 40	\$ 9,686	\$ 9,281

However, funds were entirely covered by federal depository insurance during the entire year.

STATE OF NEBRASKA

AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

ROCK 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*

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
ddunlap@mail.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
reding@mail.state.ne.us

Tim Channer, CPA
Asst. Deputy Auditor
channer@mail.state.ne.us

Mary Avery
SAE/Finance Manager
marya@mail.state.ne.us

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
dmeyer@mail.state.ne.us

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statement of Rock County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated August 21, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Rock 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 Rock 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 Rock 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 Rock 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 Rock County Court in the Comments Section of the report as Comment Number 2 (Investment Interest).

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.

August 21, 2003



Deputy State Auditor