

**AUDIT REPORT
OF
GARDEN COUNTY COURT**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on January 12, 2006

GARDEN COUNTY COURT

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GARDEN COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Garden 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. ***Deposit Coverage:*** County Court deposits were not fully secured during the entire audit period. The amount of unsecured deposits were, at their maximum, \$55,851.
3. ***Unclaimed Property:*** The County Court did not report and remit trust balances to the State Treasurer that were over three years old as required by State Statute.
4. ***Non-Monetary Transactions:*** The County Court was inconsistent in its claiming of nonwaiverable court costs on dismissed and/or otherwise uncollectible cases and did not retain adequate documentation to support all non-monetary transactions.
5. ***Overdue Balances:*** The County Court did not consistently review overdue case balances and take actions, as necessary, to resolve the 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. The Court declined to respond.

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

GARDEN 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. Further, 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. Deposit Coverage

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.

For thirteen days during the months of August and September 2004, the County Court had a bank account balance exceeding the \$100,000 in coverage provided by the FDIC. The amount of unsecured deposits were, at their maximum, \$55,851.

When the County Court's deposits are not fully secured, there is an increased risk of loss in the event of bank failure.

We recommend the County Court carefully monitor its total deposit balances and promptly obtain pledged securities, when necessary, to fully secure the County Court's deposits.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Unclaimed Property

Neb. Rev. Stat. Section 69-1310 R.R.S. 2003, the Unclaimed Property Act, provides any unclaimed property, after three years, is presumed abandoned. Any presumed abandoned property, as of June 30 each year, must be reported and remitted to the State Treasurer by Nov. 1 of each year.

During testing of the County Court's trust balances as of June 30, 2005, three case balances, totaling \$27, were noted as having been outstanding for at least three years and, as of December 20, 2005, had not been remitted to the State Treasurer in accordance with the Unclaimed Property Act.

There is an increased risk of loss of funds or errors when balances are not current. This condition was similarly noted in the prior audit report.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with State Statute.

4. Non-Monetary Transactions

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2003, requires when any costs in misdemeanor, traffic, felony preliminary, or juvenile cases in county court, except for those costs provided for in subsection (3) of Section 24-703 (Judges Retirement Fee), two dollars of the fee provided in Section 33-107.01 (Legal Services Fee), the Court Automation Fee provided in Section 33-107.03, and the Uniform Data Analysis Fee provided in Section 47-633, are found by a county judge to be uncollectible for any reason, including the dismissal of the case, such costs shall be deemed waived unless the judge, in his or her discretion, enters an order assessing such portion of the costs as by law would be paid over by the court to the State Treasurer. In addition, State of Nebraska Records Retention Schedule 18-7-7, regarding County Court Traffic Case Files, requires the original traffic case file documents, including any pleading or orders of the court, be disposed of 2 years after judgment was entered provided an audit has been completed.

During testing of ten non-monetary receipts, the following was noted:

- The County Court was inconsistent in its claiming of nonwaiverable court costs on dismissed or otherwise uncollectible cases. Two instances were noted in which the County Court waived the entire amount of court costs on such cases, including those costs which are nonwaiverable by State Statute.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Non-Monetary Transactions (Concluded)

- There were two instances in which the County Court could not locate the physical citations and/or other supporting documentation to support the issuance of non-monetary receipts on which the JUSTICE system indicated as having been dismissed by the prosecutor.

Inconsistency in the claiming of court costs was also noted in the prior audit.

We recommend the County Court claim nonwaiverable court costs on dismissed and/or otherwise uncollectible cases consistent with State Statute. We also recommend the County Court retain all documentation in accordance with the appropriate State of Nebraska's records retention schedules.

5. 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 actions might be necessary to address and/or resolve the balances.

During testing of eight overdue case balances as of December 17, 2005, the following was noted:

- One instance in which a defendant owed \$898 in fines and was delinquent on a time payment agreement without ongoing follow up by the County Court to attempt to resolve the balance.
- One instance in which \$124 in overdue fines/court costs related to a 1993 traffic citation had no ongoing follow up by the County Court to attempt to resolve the balance.
- One instance in which \$557 in overdue fines/costs had been satisfied by the issuance of a commitment and the subsequent jailing of the defendant, however, the County Court had not issued a non-monetary receipt to clear the waiverable fines/court costs amount and then claim any remaining nonwaiverable court costs.

Furthermore, as of December 4, 2004, the County Court had a total of \$8,294 in overdue balances. As of December 17, 2005, the total in overdue balances had increased to \$10,354; an increase of \$2,060, or approximately 25% in one year.

GARDEN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Overdue Balances (Concluded)

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

We recommend the County Court review overdue case balances on an ongoing basis to determine what actions might be necessary to address and/or resolve those case balances.

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GARDEN COUNTY COURT

INDEPENDENT AUDITORS' REPORT

Ms. Janice Walker
State Court Administrator
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Lincoln, Nebraska 68509

We have audited the accompanying financial statement of Garden County Court as of and for the fiscal year ended June 30, 2005, 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 Garden 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 Garden County Court as of June 30, 2005, 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 20, 2005, on our consideration of Garden 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 20, 2005


Deputy State Auditor

GARDEN COUNTY COURT
 OSHKOSH, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and Deposits	\$ 21,366	\$ 314,544	\$ 290,486	\$ 45,424
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 2,933	\$ 27,038	\$ 27,228	\$ 2,743
Law Enforcement Fees	295	2,876	2,830	341
State Judges Retirement Fund	527	5,205	5,142	590
Court Administrative Fees	823	8,573	8,423	973
Legal Services Fees	768	7,541	7,422	887
Due to County Treasurer:				
Regular Fines	5,323	55,359	54,152	6,530
Regular Fees	10	1,577	1,518	69
Due to Municipalities:				
Regular Fines	25	-	25	-
Trust Fund Payable	10,662	206,375	183,746	33,291
Total Liabilities	\$ 21,366	\$ 314,544	\$ 290,486	\$ 45,424

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

GARDEN COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2005

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Garden 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 Garden 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.

The June 30, 2005, carrying amount of total deposits, which included a checking account and a money market account, was \$45,424. The bank balance was \$45,220. All funds were entirely covered by federal depository insurance.

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GARDEN 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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We have audited the financial statement of Garden County Court as of and for the year ended June 30, 2005, and have issued our report thereon dated December 20, 2005. The report was modified to emphasize that the financial statement presents only the Agency Funds of Garden 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 Garden 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 Garden 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 Garden 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 Garden County Court in the Comments Section of this report as Comment Number 2 (Deposit Coverage), Comment Number 3 (Unclaimed Property), Comment Number 4 (Non-Monetary Transactions), and Comment Number 5 (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.

December 20, 2005


Deputy State Auditor