AUDIT REPORT
OF
RED WILLOW COUNTY COURT

JULY 1, 2003 THROUGH JUNE 30, 2004

Issued on April 21, 2005

RED WILLOW COUNTY COURT

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RED WILLOW COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Red Willow 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. ***Non-waiverable Court Costs:*** The County Court non-monetarily receipted court costs, which according to Statute were non-waiverable, including instances in which defendants had sat time out in jail and in cases which had been dismissed.

3. ***Monthly Report Review:*** The County Court was not consistent and/or timely in its review of Monthly Case Balance Reports.

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 Court.

Draft copies of this report were furnished to the Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Court declined to respond.

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

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. 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. Non-waiverable Court Costs

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2004 states, when any costs in misdemeanor, traffic, felony preliminary, or juvenile cases in county court, except for those costs provided for in subsection (3) of section 24-703 (judge's retirement fee), two dollars of the fee provided in section 33-107.01 (legal services fee), the court automation fee provided in section 33-107.03, and the uniform data analysis fee provided in section 47-633, are found by a county judge to be uncollectible for any reason, including the dismissal of the case, such costs shall be deemed waived unless the judge, in his or her discretion, enters an order assessing such portion of the costs as by law would be paid over by the court to the State Treasurer.

During testing of non-monetary receipts, the following was noted:

- When defendants were credited for time spent in jail in lieu of paying fines/costs, the County Court did not consistently claim to the prosecutor for those court costs which, according to Statute, were non-waiverable. Specifically, in three out of four "JL" non-monetary receipts tested, the County Court did not claim for the non-waiverable court costs but instead non-monetarily receipted those costs. In the remaining one out of four "JL" non-monetary receipts tested, the County Court did claim for the non-waiverable costs.
- One instance was noted in which non-waiverable court costs were waived in a dismissed juvenile case.

2. <u>Non-waiverable Court Costs</u> (Concluded)

When non-waiverable court costs are not dealt with in accordance to State Statute, there is an increased risk of error.

> We recommend the County Court work to ensure the amount of non-waiverable court costs on dismissed and/or otherwise uncollectible cases, including cases involving the jailing of defendants, are waived and/or claimed consistent with Statute.

3. <u>Monthly Report Review</u>

Good internal control requires consistent and timely review of monthly accounting reports, for the County Court this includes the Monthly Case Balance Report and the Report of Non-Case Receipts Report. Reviews are to determine if the reported information is complete and accurate and to take corrective action whenever necessary to resolve a balance.

Testing of the June 2004 Monthly Case Balance Report noted one $77 traffic case balance which represented a December 2003 receipt of a defendant's payment in full. The payment was further supported by the defendant's signed waiver. However, as of March 28, 2005, the defendant's payment had not yet been applied to his fines/costs.

When monthly accounting reports are not reviewed on a consistent and timely basis, there is an increased risk that potential errors in balances and/or transactions will not be detected and/or resolved in a timely manner.

> We recommend the County Court review all monthly accounting reports, including the Monthly Case Balance Report and the Report of Non-Case Receipts Report, on a consistent and timely basis and take corrective actions, whenever necessary, to resolve discrepancies. This review should be documented.

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RED WILLOW COUNTY COURT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statement of Red Willow County Court as of and for the fiscal year ended June 30, 2004, 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 Red Willow 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 Red Willow County Court as of June 30, 2004, 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 March 29, 2005, on our consideration of Red Willow 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.

Timothy J. Channer CPA

March 29, 2005 Assistant Deputy Auditor

RED WILLOW COUNTY COURT
MCCOOK, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS
For the Fiscal Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Deposits	$ 31,766	$ 424,513	$ 405,481	$ 50,798
LIABILITIES				
Due to State Treasurer:				
Regular Fees	$ 5,724	$ 61,311	$ 61,941	$ 5,094
Law Enforcement Fees	288	6,564	6,269	583
State Judges Retirement Fund	777	14,335	13,890	1,222
Court Administrative Fees	1,224	30,326	28,585	2,965
Legal Services Fees	764	17,674	16,849	1,589
Due to County Treasurer:				
Regular Fines	9,878	126,585	124,870	11,593
Overload Fines	-	2,400	2,150	250
Regular Fees	1,409	12,417	12,823	1,003
Due to Municipalities:				
Regular Fines	445	2,870	3,065	250
Regular Fees	34	36	70	-
Trust Fund Payable	11,223	149,995	134,969	26,249
Total Liabilities	$ 31,766	$ 424,513	$ 405,481	$ 50,798

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

RED WILLOW COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2004

1. <u>Summary of Significant Accounting Policies</u>

A. Reporting Entity

The Red Willow 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 Red Willow 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. <u>Deposits and Investments</u>

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 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.

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 Carrying Amount	Cash Amount	Deposit Carrying Amount	Bank Balance
June 30, 2004	$ 50,798	$ 50	$ 50,748	$ 50,169

However, funds were entirely covered by federal depository insurance.

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RED WILLOW 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
Acting State Court Administrator
State Capitol Building, Room 1220
Lincoln, Nebraska 68509

We have audited the financial statement of Red Willow County Court as of and for the year ended June 30, 2004, and have issued our report thereon dated March 29, 2005. The report was modified to emphasize that the financial statement presents only the Agency Funds of Red Willow 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 Red Willow 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 Red Willow 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 Red Willow 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 Red Willow County Court in the Comments Section of this report as Comment Number 2 (Non-waiverable Court Costs) and Comment Number 3 (Monthly Report Review).

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

Timothy J. Channer CPA

March 29, 2005 Assistant Deputy Auditor