

**AUDIT REPORT  
OF  
SCOTTS BLUFF COUNTY COURT  
JULY 1, 2002 THROUGH JUNE 30, 2003**

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# SCOTTS BLUFF COUNTY COURT

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# SCOTTS BLUFF COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of Scotts Bluff 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. ***Condemnation Appeals:*** Appealed condemnation cases were not separately invested by the County Court.
3. ***Review of Non-Case Receipt Reports:*** Monthly non-case receipt reports were not reviewed by the County Court to ensure subsequent posting and/or attachment of defendant payments in a timely manner.
4. ***Overdue Balances:*** Warrants and/or suspensions were not being issued in a timely manner on overdue case balances.

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. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

# SCOTTS BLUFF 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. Good internal control further requires employees involved in the case receipt process not be allowed to issue receipts for non-monetary transactions.

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. We also recommend the County Court restrict the issuance of non-monetary receipts to a limited number of County Court employees who are not involved in the cash receipt process. Should the Court decide not to restrict issuance of non-monetary receipts due to a limited number of personnel, we recommend the Clerk Magistrate review "Courtwide Receipt/ Disbursement History" reports to ensure the propriety of non-monetary receipts issued. These reviews should be documented by initialing the reports and retaining them for subsequent inspection. We further recommend similar review and documentation procedures for the voided and adjusted transaction reports.

*County Court's Response: The accounting clerk will be restricted from issuing monetary receipts and another employee will be trained to reconcile bank statements. Also, a limited number of employees will be allowed to issue non-monetary receipts, void or adjust receipts. This manager will review these reports on a regular basis.*

### 2. Condemnation Appeals

Neb. Rev. Stat. Section 76-719.01 R.R.S. 1996 regarding deposits of condemnation awards and the interest thereon states, whenever money remaining on deposit is five thousand dollars or more, the County Court shall place such amount in a savings account or other interest-bearing obligations of the Federal government. Additionally, Neb. Rev. Stat. Section 76-711 R.R.S. 1996, states, either

# SCOTTS BLUFF COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 2. Condemnation Appeals (Concluded)

the condemnee or condemner, based on appellate action, shall be entitled to interest on such award accruing from the date of deposit. Lastly, the Nebraska County Court Procedural Manual, Section 5, regarding condemnations, states that because of the interest involved in condemnation awards, it is recommended that condemnation awards deposited with the Court be placed in individual or separate accounts to avoid co-mingling with other interest earned.

During the audit we noted the County Court received in June 2003 a total of \$1,096,897 in condemnation awards on two separate civil cases. The State of Nebraska (the condemner) subsequently filed appeals of these awards. After the County Court paid out a portion of the awards through stipulations, the Court did not separately invest the remaining unpaid award amounts. As of December 15, 2003, a total balance of \$698,271 remained in the Court's regular checking account related to these appealed awards.

We recommend that because of the interest involved in condemnation awards, these awards be placed in individual or separate accounts to avoid co-mingling with other interest earned by the County Court. We further recommend that because all interest related to the condemnation award in question was credited to the County Court's regular bank account, the Court should recalculate and adjust the amount of interest to be credited to the condemnation award.

*County Court's Response: Corrective action has been taken to separately invest the remaining unpaid award amounts. Also, interest has been recalculated and adjusted and will be properly credited to each award.*

### 3. Review of Non-Case Receipt Reports

Good internal control and sound business practice require the County Court conduct regular reviews of non-case receipt balances to ensure subsequent posting and/or attachment of defendant payments in a timely manner. Without a regular review of non-case receipt balances, there is an increased risk defendant payments will not be posted and/or attached to defendant cases in a timely manner.

# SCOTTS BLUFF COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. Review of Non-Case Receipt Reports (Concluded)

During the audit, the following was noted:

- One of two non-case citation receipts tested did not have the defendant's payment attached to the related case in a timely manner. As a result of the defendant's payment not being subsequently posted to the case in a timely manner, a suspension request was sent to the Nebraska Department of Motor Vehicles. The County Court posted the payment to the defendant's case once the defendant approached the County Court regarding his suspension.
- Five of thirteen non-case bond receipts tested did not have the defendants' bond payments attached to their applicable cases in a timely manner.

