

**AUDIT REPORT
OF
SHERIDAN COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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SHERIDAN COUNTY COURT

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SHERIDAN COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Sheridan 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:*** When defendants' fines/costs were waived for time spent in jail, the County Court waived those court costs which, according to Statute, are non-waiverable.
3. ***Accuracy of Overdue Balances:*** Two of eighteen overdue balances tested involved criminal cases in which, upon review, the amounts were determined not to be valid balances due the Court.

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. Where no response has been included, the 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 audit.

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

SHERIDAN 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. Non-waiverable Court Costs

Neb. Rev. Stat. Section 29-2709 R.S.Supp., 2003, 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.

When defendants were credited for time spent in jail in lieu of paying fines/costs, the Court also waived those costs which, according to Statute, are non-waiverable.

We recommend the County Court ensure the amount of non-waiverable court costs on dismissed and/or otherwise uncollectible cases, including cases involving the jailing of defendants, be waived and/or claimed only in accordance with Statute.

County Court's Response: Our response is that, in the circumstances mentioned, there was no finding of that such court costs were uncollectible, and there was no waiver of such court costs by the county judge.

SHERIDAN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

2. Non-waiverable Court Costs (Concluded)

County Court's Response, Concluded:

A defendant who is convicted of a misdemeanor must have the costs of prosecution assessed against him. Cf. Sec. 29-2207, RRS 1995.

If the defendant is not allowed to enter into a time payment agreement, or if he violates a time payment agreement, he is committed to the jail the costs are paid or he is otherwise discharged according to law. Cf. Sec. 29-2206, RRS 1995.

The defendant then is held in jail until the costs are paid. If cash payment is not made, the defendant receives credit on the costs of sixty dollars for each day held in jail. Cf. Sec. 29-2412, RRS 1995.

Since the statute mandates that the defendant receive a credit on the costs for the time imprisoned, the costs are in fact paid, by imprisonment rather than by cash. If the County were billed for any portion of the costs so paid, it would result in a double payment, and indeed a taking without compensation.

Because of the interplay of these statutes, the County Judge has not found costs paid by commitment to be uncollectible, but has instructed the court staff not to bill the County in such cases.

Auditors' Response: The Office of the Nebraska State Court Administrator is currently in the process of requesting Supreme Court adoption of a policy regarding court costs. It is important to note that this policy proposal is currently in draft format and would not be a formal policy of the Office of the Nebraska State Court Administrator until such time as the Supreme Court may adopt it. However, it is our understanding that the draft policy, as currently written, includes, in part, instruction to County Courts that they claim from the appropriate prosecutor(s) those costs identified as being non-waiverable by State Statute in instances in which a defendant may lay out time in jail in lieu of actually paying fines/costs. This potential future policy of the Office of the Nebraska State Court Administrator, if adopted by the Supreme Court, may provide additional criteria and guidance related to claiming of court costs and may, hopefully, further clarify the issue for the Sheridan County Court.

3. Accuracy of Overdue Balances

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

SHERIDAN COUNTY COURT

COMMENTS AND RECOMMENDATIONS

3. Accuracy of Overdue Balances (Concluded)

Two of eighteen overdue balances tested involved criminal cases in which, upon review, the amounts were determined not to be valid balances due the Court. In the first case, the Sheriff's Office had informed the Court on its warrant return that the defendant was deceased, however, the Court had not taken the necessary steps to clear the defendant's \$123 past due account balance. In the second case, the Court records show the defendant was committed to lay out fines/costs in jail, however, the Court had not taken the necessary steps to clear the defendant's \$148 past due balance.

We recommend the County Court review overdue balances on a regular basis to determine what action, if any, needs to be taken to resolve the accounts.

County Court's Response: Of the two overdue balances determined to be not valid:

One was for an amount for fine and costs for which a warrant of commitment had been issued, and for which the defendant had been arrested and jailed and released according to law, having paid the fine and costs by imprisonment rather than by cash. A "JL receipt" should have been issued in the JUSTICE system. That has now been done.

The other was for an amount for fine and costs for which a warrant of commitment had been issued, but the defendant died before an arrest was made, and the sheriff returned the warrant unexecuted. The County Judge did not make a finding that the amounts were uncollectible, and does not propose to make any such finding. Possibly the County Attorney could present a claim against the decedent's estate. Court staff have handled the matter exactly as instructed by the County Judge.

Auditors' Response: We continue to recommend the County Court review overdue balances on a regular basis. As a result of those reviews, appropriate follow-up action should be commenced in a timely manner. Specifically in regard to the second exception noted in the audit comment, County Court records indicated the Sheridan County Sheriff's Office returned to the Court the issued arrest warrant on October 10, 2002 indicating the defendant was deceased, however, as of November 18, 2003 the Court had taken no action to resolve the overdue balance.

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SHERIDAN COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Sheridan County Court as of and for the fiscal year ended June 30, 2003, 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 Sheridan 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 Sheridan County Court as of June 30, 2003, 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 18, 2003, on our consideration of Sheridan 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.

November 18, 2003

A handwritten signature in cursive script that reads "Dawn Hauffman CPA".

Deputy State Auditor

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

For the Fiscal Year Ended June 30, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
ASSETS				
Cash and Deposits	\$ 24,146	\$ 201,432	\$ 198,356	\$ 27,222
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 3,064	\$ 36,471	\$ 36,873	\$ 2,662
Law Enforcement Fees	200	2,056	2,138	118
Interest	14	117	122	9
State Judges Retirement Fund	129	2,077	1,957	249
Automation Fees	-	4,806	4,374	432
Legal Services Fees	212	4,771	4,671	312
Due to County Treasurer:				
Regular Fines	8,287	94,230	95,006	7,511
Overload Fines	-	125	125	-
Regular Fees	249	3,106	3,166	189
Due to Municipalities:				
Regular Fines	50	100	150	-
Trust Fund Payable	11,941	53,573	49,774	15,740
Total Liabilities	\$ 24,146	\$ 201,432	\$ 198,356	\$ 27,222

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

SHERIDAN COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2003

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Sheridan 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 Sheridan 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., 2002 to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.

The June 30, 2003, carrying amount of total deposits, which consisted of a checking account, was \$27,222. The bank balance was \$26,335. All funds were entirely covered by federal depository insurance.

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SHERIDAN 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 Sheridan County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated November 18, 2003. The report was modified to emphasize that the financial statement presents only the Agency Funds of Sheridan 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 Sheridan 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 Sheridan County Court in the Comments Section of this report as Comment Number 2 (Non-waiverable Court Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sheridan 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 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 Sheridan 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 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, we believe the reportable condition described above is a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to the management of Sheridan County Court in the Comments Section of the report as Comment Number 3 (Accuracy of Overdue Balances).

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.

November 18, 2003



Deputy State Auditor