

**AUDIT REPORT
OF
BOX BUTTE COUNTY COURT
JULY 1, 2005 THROUGH JUNE 30, 2006**

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Issued on February 28, 2007

BOX BUTTE COUNTY COURT

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BOX BUTTE COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Box Butte 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 balance in unsecured deposits was, at its maximum, \$32,268.
3. ***Bond Assignments:*** Assignment of defendants' appearance bonds to fines and costs were not consistently documented in writing.

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 County Court.

Draft copies of this report were furnished to the County 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.

BOX BUTTE 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.

County Court's Response: Of course, segregation of duties will be included in any audit report for Box Butte County Court.

2. Deposit Coverage

Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 requires 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 May 2006, the County Court's \$75,000 pledged security was released and not replaced which left the County Court with only \$100,000 FDIC coverage to insure its deposits. As a result, for 11 days in June 2006 the County Court had bank balances which exceeded FDIC deposit coverage. The balance in unsecured deposits was, at its maximum, \$32,268.

When County Court deposits are not fully secured, the County Court is subject to an increased risk of loss.

We recommend the County Court actively monitor its deposit balances and obtain additional securities in a timely manner, when necessary, to fully secure County Court deposits at all times.

BOX BUTTE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Deposit Coverage (Concluded)

County Court's Response: Regarding the deposit coverage and the unsecured deposits, I have enclosed a copy of the Pledge Security Notification received from First National Bank on February 16, 2007. You will note that it shows the issue date of 6-22-06. Apparently the Bank took it upon itself to put Box Butte County under one pledge security agreement, and without notifying the Court, included the County Court with the other county offices and released the County Court pledged security agreement. We were totally unaware of this until Sandy came to do the audit. She personally contacted Tom Pieterick at First National and he told her that the removal of the County Court pledge security agreement was in error, and in fact, he asked her "are they going to be written up for that?"

Auditor's Response: The issue date does not represent the date securities are pledged to cover County Court deposits. As in this case, First National Bank provided the Court with \$100,000 in pledged securities in the form of Federal Home Loan (FHLB) agency notes which had first been issued for sale by FHLB on June 22, 2006, thus the June 22, 2006, issue date. The effective date the bank pledged these securities to cover County Court deposits was February 6, 2007. This means these securities were not pledged to cover Box Butte County Court deposits until that date. While, in this case, there did appear to be some misunderstanding by the bank regarding which branch of government the County Court belonged to, and this misunderstanding by the bank regarding which branch of government the County Court belonged to, and this misunderstanding likely resulted in the Court not having adequate securities, the County Court is ultimately responsible for ensuring that any of its deposits in excess of the amount insured by the FDIC are secured by either a surety bond or as provided in the Public Funds Deposit Security Act.

3. Bond Assignments

Neb. Rev. Stat. Section 29-901(3)(a) R.S. Supp., 2006, related to the execution of an appearance bond, requires return of the bond deposit or bond deposit proceeds to the defendant upon various circumstances such as the performance of the defendant's appearance(s), declined and/or dismissed prosecution, bond reduction, etc. The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states when a defendant wants to apply any or all of their bond to fines and costs, the Assignment of Bond Form (Form No. 13:2) is to be used to document the defendant's assignment. Furthermore, the Court Procedure Manual, also issued by the Nebraska State Court Administrator's Office, references the use of the Assignment of Bond Form when defendants elect to assign bond money to fines and costs.

The County Court did not consistently use the Assignment of Bond Form as supporting documentation of a defendant's election to assign their bond money to fines and costs. Of 15 adjustments tested, 5 were bond assignments to fines and costs which were not supported by written assignments from the defendants.

BOX BUTTE COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Bond Assignments** (Concluded)

When bond assignments are not documented in writing, there is an increased risk of loss, theft, or misuse of bond proceeds.

We recommend the County Court review the Court Accounting Manual and Court Procedure Manual sections related to bond assignments and, as instructed in those manuals, consistently document the assignment of bonds using the prescribed form.

County Court's Response: Regarding the bond assignment issue, this has been discussed among the court employees, and I don't feel that this will be a problem in the future. One employee stated that she didn't think a defendant had to sign a bond assignment for payment of court costs only. I do not know where the idea came from as the other employees don't do that. This matter has been addressed, discussed, and should not happen again.

STATE OF NEBRASKA
Auditor of Public Accounts



Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

BOX BUTTE COUNTY COURT
INDEPENDENT AUDITORS' REPORT

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the accompanying financial statement of Box Butte County Court as of and for the fiscal year ended June 30, 2006, 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 Box Butte 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 Box Butte County Court as of June 30, 2006, 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 February 6, 2007, on our consideration of Box Butte 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.

February 6, 2007


Assistant Deputy Auditor

BOX BUTTE COUNTY COURT
 ALLIANCE, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Deposits	\$ 60,505	\$ 794,548	\$ 746,781	\$ 108,272
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 5,937	\$ 64,265	\$ 60,179	\$ 10,023
Law Enforcement Fees	480	6,195	5,991	684
State Judges Retirement Fund	1,147	17,874	17,131	1,890
Court Administrative Fees	3,188	37,050	37,221	3,017
Legal Services Fees	1,343	19,380	18,638	2,085
Due to County Treasurer:				
Regular Fines	11,071	147,920	142,443	16,548
Overload Fines	-	550	550	-
Regular Fees	1,207	12,125	12,751	581
Due to Municipalities:				
Regular Fines	440	4,519	4,303	656
Trust Fund Payable	35,692	484,670	447,574	72,788
Total Liabilities	\$ 60,505	\$ 794,548	\$ 746,781	\$ 108,272

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

BOX BUTTE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Box Butte 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 Box Butte 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 County 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.

BOX BUTTE COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisted of checking accounts, 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, 2006	\$ 108,272	\$ 100	\$ 108,172	\$ 109,589

These funds were not entirely covered by federal depository insurance.

STATE OF NEBRASKA
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Mike Foley
State Auditor
Mike.Foley@apa.ne.gov

P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

BOX BUTTE 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

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the financial statement of Box Butte County Court as of and for the year ended June 30, 2006, and have issued our report thereon dated February 6, 2007. The report was modified to emphasize that the financial statement presents only the Agency Funds of Box Butte 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 Box Butte 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 Box Butte 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 Box Butte 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 Box Butte County Court in the Comments Section of this report as Comment Number 2 (Deposit Coverage) and Comment Number 3 (Bond Assignments).

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

February 6, 2007


Assistant Deputy Auditor