We recommend the County Court include in its review of monthly cases balance reports, a comprehensive review of the monthly non-case receipt reports in order to assist the County Court in posting and/or attaching defendant payments to their related cases in a timely manner.

*County Court's Response: Non-case receipts are being reviewed on a regular basis to ensure they are posted and attached to defendants' cases in a timely manner.*

### 4. Overdue Balances

Good internal control and sound business practice requires 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 previously been paid and/or resolved.

Out of the 40 overdue case balances tested, 17 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. All 17 overdue case balances in question had not been paid by a date ordered by the Court. As was noted in the prior audit, as of August 31, 2002, the County Court had a total of \$208,663 in overdue case amounts. As of December 13, 2003, the total overdue case amounts had increased to \$346,966; an increase of \$138,303 in approximately 15 months. The prior two audits included this comment.

We recommend the County Court review overdue balances on a more regular basis to determine what action needs to be taken to resolve these cases.

# SCOTTS BLUFF COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Overdue Balances (Concluded)

*County Court's Response: This manager began taking steps to resolve this problem after assuming office in September 2003. We have begun to issue warrants for unpaid fines and costs and have implemented a system for reviewing these cases on regular basis. The process of collecting overdue fines and/or determining some uncollectible may require several months due to the large number of cases and the length of time in which no action had been taken at all.*

*County Court's Overall Response: I was not the manager for Scotts Bluff County Court during the fiscal year ending June 30, 2003. I was appointed Clerk-Magistrate on September 1, 2003. Since my appointment, I have been working with staff members to address many of the concerns mentioned in the audit report and I feel we are making progress in some areas such as the overdue balances referred to in Comment Note No. 4.*

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## SCOTTS BLUFF COUNTY COURT

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### INDEPENDENT AUDITORS' REPORT

**Pat Reding, CPA**  
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We have audited the accompanying financial statement of Scotts Bluff 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.

**Tim Channer, CPA**  
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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.

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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.

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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 Scotts Bluff 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 Scotts Bluff 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 December 17, 2003, on our consideration of Scotts Bluff 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.

December 17, 2003

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

Deputy State Auditor

SCOTTS BLUFF COUNTY COURT  
GERING, 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
<b>ASSETS</b>				
Cash and Deposits	\$ 324,866	\$ 2,338,501	\$ 1,353,432	\$ 1,309,935
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 16,234	\$ 201,954	\$ 200,019	\$ 18,169
Law Enforcement Fees	922	10,476	10,445	953
Interest	269	1,907	2,079	97
State Judges Retirement Fund	663	10,980	8,994	2,649
Automation Fees	-	32,422	27,166	5,256
Legal Services Fees	957	27,080	23,485	4,552
Due to County Treasurer:				
Regular Fines	31,227	320,328	324,932	26,623
Overload Fines	575	5,950	6,525	-
Regular Fees	5,219	62,294	62,750	4,763
Due to Municipalities:				
Regular Fines	7,188	98,897	95,655	10,430
Regular Fees	984	13,781	13,309	1,456
Trust Fund Payable	260,628	1,552,432	578,073	1,234,987
<b>Total Liabilities</b>	<b>\$ 324,866</b>	<b>\$ 2,338,501</b>	<b>\$ 1,353,432</b>	<b>\$ 1,309,935</b>

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

**SCOTTS BLUFF COUNTY COURT**  
**NOTES TO FINANCIAL STATEMENT**  
For the Fiscal Year Ended June 30, 2003

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Scotts Bluff 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 Scotts Bluff 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.

**SCOTTS BLUFF 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 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, 2003	\$ 1,309,935	\$ 400	\$ 1,309,535	\$ 1,317,532

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.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## SCOTTS BLUFF 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 Scotts Bluff County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Scotts Bluff 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 Scotts Bluff 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 the management of Scotts Bluff County Court in the Comments Section of this report as Comment Number 2 (Condemnation Appeals).

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scotts Bluff 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 Scotts Bluff 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 Scotts Bluff County Court in the Comments Section of the report as Comment Number 3 (Review of Non-Case Receipt Reports) and Comment Number 4 (Overdue Balances).

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.

December 17, 2003



Deputy State Auditor