

**AUDIT REPORT
OF
CASS COUNTY COURT**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on February 7, 2006

CASS COUNTY COURT

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CASS COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Cass 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. ***Credit Card Transactions:*** The credit card transactions that made up timing differences between the County Court's bank account and accounting system were not specifically determined or reconciled. In addition, the County Court has not resolved a \$228 unidentified variance in the County Court's bank reconciliations as identified in the previous two audits.
3. ***Monthly Report Review:*** The Monthly Case Balance Reports were not reviewed in a timely manner, with corrective action taken when necessary, to resolve any issues noted.

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.

CASS 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. Further, 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. Credit Card Transactions

Sound accounting practice and good internal control both require regular, detailed reconciliations of monies on deposit to the County Court's accounting records to ensure errors, omissions, or irregularities that might occur are detected and resolved in timely manner.

The County Court accepts credit card payments at the Court office location and at two State scale locations in Cass County. Deposits of credit card receipts are typically made to the County Court's bank account via the credit card companies prior to the monies being physically receipted into the accounting records. The County Court prepared a monthly bank account reconciliation and noted a difference between the balance of deposits in the bank account and the balance according to the accounting records. The County Court's explanation for the variance was that on occasion, credit card receipts were deposited into the County Court's bank account by the credit card companies prior to the monies being receipted into the County Court's accounting system (JUSTICE). There was no detailed documentation on file to support this monthly reconciling item. The Auditor of Public Accounts identified credit card reconciling items of \$1,903. Also, a \$208 error was identified in February 2005 in which receipts were issued but the bank account was not credited. A \$228 unidentified difference from prior fiscal years remains between the bank balance and the accounting records. We have noted this comment in previous audits.

CASS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Credit Card Transactions (Concluded)

When variances between the County Court's bank balance and book balance are not sufficiently itemized to ensure their accuracy there is an increased risk errors, omissions, or irregularities might occur and go undetected and/or unresolved.

We strongly recommend the County Court review its reconciliation procedures and develop a method to account for, in detail, all variances and/or reconciling items.

3. Monthly Report Review

Good internal control requires timely and thorough review of all trust balances held by the County Court to determine the accuracy and validity of such balances.

One of ten non-case balances on hand at June 30, 2005, totaling \$180, had not been assigned a case and no refund had been issued as of December 15, 2005.

When the County Court's trust reports are not consistently reviewed in a timely manner, there is an increased risk of errors, omission, and/or irregularities occurring and not being detected by the County Court in a timely manner.

We recommend the County Court review the Monthly Case Balance Report, as well as the Report of Non-Case Receipts in a timely manner to determine the accuracy and validity of the County Court's case balances. Additionally, we recommend timely corrective action be taken, whenever necessary, to resolve any errors, omissions, and/or irregularities that might be determined in such report reviews.

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CASS COUNTY COURT

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INDEPENDENT AUDITORS' REPORT

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We have audited the accompanying financial statement of Cass County Court as of and for the fiscal year ended June 30, 2005, 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 Cass 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 Cass County Court as of June 30, 2005, 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 January 9, 2005, on our consideration of Cass 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.

January 9, 2005


Deputy State Auditor

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

For the Fiscal Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and Deposits	\$ 404,619	\$ 1,698,635	\$ 1,942,476	\$ 160,778
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 17,446	\$ 207,345	\$ 207,582	\$ 17,209
Law Enforcement Fees	2,175	26,091	26,539	1,727
State Judges Retirement Fund	3,909	51,426	52,151	3,184
Court Administrative Fees	7,697	115,265	116,239	6,723
Legal Services Fees	5,658	70,093	71,209	4,542
Due to County Treasurer:				
Regular Fines	49,753	554,062	557,708	46,107
Overload Fines	14,730	232,577	238,081	9,226
Regular Fees	1,005	42,565	42,600	970
Due to Municipalities:				
Regular Fines	75	870	895	50
Trust Fund Payable	302,171	398,341	629,472	71,040
Total Liabilities	\$ 404,619	\$ 1,698,635	\$ 1,942,476	\$ 160,778

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

CASS COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2005

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Cass 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 Cass 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.

CASS 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, savings accounts, and certificates of deposit, 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, 2005	\$ 160,778	\$ 570	\$ 160,208	\$ 164,066

These funds were entirely covered by federal depository insurance or by collateral securities pledged to the 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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CASS 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 Cass County Court as of and for the year ended June 30, 2005, and have issued our report thereon dated January 9, 2005. The report was modified to emphasize that the financial statement presents only the Agency Funds of Cass 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 Cass 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 Cass 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 Cass 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 Cass County Court in the Comments Section of this report as Comment Number 2 (Credit Card Transactions) and Comment Number 3 (Monthly Report Review).

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.



Deputy State Auditor

January 9, 2005