

**ATTESTATION REPORT
OF
HALL COUNTY COURT**

JULY 1, 2009 THROUGH JUNE 30, 2011

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Issued on June 18, 2012

HALL COUNTY COURT

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HALL COUNTY COURT

SUMMARY OF COMMENTS

During our examination of Hall County Court, we noted a certain deficiency in internal control that we consider to be a material weakness and other operational matters that are presented here.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial schedule will not be prevented, or detected and corrected on a timely basis.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Segregation of Duties:*** Considered to be a material weakness, one individual was capable of handling all phases of a transaction from beginning to end.
2. ***IRS 1099 Forms:*** The County Court did not file a U.S Department of the Treasury, Internal Revenue Service (IRS) form 1099 for individuals in accordance with IRS requirements.

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. Where no response has been included, the County Court declined to respond. 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 examination.

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

HALL 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 examinations.

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. IRS 1099 Forms

The U.S. Department of the Treasury's Internal Revenue Service (IRS) Code specific instructions for form 1099-MISC require filing of a 1099 form for each nonemployee paid compensation of \$600 or more. The instructions state:

"If the following four conditions are met, you must generally report a payment as nonemployee compensation.

- *You made the payment to someone who is not your employee;*
- *You made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations);*
- *You made the payment to an individual, partnership, estate, or, in some cases, a corporation; and*
- *You made payments to the payee of at least \$600 during the year."*

During testing, it was determined the County Court paid \$625 in calendar year 2010 to one individual for appraiser services in a civil condemnation case. Additionally, in calendar year 2011, the County Court paid \$850 in appraiser service fees to two individuals and \$1,350 to another.

HALL COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. IRS 1099 Forms (Concluded)

The County Court has not historically prepared any 1099 forms and did not in these four instances for 2010 and 2011.

When procedures are not in place to ensure conformity with all IRS 1099 reporting requirements, there is an increased risk of potential liability related to any noncompliance.

We strongly recommend the County Court immediately review this situation with the Nebraska State Court Administrator's Office and seek specific, documented guidance on 1099 issuance responsibilities of County Courts.

County Court's Response: When we have been questioned in the past about providing 1099 forms, Hall County Court contacted the Court Administrators Office in Lincoln and was advised that County Court's do not provide 1099 forms.

We would request that the Court Administrators Office provide a policy or some direction Statewide to address this concern, to help prevent this from being a comment on future Audits.



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HALL COUNTY COURT

INDEPENDENT ACCOUNTANT'S REPORT

We have examined the accompanying Schedules of Changes in Assets and Liabilities Arising from Cash Transactions of Hall County Court as of and for the fiscal years ended June 30, 2011, and June 30, 2010. The County Court's management is responsible for the Schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Hall County Court as of June 30, 2011, and June 30, 2010, and the related activity for the fiscal years then ended, based on the accounting system and procedures prescribed by the Nebraska Supreme Court as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedules and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We performed our examination to express an opinion on whether the Schedules are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedules or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and the findings, along with the views of management, are described in the Comments Section of the report.

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

SIGNED ORIGINAL ON FILE

June 7, 2012

Deann Haeffner, CPA
Assistant Deputy Auditor

HALL COUNTY COURT
GRAND ISLAND, NEBRASKA
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and Deposits	\$ 355,425	\$ 2,874,935	\$ 2,865,901	\$ 364,459
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 39,586	\$ 425,939	\$ 427,809	\$ 37,716
Law Enforcement Fees	3,493	33,786	33,589	3,690
State Judges Retirement Fund	13,559	129,660	129,898	13,321
Court Administrative Fees	18,309	177,023	177,369	17,963
Legal Services Fees	14,153	136,284	136,517	13,920
Due to County Treasurer:				
Regular Fines	61,708	669,514	669,759	61,463
Overload Fines	3,350	25,325	27,975	700
Regular Fees	7,006	94,805	95,900	5,911
Due to Municipalities:				
Regular Fines	10,926	117,289	115,725	12,490
Regular Fees	2,146	29,294	28,831	2,609
Trust Fund Payable	181,189	1,036,016	1,022,529	194,676
Total Liabilities	\$ 355,425	\$ 2,874,935	\$ 2,865,901	\$ 364,459

The accompanying notes are an integral part of the schedule.

HALL COUNTY COURT
GRAND ISLAND, NEBRASKA
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS

For the Fiscal Year Ended June 30, 2010

	<u>Balance</u>		<u>Deductions</u>	<u>Balance</u>
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2010</u>
ASSETS				
Cash and Deposits	\$ 370,566	\$ 2,485,224	\$ 2,500,365	\$ 355,425
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 46,233	\$ 423,194	\$ 429,841	\$ 39,586
Law Enforcement Fees	2,341	29,372	28,220	3,493
State Judges Retirement Fund	11,460	129,004	126,905	13,559
Court Administrative Fees	13,459	168,719	163,869	18,309
Legal Services Fees	12,773	137,073	135,693	14,153
Due to County Treasurer:				
Regular Fines	59,401	663,216	660,909	61,708
Overload Fines	2,200	24,950	23,800	3,350
Regular Fees	5,717	75,341	74,052	7,006
Due to Municipalities:				
Regular Fines	10,687	124,290	124,051	10,926
Regular Fees	1,849	29,467	29,170	2,146
Trust Fund Payable	<u>204,446</u>	<u>680,598</u>	<u>703,855</u>	<u>181,189</u>
Total Liabilities	<u>\$ 370,566</u>	<u>\$ 2,485,224</u>	<u>\$ 2,500,365</u>	<u>\$ 355,425</u>

The accompanying notes are an integral part of the schedule.

HALL COUNTY COURT
NOTES TO FINANCIAL SCHEDULES
For the Fiscal Years Ended June 30, 2011, and June 30, 2010

1. Criteria

A. Reporting Entity

The Hall 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 Schedules of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflect 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 Schedules do 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 Hall County.

B. Basis of Accounting

The accounting records of the County Court Agency Funds are maintained, and the Schedules of Changes in Assets and Liabilities Arising from Cash Transactions have been prepared, based on the accounting system and procedures prescribed by the Nebraska Supreme Court. Under this system 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.

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. § 25-2713 (Reissue 2008). 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. § 77-2326.04 (Reissue 2009) to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.