

**AUDIT REPORT
OF
CASS COUNTY COURT**

JULY 1, 2006 THROUGH JUNE 30, 2007

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Issued on October 17, 2007

CASS COUNTY COURT

TABLE OF CONTENTS

	<u>Page</u>
<u>Comments Section</u>	
Summary of Comments	1
Comments and Recommendations	2 - 4
<u>Financial Section</u>	
Independent Auditors' Report	5 - 6
Financial Statement:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2007	7
Notes to Financial Statement	8 - 9
<u>Government Auditing Standards Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11

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 four audits nor a \$208 variance identified in the previous two audits.
3. ***Overdue Balances:*** The County Court did not review its overdue balances on an ongoing, timely basis to ensure collection and/or resolution of such balances.
4. ***Monthly Report Review:*** The Monthly Case Balance Report and Report of Non-Case Receipts 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 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.

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 a 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). When the County Court prepared their bank reconciliation for June 2007 the County Court attributed a \$3,618 variance between the balance of deposits in the bank account and the balance according to JUSTICE to credit card transactions. Of this amount \$436 was due to a \$208 error identified in February 2005 in which receipts were issued but the bank account was not credited and a \$228 unidentified difference from prior fiscal years that has not been corrected. The County Court did not have any documentation to support the remaining

CASS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Credit Card Transactions (Concluded)

\$3,182 reconciling item, which is essentially a “plug” figure. As part of testing, the auditor completed a bank reconciliation for the County Court and found after accounting for such reconciling items as the timing of credit card transactions and the ongoing \$436 variance, an unaccounted variance of \$75. We have noted this comment in the previous four audits.

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. We also recommend that for those errors that have been identified, as in the case of the \$208 that was never credited to the County Court’s bank account, that these identified errors be subsequently accounted/adjusted for in the County Court’s accounting records.

3. Overdue Balances

Good internal control and sound business practices require overdue balances of the County Court be reviewed on an ongoing, timely basis to determine what action should be taken to collect and/or otherwise resolve those balances.

Of 15 overdue balances tested, 11 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 or declaration of certain overdue balances as uncollectible. For 1 of the 15 overdue balances tested, the auditor found the individual had already sat the balance amount out in jail a couple years ago but the County Court had failed to issue a non-monetary receipt for the amount.

Without regular review of overdue case balances, there is an increased risk overdue balances may either not have proper follow up action taken or the balances may have been previously resolved and should no longer be reflected as being overdue.

CASS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Overdue Balances (Concluded)

We recommend the County Court review the Overdue Case Account Report on an ongoing, timely basis and take action, when appropriate, to collect and/or resolve the balances overdue the County Court.

4. Monthly Report Review

Good internal control requires timely and thorough reviews of all trust balances held by the County Court to determine the accuracy and validity of such balances. Good business practices also require that all adjustments determined necessary as a result of these reviews be made in a timely manner.

During testing of the County Court's trust balances, the following items were noted:

- As of September 12, 2007, one of ten non-case balance receipts tested, totaling \$180, had not been assigned a case. The \$180 was originally received on March 23, 2007, and a case was filed for the amount on March 30, 2007, but due to a clerical error when the case data was input into the accounting system the case number did not get attached to the receipt.
- For one of fifteen trust balances tested, the required accounting adjustment was not completed in a timely manner. In August of 2002, the defendant failed to show up for their court appearance date and their bond money was subsequently forfeited. At that time an adjustment should have been made in the County Court's accounting system to account for the forfeiture; however, the required adjustment was not made until September 2006.

This comment was also noted in the previous audit.

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

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

INDEPENDENT AUDITORS' REPORT

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the accompanying financial statement of Cass County Court as of and for the fiscal year ended June 30, 2007, as listed in the Table of Contents. The financial statement is the responsibility of the County 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 County 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, 2007, 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 16, 2007, 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, 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.

October 16, 2007


Assistant Deputy 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, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Deposits	\$ 434,695	\$ 1,688,654	\$ 1,837,918	\$ 285,431
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 23,061	\$ 179,594	\$ 187,133	\$ 15,522
Law Enforcement Fees	3,311	21,823	23,892	1,242
State Judges Retirement Fund	10,873	64,085	70,482	4,476
Court Administrative Fees	16,046	117,807	124,955	8,898
Legal Services Fees	9,600	75,541	79,309	5,832
Due to County Treasurer:				
Regular Fines	59,472	568,334	584,929	42,877
Overload Fines	19,874	191,118	195,642	15,350
Regular Fees	2,697	26,912	28,252	1,357
Due to Municipalities:				
Regular Fines	25	2,500	2,525	-
Trust Fund Payable	289,736	440,940	540,799	189,877
Total Liabilities	\$ 434,695	\$ 1,688,654	\$ 1,837,918	\$ 285,431

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, 2007

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 County 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 County 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 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.

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, a savings account, 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, 2007	\$ 285,431	\$ 665	\$ 284,766	\$ 278,854

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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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

Ms. Janice Walker, State Court Administrator
Nebraska Supreme Court
State Capitol, Room 1220
Lincoln, Nebraska 68509

We have audited the financial statement of Cass County Court as of and for the year ended June 30, 2007, and have issued our report thereon dated October 16, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Court's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the Comments Section of the report to be significant deficiencies in internal control over financial reporting: Comment Number 1 (Segregation of Duties) and Comment Number 2 (Credit Card Transactions).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County Court's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Comment Number 1 (Segregation of Duties) to be 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 3 (Overdue Balances) and Comment Number 4 (Monthly Report Review).

The County Court's written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit the County Court's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Supreme Court, other within the Court, and the appropriate Federal and regulatory agencies; however, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

October 16, 2007