

**AUDIT REPORT
OF
SIOUX COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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SIoux COUNTY COURT

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SIoux COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Sioux 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. ***Accounting Errors and Trust Balance Documentation:*** Several uncorrected bookkeeping errors were noted in the County Court's JUSTICE account. Additionally, no documentation was available to support the trust balances of the County Court.
3. ***Internal Control Over Receipts:*** All monies received by the County Court were not promptly receipted and deposited.
4. ***Unclaimed Property:*** Unclaimed Property was incorrectly remitted to the State Treasurer as part of the County Court's remittance of "State fees."

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features 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. 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.

SIoux 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 since 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. Accounting Errors and Trust Balance Documentation

Sound accounting practice, as well as good internal control, require procedures be in place to ensure office records agree to bank activity on at least a monthly basis. Reconciliation procedures must include the timely identification and resolution of all variances. In addition, sound accounting practices and good internal control also require sufficient documentation be retained to support all liability balances of the County Court.

During our audit, we noted the following:

- The County Court is not reconciling its JUSTICE bank account on a monthly basis. Based on an auditor-performed reconciliation, at June 30, 2002, the County Court had a total of \$119 in uncorrected bookkeeping errors in its JUSTICE account. The origination of these errors dated as far back as May 2001. These errors consisted of unreceipted monies being deposited into the County Court's bank account, monies receipted into the JUSTICE system at amounts different from the related deposits, and unreceipted interest earned on the JUSTICE bank account.
- JUSTICE monthly trust reports which support the trust fund balances of the County Court (e.g., monthly case balance reports) were not printed and retained by the County Court. These monthly reports cannot subsequently be reprinted at later dates and, therefore, must be printed and retained by the County Court at the end of each month.

SIoux COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. Accounting Errors and Trust Balance Documentation (Concluded)

- The JUSTICE Statement of Cash Position for the fiscal year ended June 30, 2002 was not filed with the Nebraska Auditor of Public Accounts. This report identifies the dollar amount of activity for each County Court and is used in the preparation of the State of Nebraska's Comprehensive Annual Financial Report (CAFR). This report was not generated by the County Court because financial records must be in balance prior to the printing of the report and, as was previously mentioned, the County Court's JUSTICE account was not balanced at fiscal year end.

Similar problems were noted in the prior audit.

We strongly recommend the County Court reconcile its JUSTICE bank account on a monthly basis. All variances should be promptly investigated and resolved. We further recommend the County Court print and retain copies of all month-end balance reports, including all monthly case balance reports, in order to fully support the liability balances of the County Court.

County Court's Response: The accounting errors noted have been corrected and also the problem with the proper JUSTICE reports printing has been solved. I have tried to attend JUSTICE training for financial training on three separate occasions since the last audit and each time the class was canceled.

3. Internal Control Over Receipts

Good internal control requires all monies received be promptly receipted into the County Court's accounting system and subsequently deposited. In addition, good internal control also requires all checks received be restrictively endorsed immediately upon receipt in order to reduce the risk of loss, theft, or misuse.

At the time of audit fieldwork, one check, totaling \$110, and over 30 days old, was left laying on a desktop in the County Court office. This check, which was submitted in relation to the filing of a Motion of Discovery on a probate case, had neither been receipted into the JUSTICE system nor restrictively endorsed. The Clerk Magistrate stated that she intended to return the physical check to the payer because no fees were charged in relation to the Motion filings.

We recommend the County Court promptly receipt all monies received into its possession. At a minimum, payments can always be receipted into the JUSTICE system holding account and subsequently adjusted.

SIoux COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. Internal Control Over Receipts (Concluded)

Any refunds, if needed, should be processed as disbursements from the JUSTICE system. In addition, we recommend all checks received be restrictively endorsed immediately upon receipt.

County Court's Response: One check was not deposited as the defendant was to appear and the Judge was going to simply give the gentleman back his check, which didn't happen, and I failed to deposit it. It has now been deposited and is ready for a refund.

4. Unclaimed Property

Neb. Rev. Stat. Section 25-2717 R.R.S. 1995 requires the County Judge to notify the State Treasurer regarding any fees, money, or costs due or belonging to persons which have not been paid or demanded within three years from the date the funds were paid to the County Court, and, at the direction of the State Treasurer, to remit such funds to the State Treasurer for deposit pursuant to the Unclaimed Property Act.

In April 2002, the County Court remitted \$13 of unclaimed property to the State Treasurer as "State fees." Those funds should have been identified separately in the remittance to the State Treasurer as unclaimed property of the County Court.

This was a prior audit comment which has not been resolved by the County Court.

We recommend the County Court work with the Nebraska State Court Administrator's Office to rectify this unclaimed property remittance error.

County Court's Response: The money that was transferred to fees and paid to the State Treasurer was less than \$9 total and was from several uncashed refund checks that had been issued long before I was assigned to Sioux County Court. I now know that the money should have been paid to the Treasurer as Unclaimed Property. I have tried to contact a representative of the State Court Administrator's Office regarding how to proceed.

Auditors' Response: The monies incorrectly remitted to the State Treasurer as "State fees" consisted of \$8 in uncashed checks issued by the Court and \$5 in inactive trust balances. Unclaimed property, irregardless of source, should be remitted to the State Treasurer in accordance with the Unclaimed Property Act.

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SIOUX COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Sioux County Court as of and for the fiscal year ended June 30, 2002, 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 Sioux 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 Sioux County Court as of June 30, 2002, 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 October 2, 2002, on our consideration of Sioux County Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 2, 2002

Pat Reding, CPA

Assistant Deputy Auditor

SIOUX COUNTY COURT
 HARRISON, NEBRASKA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
AGENCY FUNDS
 For the Fiscal Year Ended June 30, 2002

	Balance July 1, 2001	Receipts	Disbursements	Balance June 30, 2002
ASSETS				
Cash and Deposits	\$ 740	\$ 36,597	\$ 34,377	\$ 2,960
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 3	\$ 6,531	\$ 6,064	\$ 470
Law Enforcement Fees	-	503	453	50
Interest	-	31	31	-
State Judges Retirement Fund	-	295	268	27
Legal Services Fees	-	518	468	50
Due to County Treasurer:				
Regular Fines	-	21,420	19,397	2,023
Regular Fees	-	58	58	-
Trust Fund Payable	737	7,241	7,638	340
Total Liabilities	\$ 740	\$ 36,597	\$ 34,377	\$ 2,960

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

SIOUX COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Sioux 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 Sioux 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 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.S.Supp., 2001 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

SIOUX COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. **Deposits and Investments** (Concluded)

The June 30, 2002 carrying amount of total deposits, which includes checking accounts, was \$2,960. The bank balance was \$3,619. All funds were entirely covered by federal depository insurance.

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SIOUX COUNTY COURT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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We have audited the financial statement of Sioux County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated October 2, 2002. The report was modified to emphasize that the financial statement presents only the Agency Funds of Sioux 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.

Compliance

As part of obtaining reasonable assurance about whether Sioux 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 that are required to be reported under *Government Auditing Standards*. We noted a certain immaterial instance of noncompliance that we have reported to the management of Sioux County Court in the Comments Section of this report as Comment Number 4 (Unclaimed Property).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sioux 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

assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Sioux County Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Segregation of Duties) and Comment Number 2 (Accounting Errors and Trust Balance Documentation).

A material weakness is a 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 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, of the reportable conditions described above, we consider Comment Number 1 to be a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to the management of Sioux County Court in the Comments Section of the report as Comment Number 3 (Internal Control Over Receipts).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

October 2, 2002

Pat Reding, CPA

Assistant Deputy Auditor