

**AUDIT REPORT
OF
CHEYENNE COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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CHEYENNE COUNTY COURT

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CHEYENNE COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Cheyenne 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. ***Monthly Report Review:*** Monthly reports were not reviewed for accuracy.
3. ***Overdue Balances:*** The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to ensure resolution and/or collection of overdue balances. As of April 24, 2004, the Court had a total of \$95,326 in overdue balances.
4. ***Records Retention:*** Original bank statements, including attachments, and traffic citations were not consistently retained by the County Court so as to be readily available for subsequent inspection, including audit.
5. ***Emergency Receipts:*** Emergency receipts were not being subsequently recorded into the JUSTICE system in a timely manner.
6. ***Garnishment Transactions:*** Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were endorsed directly over to the plaintiffs.

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.

CHEYENNE 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. Monthly Report Review

Good internal control requires the County Court to have procedures in place which provide ongoing, detailed review of monthly financial reports, including the Monthly Case Balance Report and the Report of Non-Case Receipts. In addition, sound accounting practices require procedures to be in place which ensure the complete and accurate posting of defendant payments to their respective cases.

Two of eight non-case balances tested, totaling \$214, as shown on the June 30, 2003 Report of Non-Case Receipts, related to traffic citation payments which the Court had not matched to filed citations as of audit fieldwork in April 2004. As a result, in one of the two cases, the defendant's license was automatically suspended for non-payment when in fact the citation had been paid in full. In the second case, no automatic suspension occurred due to the defendant being licensed in a non-compact state.

A similar finding was noted in the prior audit when 35 traffic case balances were tested. In that particular finding, six individuals who had paid their fines/costs had their drivers licenses suspended for non-payment, due to non-application of their payment by the Court.

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Monthly Report Review (Concluded)

We strongly recommend the County Court perform on-going, detailed review of all monthly reports, including the Monthly Case Balance Reports and the Reports of Non-Case Receipts, in an attempt to identify and resolve unattached and/or unusual balances in a more timely manner.

3. Overdue Balances

Good internal control and sound business practice require overdue balances of the County Court be reviewed on a regular and continual basis to determine what action should be taken to collect and/or resolve those balances.

Twelve of twenty overdue case balances tested, totaling \$3,553, did not have appropriate action taken to either collect or otherwise clear those accounts. The County Court did not have follow-up procedures in place, including the issuance of warrants and/or suspensions, to ensure subsequent collection and/or resolution of overdue balances. As of April 19, 2003, the County Court had \$65,439 in overdue balances. As of April 24, 2004, the total overdue amount had increased to \$95,326; an increase of \$29,887, or approximately 46% in one year.

Not following up on overdue balances increases the risk of possible errors or irregularities. This was also a comment in the prior two audits.

We strongly recommend the County Court implement procedures which include a regular and continual review of the listing of overdue balances to both ensure the balances shown as overdue are accurate as well as to ensure that warrants or suspensions and/or other collection efforts have been made in an attempt to resolve the accounts.

4. Records Retention

Nebraska Records Retention Schedule 124-2-15, regarding bank statements, states that bank statements may be disposed of after 3 years, provided an audit has been completed. Additionally, Nebraska Records Retention Schedule 18-7-7, regarding traffic case files, states that original documents in traffic cases, including the Court's copy of the actual traffic citation, may be disposed of 2 years after judgment has been entered, provided an audit has been completed.

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Records Retention** (Concluded)

During the audit, the following was noted:

- The bank statement for the Court's JUSTICE account could not be located for the month of January 2003.
- The bank statement attachment pages, which consist of photocopies of deposit slips and cancelled checks, could not be located for the month of November 2002.

In each of the above cases, copies of the missing statements and/or attachment pages were obtained from the Court's financial institution during audit fieldwork.

- The validity of 3 of 20 non-monetary receipts tested, all of which were traffic citations issued in 2000, could not be verified to the citation because the Court could not locate the citation copies during audit fieldwork.

When original bank statements, including attachment pages as well as case files and/or citations, are not consistently maintained by the County Court, there is an increased risk of loss, theft, or misuse.

We recommend the County Court implement adequate filing procedures to ensure all County Court records, including original bank statements and attachments as well as case files and/or citations, are readily accessible for subsequent inspection, including the audit.

