

**AUDIT REPORT
OF
CASS COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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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. ***Pledged Security:*** Six times during the fiscal year the County Court had deposits in excess of amounts insured by the Federal Deposit Insurance Corporation that were not covered by additional pledged securities.
3. ***Credit Card Receipts:*** 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.
4. ***Non-Case Receipts:*** Receipts were not being applied to cases in a timely manner.

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. 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 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. Pledged Security

Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 states, "No deposits in excess of the amount insured by the FDIC shall be made to accumulate in any bank . . . designated as a depository" unless the county judge or clerk of the county court "has received from such depository as security for the prompt repayment by the depository of his or her respective deposits in excess of the amount insured by the Federal Deposit Insurance Corporation either a surety bond in form and with corporate sureties approved by the county judge or judges or by formal resolution of the county board, as the case may be, in lieu thereof, the giving of security as provided in the Public Funds Deposit Security Act." Good internal control would include procedures, which ensure deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) are adequately safeguarded from loss.

Six times during the year, for a total of 22 days, the County Court had bank deposits in excess of amounts insured by the FDIC and additional pledged securities. The largest amount of bank deposits in excess of coverage was \$32,253 for one day. We have noted this comment in previous audits.

When deposits in excess of amounts insured by the FDIC are not covered by pledged securities there is a risk County Court monies would be lost upon the financial failure of the institution in which monies are deposited.

CASS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Pledged Security (Concluded)

We recommend Cass County Court implement procedures to ensure all monies on deposit at financial institutions in excess of amounts insured by FDIC coverage are protected from loss by pledged securities.

3. Credit Card Receipts

Sound accounting practices and good internal controls require regular reconciliations between monies on deposit and accounting records to ensure errors, omissions, or irregularities have not occurred.

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.

Also during our audit, we noted a check listed on the June 30, 2003 outstanding check list, in the amount of \$450, which actually had cleared the bank prior to June 30, 2003.

The remaining unidentified difference between the reconciled bank balance and the reconciled accounting records balance was \$228 at June 30, 2003. When the variances between the balance of deposits in bank accounts and the balance according to the accounting records of the County Court are not adequately reconciled, the risk of errors, omissions, or irregularities going undetected is increased. We have also noted this comment in previous audits.

We recommend the County Court review this situation and develop adequate procedures to determine in detail which transactions make up the variance between the balance of deposits in the bank account and the balance according to the accounting records.

CASS COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Non-Case Receipts

Good internal control requires that receipts not associated with a case be researched and applied to a case in a timely manner. It also requires the review of such non-case receipts be documented to show an attempt to apply them to cases.

We noted three of the five non-case receipts tested were not applied to cases in a timely manner or refunded back to the payor. Additionally, no documentation was on file to support the non-case receipt had been researched and the disposition of the receipt.

When non-case receipts are not reviewed in a timely manner there is a risk that receipts intended for cases may not be correctly applied to the case and refunds due may not be issued.

We recommend the County Court routinely review the Report of Non-Case Receipts in an attempt to apply receipts to cases and document such review when performed.

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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, 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.

Tim Channer, CPA
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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.

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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, 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 May 3, 2004, 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 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.

May 3, 2004

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

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, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
ASSETS				
Cash and Deposits	\$ 204,879	\$ 1,291,952	\$ 1,317,545	\$ 179,286
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 17,569	\$ 189,271	\$ 185,555	\$ 21,285
Law Enforcement Fees	1,367	14,995	14,763	1,599
State Judges Retirement Fund	791	10,862	8,842	2,811
Automation Fees	-	34,989	29,910	5,079
Legal Services Fees	1,402	34,349	31,752	3,999
Due to County Treasurer:				
Regular Fines	47,286	508,940	501,985	54,241
Overload Fines	26,425	230,532	235,032	21,925
Regular Fees	2,785	25,282	25,722	2,345
Due to Municipalities:				
Regular Fines	75	1,170	1,120	125
Trust Fund Payable	107,179	241,562	282,864	65,877
Total Liabilities	\$ 204,879	\$ 1,291,952	\$ 1,317,545	\$ 179,286

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, 2003

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 checking 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, 2003	\$ 179,286	\$ 475	\$ 178,811	\$ 182,195

However, funds were 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, except for certain periods as noted in Comment Number 2 (Pledged Security).

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CASS 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 Cass County Court as of and for the year ended June 30, 2003, and have issued our report thereon dated May 3, 2004. 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.

Compliance

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 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 Cass County Court in the Comments Section of this report as Comment Number 2 (Pledged Security).

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

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 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 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 other matters involving internal control over financial reporting that we have reported to the management of Cass County Court in the Comments Section of the report as Comment Number 3 (Credit Card Receipts) and Comment Number 4 (Non-Case Receipts).

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.

May 3, 2004


Dawn Hauffman CPA
Deputy State Auditor