

**AUDIT REPORT
OF
SARPY COUNTY COURT**

JULY 1, 2005 THROUGH JUNE 30, 2006

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Issued on December 7, 2006

SARPY COUNTY COURT

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SARPY COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Sarpy 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. ***Bond Assignments:*** Bond Assignment Forms were not used by the Court to support assignment of bonds to fines and costs.
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.

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. The County Court declined to respond.

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

SARPY COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Bond Assignments

The Court Accounting Manual issued by the Nebraska State Court Administrator's Office states when a defendant wants to apply any or all of the 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, 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 a defendant's election to assign bond money to fines and costs. Five of ten adjustments tested were bond assignments to fines and/or costs which were not supported by written assignments from the defendants and/or the individuals to whom bonds may have been previously assigned. The County Court personnel stated that if defendants and/or the individuals to whom bonds may have been previously assigned are physically present at the County Court office and have their original bond receipt, those receipts, along with verbal authorization are accepted by the County Court.

When bond assignments are not documented in writing, there is an increased risk of loss or misuse of bond proceeds.

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

2. Garnishment Transactions

Sound accounting practice 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 thereby run this activity through the County Court's accounting system and financial institution.

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SARPY COUNTY COURT

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We have audited the accompanying financial statement of Sarpy County Court as of and for the fiscal year ended June 30, 2006, 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.

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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.

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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 Sarpy 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 Sarpy County Court as of June 30, 2006, 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 15, 2006, on our consideration of Sarpy 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 15, 2006


Deputy State Auditor

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

For the Fiscal Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Deposits	\$ 904,251	\$ 4,912,660	\$ 4,532,067	\$ 1,284,844
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 50,391	\$ 578,820	\$ 581,440	\$ 47,771
Law Enforcement Fees	5,340	60,377	60,617	5,100
State Judges Retirement Fund	10,538	158,082	154,625	13,995
Court Administrative Fees	31,835	343,429	347,726	27,538
Legal Services Fees	13,868	181,495	179,589	15,774
Due to County Treasurer:				
Regular Fines	117,348	1,440,069	1,435,884	121,533
Overload Fines	6,288	36,184	39,772	2,700
Regular Fees	13,895	153,501	157,362	10,034
Due to Municipalities:				
Regular Fines	339	6,507	5,872	974
Regular Fees	-	14	14	-
Trust Fund Payable	654,409	1,954,182	1,569,166	1,039,425
Total Liabilities	\$ 904,251	\$ 4,912,660	\$ 4,532,067	\$ 1,284,844

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

SARPY COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Sarpy 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 Sarpy 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.

SARPY 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 and money market accounts, 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, 2006	\$ 1,284,844	\$ 200	\$ 1,284,644	\$ 1,292,237

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.

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SARPY 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 Sarpy County Court as of and for the year ended June 30, 2006, and have issued our report thereon dated November 15, 2006. The report was modified to emphasize that the financial statement presents only the Agency Funds of Sarpy 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 Sarpy 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sarpy 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 Sarpy County Court in the Comments Section of this report as Comment Number 1 (Bond Assignments) and Comment Number 2 (Garnishment Transactions).

This report is intended solely for the information and use of 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.

November 15, 2006


Deputy State Auditor