

**AUDIT REPORT  
OF  
PHELPS COUNTY COURT**

**JULY 1, 2003 THROUGH JUNE 30, 2004**

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**Issued on February 18, 2005**

# PHELPS COUNTY COURT

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# PHELPS COUNTY COURT

## SUMMARY OF COMMENTS

During our audit of Phelps 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:*** County Court deposits were not fully secured for five days during the audit period. The deposit balance in excess of FDIC coverage was, at its maximum, as much as \$1,894,368.
3. ***Unrecorded Investment Activity:*** Investment activity was not being recorded in the accounting system 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 as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths 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. Where no response has been included, the Court declined to respond. 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.

# PHELPS 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 as 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.

In June 2004, the County Court had five days in which its bank account balance exceeded FDIC coverage by as much as \$1,894,368. The County Court had not obtained pledged securities to protect these excess balances. When deposits in excess of FDIC coverage are not fully secured, not only is the County Court non-compliant with State Statute, but funds on deposit are at risk of loss in the event of bank failure.

We recommend the County Court monitor its deposit balances and obtain additional securities, when necessary, to fully secure County Court deposits.

*County Court's Response: As for item 2 on the audit, I had received a wrongful death settlement and had contacted my bank indicating that I would have this large deposit. I inquired about securities and they said that since we would be holding the funds for such a short period of time, we wouldn't need any additional pledging. I now understand that this is not so and will force my bank to get the additional pledging when and if this happens again.*

# PHELPS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. Unrecorded Investment Activity

Sound accounting practices, as well as good internal control, require the accurate and timely entry of all financial activity into the County Court's accounting system. When financial activity is not recorded in a timely manner, the County Court's accounting system does not provide a true picture of the financial transactions and/or trust balances of the County Court.

As of June 30, 2004, the County Court had a net total of \$1,144 in unrecorded investment activity which consisted of:

- \$2,011 in interest.
- \$35 in deposits to an investment money market account.
- \$3,190 in disbursements from the investment money market account.

The origination of the underlying transactions date as far back as October 2001. As with past audits, the Clerk Magistrate stated she has had numerous verbal contacts with the Court Administrator's Office regarding this issue and, as of yet, no resolution has been determined.

This was also noted in the prior two audits.

We recommend the County Court implement procedures to ensure timely recording of all activity, including that which is related to its investment accounts. In addition, we recommend the County Court take steps to promptly record all previously unrecorded financial activity in the accounting system.

*County Court's Response: As indicated on the report I have been in contact with the Justice personnel since the audit conducted in June of 2003 to try to find a solution to posting the account activity. I contacted the Justice Help Desk about this problem during the audit in June of 2003, several times by phone since that time, spoke to the Justice personnel at the Magistrates Convention, and contacted them again this May at which time I sent a worksheet indicating the transactions that need to be posted. The Justice personnel have indicated that the Justice program is not an accounting program, but they think that they have found an answer to the problem. I will continue to work with the Justice personnel to ensure that proper procedure in posting investment activity is followed and that timely recording of all activity of investment account are up-to-date. These funds will be totally dispersed shortly and I can assure you that we will not set up an account in this fashion in the future.*

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## PHELPS COUNTY COURT

### INDEPENDENT AUDITORS' REPORT

Mr. Frank Goodroe  
State Court Administrator  
State Capitol Building, Room 1220  
Lincoln, Nebraska 68509

We have audited the accompanying financial statement of Phelps County Court as of and for the fiscal year ended June 30, 2004, 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 Phelps 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 Phelps County Court as of June 30, 2004, 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 January 27, 2005, on our consideration of Phelps County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

January 27, 2005

  
Deputy State Auditor

PHELPS COUNTY COURT  
 HOLDREGE, NEBRASKA  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**AGENCY FUNDS**

For the Fiscal Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>ASSETS</b>				
Cash and Deposits	\$ 144,766	\$ 2,409,833	\$ 707,312	\$ 1,847,287
<b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 5,465	\$ 52,298	\$ 53,286	\$ 4,477
Law Enforcement Fees	246	5,122	4,908	460
State Judges Retirement Fund	528	11,247	10,556	1,219
Court Administrative Fees	900	26,836	25,178	2,558
Legal Services Fees	627	13,685	13,111	1,201
Due to County Treasurer:				
Regular Fines	9,040	113,175	113,789	8,426
Overload Fines	325	4,825	5,125	25
Regular Fees	78	2,596	2,600	74
Due to Municipalities:				
Regular Fines	60	1,380	1,380	60
Regular Fees	125	1,305	1,387	43
Trust Fund Payable	127,372	2,177,364	475,992	1,828,744
<b>Total Liabilities</b>	<b>\$ 144,766</b>	<b>\$ 2,409,833</b>	<b>\$ 707,312</b>	<b>\$ 1,847,287</b>

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



PHELPS COUNTY COURT  
NOTES TO FINANCIAL STATEMENT  
For the Fiscal Year Ended June 30, 2004

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Phelps 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 Phelps 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.

PHELPS COUNTY COURT  
NOTES TO FINANCIAL STATEMENT

(Continued)

2. **Deposits and Investments** (Concluded)

The June 30, 2004, carrying amount of total deposits, which includes a checking account, a money market account, and certificates of deposit, was \$1,847,287. The bank balance was \$1,846,582. These funds were not entirely covered by federal depository insurance or by collateral securities pledged to the Court and held by a Federal Reserve Bank or a bank or trust company in this State other than the depository bank.

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**PHELPS COUNTY COURT  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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State Court Administrator  
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We have audited the financial statement of Phelps County Court as of and for the year ended June 30, 2004, and have issued our report thereon dated January 27, 2005. The report was modified to emphasize that the financial statement presents only the Agency Funds of Phelps 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Phelps 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 an opinion 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 Phelps 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 reportable 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 caused by error or fraud 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Phelps 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the management of Phelps County Court in the Comments Section of this report as Comment Number 2 (Deposits Not Fully Secured) and Comment Number 3 (Unrecorded Investment Activity).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Deputy State Auditor

January 27, 2005