

**AUDIT REPORT
OF
DAKOTA COUNTY COURT**

JULY 1, 2006 THROUGH JUNE 30, 2007

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Issued on April 17, 2008

DAKOTA COUNTY COURT

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DAKOTA COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Dakota 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. ***Garnishment Transactions:*** Garnishment checks made payable to the County Court were not run through the County Court's bank account. Instead, these checks were endorsed directly over to the plaintiffs.
3. ***Overdue Balances:*** Subsequent action to ensure resolution or collection of overdue case balances had not been performed by the County Court for six of eight balances tested.

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.

DAKOTA 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: This comment and recommendation is made on an annual basis, and it can only be remedied by the addition of personnel. That function is beyond the authority of the audited entity's authority to resolve.

2. Garnishment Transactions

Sound accounting practice and good internal control requires the receipt and deposit of all monies received, including checks made payable to the County Court. When checks made payable to the County Court are endorsed over to another party, rather than being deposited and run through the County Court's accounting system and financial institution, there is an increased risk of liability in the event of loss, theft, or misuse.

Garnishment checks made payable to the County Court were not deposited into the County Court's bank account. Instead, these checks were directly endorsed over to the plaintiffs.

We recommend the County Court deposit all checks made payable to the County Court and hereby run this activity through the County Court's accounting system and financial institution.

DAKOTA COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Garnishment Transactions (Concluded)

County Court's Response: The item described in this comment and recommendation has been noted for the first time this year. This method of handling garnishment checks written to the County Court rather than to the judgment creditor has existed for numerous years previously. At no time in past audits has this comment and recommendation been made. While the comment indicates that garnishment checks written to the Court were directly endorsed over to the judgment creditors (typically plaintiffs) the stamped endorsement used by Court staff indicates the case number and the parties involved and to whom the check was being made payable and that it was done without recourse. Furthermore, the endorsement must be signed by either the judge or clerk-magistrate. The reasons for this method of handling such checks is to provide the judgment creditor with the funds as soon as practicable, protect the Court from dealing with insufficient fund checks and the resulting bank fees, reduce risk of loss in the system by processing the checks more immediately, reduce the judgment interest charges that would otherwise accrue to the detriment of the judgment debtor without any fault on his or her part, and provide the judgment creditor with the proceeds in more timely fashion. Less than a dozen garnishment cases required the use of the "stamp" endorsement during the audit period.

To rectify this commented concern the Court is now writing letters to the garnishee requesting payment be made to the judgment creditor and sent to the Court pursuant to the garnishment instructions. If this does not correct the problem, the Court will return the check to the garnishee and require compliance with the Court's instructions rather than deposit the funds with the Court risking the insufficient funds check scenario and its attendant complications.

Auditor's Response: Garnishment checks made payable to the County Court should be deposited in the County Court's bank account and not restrictively endorsed and forwarded to the judgment creditor.

3. Overdue Balances

Good internal controls and sound business practices require overdue balances of the County Court be reviewed on an ongoing and timely basis to determine what action should be taken to collect or otherwise resolve those balances.

We noted six of eight overdue balances tested did not have subsequent action taken by the County Court to ensure collection or resolution of the balances. Action taken by the County Court could include the issuance of a warrant, the issuance of a suspension, or the declaration of certain overdue balances as uncollectible. As of March 22, 2008, total overdue balances, excluding restitution, were \$287,790.

DAKOTA COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Overdue Balances (Concluded)

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

We recommend the County Court review the Overdue Case Account Report on an ongoing basis and take action, when appropriate, to collect or resolve the balances overdue to the County Court.

County Court's Response: The overdue case balances are reviewed and acted upon as time allows. The Dakota County Court staff has been reduced in recent years, and prior to that time the full compliment of staff allowed for more frequent reviews. In addition, the amount of the overdue balances, \$287,790 no doubt consists of numerous cases where the involved party has moved from the jurisdiction of the Court to another state or lives in an area where local law enforcement lacks jurisdiction to serve time-pay warrants. Where possible, action is taken on cash bonds that have been posted, time-payment warrants issued, and orders to show cause why the debtors should not be held in contempt for failing to pay outstanding amounts have been entered. Notwithstanding these actions, the Court does not have any other method to enforce collection of outstanding amounts and is reluctant to just write off as "uncollectible" funds that may eventually be recovered. To resolve this issue, another entity or authorized agent, should be legally empowered by statute or whatever means necessary to collect the amount of these outstanding obligations.

Auditor's Response: The regular review of overdue case balances on an ongoing basis is the main control to ensure collection or resolve the overdue balances. The regular review of overdue case balances is also a control which ensures the Overdue Case Account Report is current and accurate.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

DAKOTA 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 Dakota County Court as of and for the fiscal year ended June 30, 2007, 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 Dakota 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 Dakota County Court as of June 30, 2007, 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 April 11, 2008, on our consideration of Dakota County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, 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.

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

April 11, 2008

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

For the Fiscal Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Deposits	\$ 244,567	\$ 1,286,030	\$ 1,315,156	\$ 215,441
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 17,839	\$ 184,053	\$ 185,918	\$ 15,974
Law Enforcement Fees	1,876	16,265	17,068	1,073
State Judges Retirement Fund	4,987	49,019	50,161	3,845
Court Administrative Fees	10,837	132,207	130,147	12,897
Legal Services Fees	5,491	56,322	56,993	4,820
Due to County Treasurer:				
Regular Fines	49,593	491,793	506,637	34,749
Overload Fines	700	12,225	12,750	175
Regular Fees	8,705	59,885	60,710	7,880
Due to Municipalities:				
Regular Fines	206	2,719	2,706	219
Regular Fees	455	3,242	3,487	210
Trust Fund Payable	143,878	278,300	288,579	133,599
Total Liabilities	\$ 244,567	\$ 1,286,030	\$ 1,315,156	\$ 215,441

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

DAKOTA COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2007

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Dakota 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 Dakota 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.

DAKOTA 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, 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, 2007	\$ 215,441	\$ 210	\$ 215,231	\$ 218,722

These funds were entirely covered by federal depository insurance or by collateral securities pledged to the County Court and held by a Federal Reserve Bank, or by a Bank or trust company in this State other than the depository bank.

3. Reclassification

The beginning balance of State Treasurer Regular Fees was decreased by \$1,215 and the beginning Trust Fund Payable balance was increased by \$1,215 to account for an overpayment of Bill of Exception (BOE) Fees to the State Treasurer made during fiscal year 2006. This overpayment of BOE Fees was not correctly reflected on the fiscal year 2006 Statement of Changes in Assets and Liabilities. The beginning balance of State Treasurer Regular Fees was increased by \$55 and County Treasurer Regular Fees were decreased by \$55 to account for a Department of Health adjustment. The Net Adjustment to State Treasurer Regular Fees was a decrease of \$1,160.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

DAKOTA 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 Dakota County Court as of and for the year ended June 30, 2007, and have issued our report thereon dated April 11, 2008. The report was modified to emphasize that the financial statement presents only the Agency Funds of Dakota 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 Dakota County Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Court's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency described in the Comments Section of the report to be a significant deficiency in internal control over financial reporting: Comment Number 1 (Segregation of Duties).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County Court's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dakota 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 Dakota County Court in the Comments Section of this report as Comment Number 2 (Garnishment Transactions) and Comment Number 3 (Overdue Balances).

The County Court's written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit the County Court's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Supreme Court, others within 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

April 11, 2008