

**AUDIT REPORT
OF
SIOUX COUNTY COURT**

JULY 1, 2003 THROUGH JUNE 30, 2004

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Issued on December 16, 2004

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. ***Overpayments:*** Defendant overpayments, while placed into the JUSTICE refund account at time of receipt, were not subsequently refunded.
3. ***Accuracy of Disbursement Information:*** Disbursement information, including check dates and payees, as recorded in the JUSTICE system, did not consistently agree to the corresponding physical cancelled checks.
4. ***Bond Assignments:*** Defendant elections to assign bonds to fines and costs were not documented, in writing, by use of the Assignment of Bond Form prescribed by the Nebraska State Court Administrator's Office.
5. ***Overdue Balances:*** Warrants and/or suspensions were not being issued in a timely manner on overdue case 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 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.

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 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. Overpayments

Sound accounting practices and good internal control procedures require the County Court have receipt procedures in place which guide consistent and timely handling of overpayments and/or underpayments.

During the testing of case balances and case file activity five balances, totaling \$13, were noted as being related to defendant overpayments which had been placed into the appropriate refund account by the County Court; however, checks were not subsequently issued to refund these overpayments back to the appropriate defendants.

By not refunding overpayments but instead holding them in trust, the County Court is retaining defendant monies which are not due the County Court.

We recommend the County Court implement procedures which consistently resolve all overpayments and/or underpayments.

3. Accuracy of Disbursement Information

Sound accounting practices and good internal control procedures require the County Court's accounting system accurately reflect disbursement information, including dates, amounts and payees.

SIoux COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Accuracy of Disbursement Information (Concluded)

Three of ten disbursements tested had physical check dates which differed, ranging from 2 to 14 days, from the issuance dates as recorded in the JUSTICE system, the financial and case management system of the County Court. In addition, one of ten disbursements tested had a physical payee which was different from the payee recorded in the JUSTICE system.

When recorded and actual disbursement information is not in agreement, the County Court's accounting system does not accurately reflect disbursements made by the County Court and there is an increased risk for improper payments to occur.

We recommend the County Court implement procedures to ensure actual disbursement information is recorded in the JUSTICE system.

4. Bond Assignments

The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states that when a defendant wants to apply any or all of their bond amount to fines and costs, the Assignment of Bond Form (Form No. 13:2) is to be used to document the defendant's assignment. Furthermore, the Court Procedure Manual, also issued by the Nebraska State Court Administrator's Office, also references the use of the Assignment of Bond Form when defendants elect to assign bond money to fines and costs.

The County Court did not use the Assignment of Bond Form as supporting documentation of defendants' election to assign bond money to fines and costs.

Consistent documentation of the defendants' election to assign bond monies reduces the liability of the County Court should defendants subsequently deny having approved such assignments.

We recommend the County Court review the Court Accounting Manual and Court Procedure Manual sections related to bond assignments and, as instructed in those manuals, begin to consistently document the assignment of bonds.

5. Overdue Balances

Good internal control and sound business practices require overdue balances of the County Court be reviewed on a regular basis to determine what action should be taken to collect and/or otherwise resolve those accounts. Without a regular review of overdue cases, there is an increased risk a case listed as outstanding will either not have proper action taken, or that the amount outstanding may have been previously resolved.

SIoux COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Overdue Balances** (Concluded)

Two of five overdue balances tested, totaling \$323, 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.

We recommend the County Court review its overdue balances on an ongoing basis to determine what action needs to be taken to resolve the accounts.

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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, 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 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, 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 November 9, 2004, 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 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.

November 9, 2004

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, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Deposits	\$ 1,797	\$ 34,120	\$ 32,965	\$ 2,952
 LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 425	\$ 6,503	\$ 6,630	\$ 298
Law Enforcement Fees	18	597	573	42
State Judges Retirement Fund	55	1,102	1,076	81
Court Administrative Fees	73	2,040	1,989	124
Legal Services Fees	39	1,609	1,542	106
Due to County Treasurer:				
Regular Fines	805	15,792	15,797	800
Trust Fund Payable	382	6,477	5,358	1,501
Total Liabilities	\$ 1,797	\$ 34,120	\$ 32,965	\$ 2,952

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, 2004

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.R.S. 2003 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2004, carrying amount of total deposits, which includes a checking account, was \$2,952. The bank balance was \$2,556. All funds were entirely covered by federal depository insurance.

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SIoux 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*

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We have audited the financial statement of Sioux County Court as of and for the year ended June 30, 2004, and have issued our report thereon dated November 9, 2004. 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.

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 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 Sioux 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we have reported to the management of Sioux County Court in the Comments Section of this report as Comment Number 2 (Overpayments), Comment Number 3 (Accuracy of Disbursement Information), Comment Number 4 (Bond Assignments), and Comment Number 5 (Overdue Balances).

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

November 9, 2004

Pat Reding, CPA
Assistant Deputy Auditor