5. **Emergency Receipts**

Good internal control and sound business practice requires all monies received by the County Court be promptly receipted into the County Court's accounting system in order to reduce the risk of loss, theft, or misuse. The risk of loss, theft, or misuse is a particular concern when cash receipts are not timely recorded. In addition, the Nebraska Court Administrator's instructions for use of manual emergency receipts states that emergency receipts are only to be used when the JUSTICE system (the case and financial management system used by the Court system) is inoperable and that all manual receipts must be entered into JUSTICE once the system becomes operable.

During the fiscal year ended June 30, 2003, the County Court issued 36 emergency receipts, which was a significant improvement over the 121 of such receipts being issued in the fiscal year ended June 30, 2002. However, during review of the County Court's emergency receipt books, one instance was

CHEYENNE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Emergency Receipts (Concluded)

noted in December 2003 in which the County Court issued an emergency receipt for \$25 cash. This money was never subsequently receipted into the JUSTICE system and deposited into the County Court's financial institution, but rather was returned, in cash, to the payor at the time of audit fieldwork in April 2004. County Court personnel indicated this money was not entered into the JUSTICE system because there was uncertainty as to which case this payment should be applied.

When monies, particularly cash, are received by the County Court and held undeposited there is an increased risk of loss, theft, or misuse. A similar finding was noted in the fiscal year ended June 30, 2001 audit report.

We recommend the County Court only use emergency receipts when the system is inoperable. Additionally, we recommend the County Court receipt and deposit all monies received, whether those monies consist of cash or checks made payable to the County Court. If the County Court is uncertain as to which particular case a payment is to be applied, the Court should issue non-case receipts to the JUSTICE Holding Account in order to get the monies promptly receipted and deposited.

6. Garnishment Transactions

Sound accounting practice requires the receipt and deposit of all monies received, including all checks made payable to the County Court. When checks made payable to the County Court are endorsed over to another party, rather than being deposited and run through the County Court's accounting system and financial institution, there is an increased risk of liability in the event of loss, theft, or misuse.

Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were directly endorsed over to the plaintiffs.

This has also been a comment in prior audits.

We strongly recommend the County Court deposit all checks made payable to the County Court and thereby run this activity through the County Court's accounting system and financial institution.

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CHEYENNE COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Cheyenne 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 Cheyenne 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 Cheyenne 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 27, 2004, on our consideration of Cheyenne 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 27, 2004

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

Deputy State Auditor

CHEYENNE COUNTY COURT
 SIDNEY, 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	\$ 87,734	\$ 352,338	\$ 358,118	\$ 81,954
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 6,209	\$ 63,730	\$ 65,148	\$ 4,791
Law Enforcement Fees	374	4,204	4,325	253
Interest	33	213	229	17
State Judges Retirement Fund	402	3,808	3,630	580
Automation Fees	-	10,375	9,417	958
Legal Services Fees	393	9,377	9,117	653
Due to County Treasurer:				
Regular Fines	12,377	136,685	139,820	9,242
Overload Fines	1,260	5,335	6,595	-
Regular Fees	813	9,517	10,242	88
Due to Municipalities:				
Regular Fines	1,334	18,160	17,798	1,696
Regular Fees	200	2,011	1,970	241
Trust Fund Payable	64,339	88,923	89,827	63,435
Total Liabilities	\$ 87,734	\$ 352,338	\$ 358,118	\$ 81,954

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cheyenne 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 Cheyenne 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.

CHEYENNE 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 certificate 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, 2003	\$ 81,954	\$ 75	\$ 81,879	\$ 89,317

However, funds were entirely covered by federal depository insurance.

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CHEYENNE 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 Cheyenne County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated April 27, 2004. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cheyenne 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 Cheyenne 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 Cheyenne 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 Cheyenne 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 Cheyenne County Court in the Comments Section of the report as Comment Number 2 (Monthly Report Review), Comment Number 3 (Overdue Balances), Comment Number 4 (Records Retention), Comment Number 5 (Emergency Receipts), and Comment Number 6 (Garnishment Transactions).

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 27, 2004


Dawn Hauffman CPA
Deputy State Auditor