

**AUDIT REPORT
OF
CEDAR COUNTY COURT**

JULY 1, 2005 THROUGH JUNE 30, 2006

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Issued on June 13, 2007

CEDAR COUNTY COURT

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CEDAR COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Cedar 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. ***Pledged Securities:*** County Court Deposits were not fully secured for a time period during the fiscal year.
3. ***Change Fund:*** County Court change fund is not accounted for on the JUSTICE system.

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. The County Court declined to respond.

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

CEDAR 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. Pledged Securities

Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 states, "No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation shall be made to accumulate in any bank . . . as a depository unless and until the county judge, clerk of the county court, or clerk of the district court, as the case may be, has received from such depository as security for the prompt repayment by the depository of his or her respective deposits in excess of the amount insured by the Federal Deposit Insurance Corporation either a surety bond in form and with corporate sureties approved by the county judge or judges or by formal resolution of the county board, as the case may be, or in lieu thereof, the giving of security as provided in the Public Funds Deposit Act."

For approximately three months during the fiscal year, the County Court had a combined checking and savings account balance which exceeded the FDIC coverage. No pledged securities were obtained by the County Court to secure the excess balance. The balance of unsecured deposits was, at its maximum, \$61,380.

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

CEDAR COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Pledged Securities** (Concluded)

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

3. **Change Fund**

Sound Accounting practice requires all monies in the possession of the County Court be accounted for in the Court's financial system.

During the cash count, it was noted the County Court had \$60 in cash used to make change, which consists of two separate \$30 change funds. At the time of the cash count, one of these \$30 change funds was not recorded on the JUSTICE system; the Court's computerized financial and case management system.

This was also noted in the prior audit.

We recommend all change funds maintained by the County Court be recorded in the JUSTICE system.



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CEDAR 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 Cedar 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 County 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 County Court's Agency Funds activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of Cedar 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 Cedar 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 May 21, 2007, on our consideration of Cedar County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations 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.

May 21, 2007


Assistant Deputy Auditor

CEDAR COUNTY COURT
HARTINGTON, 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	\$ 40,422	\$ 424,034	\$ 427,237	\$ 37,219
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 4,721	\$ 50,198	\$ 51,222	\$ 3,697
Law Enforcement Fees	509	4,520	4,656	373
State Judges Retirement Fund	1,033	11,967	11,992	1,008
Court Administrative Fees	3,685	32,889	34,646	1,928
Legal Services Fees	1,371	13,419	13,630	1,160
Due to County Treasurer:				
Regular Fines	10,495	122,486	122,932	10,049
Overload Fines	575	4,550	5,075	50
Regular Fees	216	2,576	2,660	132
Due to Municipalities:				
Regular Fines	-	225	200	25
Trust Fund Payable	17,817	181,204	180,224	18,797
Total Liabilities	\$ 40,422	\$ 424,034	\$ 427,237	\$ 37,219

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

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cedar 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 County 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 County Court, which are paid by the Nebraska Supreme Court, or the operating expenses, which are paid by Cedar 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.

CEDAR COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisted of a checking account were as follows:

	<u>Total Cash and Deposit Carrying Amount</u>	<u>Cash Amount</u>	<u>Deposit Carrying Amount</u>	<u>Bank Balance</u>
June 30, 2006	\$ 37,218	\$ 60	\$ 37,158	\$ 39,268

These funds were entirely covered by federal depository insurance.



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CEDAR 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 Cedar County Court as of and for the year ended June 30, 2006, and have issued our report thereon dated May 21, 2007. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cedar 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 Cedar 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 Cedar 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 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 Cedar 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 Cedar County Court in the Comments Section of this report as Comment Number 2 (Pledged Securities) and Comment Number 3 (Change Fund).

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.

May 21, 2007


Assistant Deputy Auditor