

**AUDIT REPORT
OF
ADAMS COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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ADAMS COUNTY COURT

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ADAMS COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Adams 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. ***Deposits Not Fully Secured:*** Deposits of the County Court were not fully secured during the entire audit period.
3. ***Investment Procedures:*** Investment activity was not recorded timely.
4. ***Refund Authorizations:*** The County Court did not obtain and/or retain sufficient documentation to support defendant refunds.
5. ***Witness Fee Fund Authorization:*** The County Court did not have documented approval from the Nebraska Court Administrator's office for a separate checking account which it utilized for the payment of witness fees.
6. ***Overdue Balances:*** Subsequent action was not taken by the County Court to resolve overdue case balances.
7. ***Change Fund Accountability:*** The change fund was not consistently maintained at the authorized amount.

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.

ADAMS 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. Deposits Not Fully Secured

Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003, 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. In addition, Neb. Rev. Stat. Section 77-23,100 R.R.S. 2003, requires that when a bank pledges a security interest in a single pool of securities, the qualified trustee is to provide, as of the last business day of the previous month: (1) a monthly report to each custodial official reflecting the amount of public money in excess of FDIC coverage and (2) the total value of securities pledged.

As was noted in the prior year audit, the fiscal year ended June 30, 2002, the County Court's depository institution, with the approval of the Court, transferred the Court's collateral from a depository bond to joint public unit coverage. In doing so, the bank incorrectly grouped the County Court's bank accounts under coverage provided to the Nebraska State Treasurer. The State Treasurer was not a custodial official for the County Court's bank accounts and had no control over the monies deposited therein. Therefore, despite the County Court's assumption, based upon information from its local bank, the County Court's deposits were fully secured, such coverage was provided under the incorrect custodian. As a result, the County Court's funds in excess of FDIC coverage were not fully secured. The depository institution made all necessary securities corrections in November 2002. Additionally, the County Court, as the proper custodial official, then began to receive monthly securities reports.

ADAMS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Deposits Not Fully Secured (Concluded)

When deposits in excess of FDIC coverage are not fully secured, not only is the Court non-compliant with State Statute, but funds on deposit are at risk of loss in the event of bank failure.

No recommendation is made as corrective action was taken in November 2002.

3. Investment Procedures

Sound accounting practices require financial records accurately reflect all assets in the County Court's possession. As such, investment interest should be recorded by the County Court in a timely manner as the Court receives notification of such earnings. In addition, investment redemptions should be recorded in the accounting records in a timely manner.

During the audit, the following was noted:

- In May 2003 the Court made one investment purchase of \$31,760 related to a probate case. Review of subsequent activity through April 2004 noted no investment interest being posted to the case balance on JUSTICE despite the County Court having received monthly bank statements showing investment interest earnings.
- Bank statements related to the above investment purchase indicate in February 2004, following a distribution order, the County Court paid out \$31,808; the original investment amount and accumulated interest. At that time, the County Court did not transfer the redemption proceeds back into the County Court's bank account and issue a County Court check to pay out the balance, but instead had the bank issue a cashier's check for the redemption amount. Since the County Court did not issue the redemption through the JUSTICE system and no other recording adjustments were made to the system as of April 2004, the County Court continued to show the original \$31,760 investment purchase as a trust balance of the County Court.

When investment activity is not promptly and accurately recorded through the JUSTICE system, there is an increased risk of the system not providing a comprehensive accountability over such activity.

We recommend the County Court promptly record all interest as soon as it is notified of such earnings. We further recommend all investment redemptions be run through the County Court's bank accounts, following the process provided in the Nebraska Court Administrator's JUSTICE roll-over redemption program.

ADAMS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Refund Authorizations

Sound accounting practices and good internal control require adequate documentation be maintained by the County Court to support all defendant payments which are refunded, including those refunded due to lack of prosecution.

Defendants' payments were periodically refunded when cases were not filed with the County Court by a prosecutor. In January 2003, the County Court refunded 28 citation payments, totaling \$2,383, to defendants due to lack of prosecution. The procedure of the County Court included providing the prosecutor with a listing of the citations to be refunded prior to issuance of any such refunds in order to give the prosecutor the option to file on the identified citations. However, the County Court did not retain any documentation, including copies of the listings provided to prosecutors, to support the County Court's subsequent refunding of citation payments due to lack of prosecution.

Without documentation to support refunded payments, there is an increased risk of loss, theft, or misuse of County Court funds. Furthermore, lack of documentation increases the appearance of the County Court administratively issuing refunds.

We recommend the County Court retain, at a minimum, a copy of the listings submitted to prosecutors informing them of citation payments scheduled for refunding due to lack of prosecution. However, ideally the County Court should also strive to receive and retain a written response from the prosecutors regarding the listings as transmitted.

