

**AUDIT REPORT
OF
DEUEL COUNTY COURT**

JULY 1, 2004 THROUGH JUNE 30, 2006

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Issued on January 19, 2007

DEUEL COUNTY COURT

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DEUEL COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Deuel 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. *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.
- 3. *Overdue Balances:*** The County Court did not review its overdue balances on an ongoing, timely basis to ensure collections and/or resolution of such 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 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.

DEUEL 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. 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 November 1 of each year.

During testing of June 30, 2005, and June 30, 2006, trust balances, 10 criminal case balances totaling \$4,170 were noted which had not had any case activity since June 2002. All 10 balances consisted of defendant appearance bonds. As of January 5, 2007, these bonds had not been declared forfeited and remitted to Deuel County, or reported and remitted to the State Treasurer as Unclaimed Property.

Without a regular review and timely resolution of such balances, as might be necessary, there is an increased risk of loss, theft, or misuse of funds.

DEUEL COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Unclaimed Property (Concluded)

We recommend the County Court review its trust balances and work with the County Attorney to determine if inactive bonds should be forfeited to Deuel County or otherwise promptly remit all unclaimed property in its possession in accordance with the State Statute.

3. Overdue Balances

Good internal control and sound business practices require overdue balances of the County Court be reviewed on a continuing, timely basis to determine what action should be taken to collect and/or otherwise resolve those balances.

Nine of fifteen overdue balances tested, totaling \$1,062, did not have subsequent action taken by the County Court to ensure collection and/or resolution of the balances, such as the issuance of warrants and/or suspensions or declaration of certain overdue balances as uncollectible. In addition, as of February 5, 2005, the total in overdue balances was \$14,615; as of December 30, 2006, this total had increased to \$25,589; an increase of \$10,974, or approximately 75% in 23 months.

Without a regular review of overdue case balances, there is an increased risk overdue balances may either not have proper follow up action taken or the balances may have been previously resolved and should no longer be reflected as being overdue.

We recommend the County Court review the Overdue Case Account Report on a continuing, timely basis and take action, when appropriate, to further collect and/or resolve the balances overdue the County Court.

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DEUEL 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 statements of Deuel County Court as of and for the fiscal years ended June 30, 2006, and June 30, 2005, as listed in the Table of Contents. The financial statements are the responsibility of the Court's management. Our responsibility is to express an opinion on the financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 statements were 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 statements present 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 Deuel County Court for the years then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Deuel County Court as of June 30, 2006, and June 30, 2005, and the related activity for the fiscal years 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 5, 2007, on our consideration of Deuel 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 5, 2007


Deputy State Auditor

DEUEL COUNTY COURT
 CHAPPELL, 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	\$ 26,667	\$ 187,827	\$ 184,372	\$ 30,122
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 2,392	\$ 19,832	\$ 20,918	\$ 1,306
Law Enforcement Fees	334	2,183	2,343	174
State Judges Retirement Fund	598	5,617	5,753	462
Court Administrative Fees	960	7,225	7,445	740
Legal Services Fees	890	6,283	6,648	525
Due to County Treasurer:				
Regular Fines	10,072	51,071	57,175	3,968
Overload Fines	-	1,000	225	775
Regular Fees	15	211	195	31
Trust Fund Payable	11,406	94,405	83,670	22,141
Total Liabilities	\$ 26,667	\$ 187,827	\$ 184,372	\$ 30,122

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

DEUEL COUNTY COURT
 CHAPPELL, 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	\$ 27,958	\$ 118,023	\$ 119,314	\$ 26,667
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 2,286	\$ 16,964	\$ 16,858	\$ 2,392
Law Enforcement Fees	239	2,185	2,090	334
State Judges Retirement Fund	496	4,162	4,060	598
Court Administrative Fees	810	7,341	7,191	960
Legal Services Fees	616	5,792	5,518	890
Due to County Treasurer:				
Regular Fines	7,221	60,692	57,841	10,072
Regular Fees	50	408	443	15
Due to Municipalities:				
Regular Fines	-	50	50	-
Trust Fund Payable	16,240	20,429	25,263	11,406
Total Liabilities	\$ 27,958	\$ 118,023	\$ 119,314	\$ 26,667

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

DEUEL COUNTY COURT
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006, and June 30, 2005

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Deuel 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 Statements of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflect 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 statements do 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 Deuel County.

B. Basis of Accounting

The accounting records of the County Court Agency Funds are maintained, and the Statements of Changes in Assets and Liabilities Arising from Cash Transactions have 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.

DEUEL COUNTY COURT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisted of a checking account, 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	\$ 30,122	\$ -	\$ 30,122	\$ 30,921
June 30, 2005	\$ 26,667	\$ -	\$ 26,667	\$ 27,510

These funds were entirely covered by federal depository insurance.

STATE OF NEBRASKA
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DEUEL 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 statements of Deuel County Court as of and for the years ended June 30, 2006, and June 30, 2005, and have issued our report thereon dated January 5, 2007. The report was modified to emphasize that the financial statements present only the Agency Funds of Deuel 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 Deuel 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 statements 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 Deuel County Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. 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 Deuel County Court's financial statements are 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 Deuel County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property) and Comment Number 3 (Overdue Balances).

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.

January 5, 2007


Deputy State Auditor