

**AUDIT REPORT
OF
SCOTTS BLUFF COUNTY COURT
JULY 1, 2003 THROUGH JUNE 30, 2004**

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Issued on January 5, 2005

SCOTTS BLUFF COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 3
<u>Financial Section</u>	
Independent Auditors' Report	4 - 5
Financial Statement:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2004	6
Notes to Financial Statement	7 - 8
<u>Government Auditing Standards Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9 - 10

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. ***Overdue Balances:*** Subsequent action was not consistently taken by the County Court to resolve overdue case balances.

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. 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.

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.

County Court's Response: The accounting clerk is restricted from issuing monetary receipts except when no one else is available. Two separate employees have been trained to reconcile bank statements. Also, a limited number of employees are allowed to issue non-monetary receipts, void or adjust receipts. This manager reviews these reports on a regular basis.

2. 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 been previously paid and/or resolved.

Out of the 45 overdue case balances tested, 16 did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balance. Of the exceptions noted, 12 related to overdue time payments which did not have subsequent action taken by the Court, 3 involved cases in which fines/costs had either been credited by a Judge or served in jail by the defendant but credit had not been recorded by the Court and 1 related to a defendant unsatisfactorily released from probation whose fine balance is likely uncollectible.

The Clerk Magistrate indicated the County Court is working to follow up on overdue balances. During the audit it was noted that as of December 13, 2003 the total overdue case balances totaled \$346,966. As of November 27, 2004 the total of overdue case balances had decreased to \$326,056; a \$20,910 or 6% decrease in a one year time period.

SCOTTS BLUFF COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Overdue Balances (Concluded)

The prior three 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.

County Court's Response: The Scotts Bluff County Court has been taking action to resolve this problem by issuing warrants for unpaid fines and costs and we have implemented a system for reviewing these cases on a regular basis. This process will take time due to fact that no action had been taken for several years by the previous manager who was in office until August 2003.

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

SCOTTS BLUFF COUNTY COURT

INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statement of Scotts Bluff 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 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, 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 December 3, 2004, 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 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.

December 3, 2004

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style.

Assistant Deputy 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, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Deposits	\$ 1,309,935	\$ 1,477,021	\$ 1,862,766	\$ 924,190
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 18,266	\$ 195,104	\$ 197,413	\$ 15,957
Law Enforcement Fees	953	17,935	17,615	1,273
State Judges Retirement Fund	2,649	35,752	35,677	2,724
Court Administrative Fees	5,256	88,533	86,917	6,872
Legal Services Fees	4,552	48,660	49,701	3,511
Due to County Treasurer:				
Regular Fines	26,623	356,837	365,031	18,429
Overload Fines	-	7,075	6,759	316
Regular Fees	4,763	51,332	52,638	3,457
Due to Municipalities:				
Regular Fines	10,430	109,009	110,667	8,772
Regular Fees	1,456	14,929	15,747	638
Trust Fund Payable	1,234,987	551,855	924,601	862,241
Total Liabilities	\$ 1,309,935	\$ 1,477,021	\$ 1,862,766	\$ 924,190

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, 2004

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.R.S. 2003 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 a checking account 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, 2004	\$ 924,190	\$ 400	\$ 923,790	\$ 934,406

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.

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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

**SCOTTS BLUFF 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**

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

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

We have audited the financial statement of Scotts Bluff County Court as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. 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.

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 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 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 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain additional matter that we reported to the management of Scotts Bluff County Court in the Comments Section of this report as Comment Number 2 (Overdue Balances).

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



Assistant Deputy Auditor

December 3, 2004