5. Witness Fee Fund Authorization

General Rule 58 of the Official Rules of the Nebraska Supreme Court and Nebraska Court of Appeals, relates to petty cash funds and states, in part, ". . . whenever the need exists, a clerk magistrate, with the concurrence of the county judges of his or her district, may establish and maintain a petty cash fund of not more than \$50."

The County Court maintained a separate checking account for the payment of witness fees. The County Board was the original source of this fund and, as such, the County Court periodically submitted claims to the County Board for replenishment of this witness fee fund. As of June 30, 2003, the book balance of this fund was \$1,153. The County Court had no written documentation from the Court Administrator's office giving approval for a separate fund in excess of the \$50 limit set forth in General Rule 58. However, the Clerk Magistrate indicated that he had made several contacts to the Court Administrator's office to resolve this issue but has been unable to do so.

ADAMS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Witness Fee Fund Authorization (Concluded)

We recommend the County Court continue to seek resolution of this matter, in writing, with the Court Administrator's office.

6. 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 cases. Without a regular review of overdue cases, there is an increased risk a case listed as outstanding will either not have proper further action taken or the amount outstanding may have been previously paid and/or resolved.

Three of fifteen overdue case balances tested did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balance. In two of the cases, unpaid fines/costs had been waived by the Judge and/or sat out in jail by the defendant but not recorded as such in the JUSTICE system. In the third case, a defendant's time payment due date was extended, however, the due date as recorded in the JUSTICE system was not updated to reflect this extension. Furthermore, as of October 18, 2002 the County Court had a total of \$179,165 in overdue balances. As of April 16, 2004 the Court had a total of \$221,272 in overdue balances; an increase of \$42,107, or approximately 24%.

We recommend the County Court review overdue case balances, as shown on JUSTICE Overdue Case Account Reports, on an ongoing basis to determine what action needs to be taken to resolve those case balances.

7. Change Fund Accountability

Sound accounting practices and good internal control require change funds in the County Court's possession be maintained at the authorized amount.

The County Court had a total of \$530 in change funds, \$50 of which was maintained as a backup drawer from which the other drawers could make change. The balance in this backup change fund at cash count for the prior three audits has fluctuated as follows:

- \$.07 long for fiscal year end June 30, 2003 cash count.
- \$2.48 long for fiscal year end June 30, 2002 cash count.
- \$2.46 short for fiscal year end June 30, 2001 cash count.

ADAMS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Change Fund Accountability (Concluded)

When the change fund is not maintained at its authorized amount, there is an increased risk of loss, theft, or misuse of funds in the possession of the County Court.

We recommend all change funds of the County Court be consistently maintained at the authorized amount. Any variances should be promptly investigated and resolved.

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ADAMS COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Adams 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 Adams 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 Adams 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 April 22, 2004, on our consideration of Adams 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.

April 22, 2004


Deputy State Auditor

ADAMS COUNTY COURT
HASTINGS, 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	\$ 198,404	\$ 997,333	\$ 1,003,552	\$ 192,185
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 12,830	\$ 173,607	\$ 166,341	\$ 20,096
Law Enforcement Fees	640	8,154	8,047	747
Interest	17	181	187	11
State Judges Retirement Fund	540	9,814	7,699	2,655
Automation Fees	-	28,308	23,531	4,777
Legal Services Fees	701	20,541	18,093	3,149
Due to County Treasurer:				
Regular Fines	25,352	295,473	290,994	29,831
Overload Fines	1,050	11,250	11,275	1,025
Regular Fees	855	30,613	29,893	1,575
Witness Fee Fund	1,055	8,405	8,308	1,152
Due to Municipalities:				
Regular Fines	200	4,618	4,281	537
Regular Fees	173	2,582	2,618	137
Trust Fund Payable	154,991	403,787	432,285	126,493
Total Liabilities	\$ 198,404	\$ 997,333	\$ 1,003,552	\$ 192,185

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Adams 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 Adams 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.R.S. 2003 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

**ADAMS 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 and savings accounts, 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	\$ 192,185	\$ 530	\$ 191,655	\$ 200,519

However, at the fiscal year end funds were entirely covered by federal depository insurance or by a single financial institution collateral pool, in which a financial institution pledged to the County Court participation in a pool of collateral against all the public deposits held by the financial institution.

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ADAMS 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 Adams County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated April 22, 2004. The report was modified to emphasize that the financial statement presents only the Agency Funds of Adams 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 Adams 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 also noted a certain immaterial instance of noncompliance that we have reported to the management of Adams County Court in the Comments Section of this report as Comment Number 2 (Deposits Not Fully Secured).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams 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 Adams 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 Adams County Court in the Comments Section of the report as Comment Number 3 (Investment Procedures), Comment Number 4 (Refund Authorizations), Comment Number 5 (Witness Fee Fund Authorization), Comment Number 6 (Overdue Balances), and Comment Number 7 (Change Fund Accountability).

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.

April 22, 2004


Deputy State Auditor