

**AUDIT REPORT  
OF  
CASS COUNTY COURT**

**JULY 1, 2003 THROUGH JUNE 30, 2004**

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**Issued on May 19, 2005**

# CASS COUNTY COURT

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>Comments Section</u></b>	
Summary of Comments	1
Comments and Recommendations	2 - 5
<b><u>Financial Section</u></b>	
Independent Auditors' Report	6 - 7
Financial Statement:	
Statement of Changes in Assets and Liabilities Arising from Cash Transactions - Agency Funds - For the Fiscal Year Ended June 30, 2004	8
Notes to Financial Statement	9 - 10
<b><u>Government Auditing Standards Section</u></b>	
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>	11 - 12

# 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. ***Deposits Not Fully Secured:*** County Court deposits were not fully secured during the entire audit period. The total deposit balance in excess of the combined FDIC and pledged security coverage was, at its maximum, as much as \$495,008.
3. ***Bond Assignments:*** Defendants' elections to assign bonds to fines and costs were not consistently documented, in writing, by use of the Assignment of Bond Form as prescribed by the Nebraska State Court Administrator's office, or a similar assignment form.
4. ***Credit Card Transactions:*** The County Court did not itemize and/or otherwise detail the credit card transactions reconciling item totals used in its monthly bank reconciliations. In addition, the County Court had not resolved a \$228 unidentified variance in the County Court's bank reconciliations as identified in the previous audit.
5. ***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.
6. ***Investment Interest:*** The County Court was not consistent in its recording of investment interest earnings.

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. 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. Deposits Not Fully Secured

Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 requires that any deposits in excess of the amount amount insured by the Federal Deposit Insurance Corporation (FDIC) be secured by either a surety bond or as provided in the Public Funds Deposit Security Act.

During the period of March 16, 2004, through May 3, 2004, the County Court had total deposit balances which exceeded the County Court's combined FDIC and pledged security coverage. The total deposits in excess of coverage were \$164,619 at March 31, 2004; \$484,100 at April 30, 2004; and \$495,008 at May 3, 2004. On May 4, 2004, an additional \$600,000 in pledged securities was obtained which was sufficient to then fully secure the County Court's total deposits. A similar finding was noted in the prior audit.

When the County Court's deposits are not fully secured, there is an increased risk of loss in the event of bank failure.

We recommend the County Court carefully monitor its total deposit balances and promptly obtain additional securities, when necessary, to fully secure the County Court's deposits.

# CASS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. Bond Assignments

Neb. Rev. Stat. Section 29-901 R.S.Supp., 2004, regarding bail conditions, states, in part, “. . . the cash deposit shall be returned to the defendant upon the performance of all appearances . . . ” Additionally, the Nebraska County Court Procedures Manual, Chapter 13, Section IV(I) as issued by the Nebraska State Court Administrator’s Office, regarding bail financial accounting, requires that bail money posted for the appearance of defendants be used to defray fines or costs only when assigned in writing by the persons entitled to such monies.

The County Court did not consistently document, in writing, individuals’ elections to assign their bonds to fines and/or costs by, for example, using the Assignment of Bond for Fines and Costs form as prescribed by the Nebraska State Court Administrator’s Office. Four of fifteen 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 the bonds had been previously assigned. 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, a verbal assignment is accepted by the County Court.

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

We recommend the County Court review the Nebraska County Court Procedures Manual section related to bail financial accounting and, as instructed in that manual, consistently document, in writing, the assignment of defendant bonds.

### 4. 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. Each month the County Court prepares a bank reconciliation and determines a variance between the balance of deposits in the County Court’s bank account and the balance according to the County Court’s accounting records. The County Court has not itemized the variance to ensure its accuracy. At June 30, 2004, the County Court identified this variance as \$1,769. A similar finding was noted in the prior audit.

# CASS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. 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.

### 5. 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.

Four of ten traffic case balances on hand at June 30, 2004, totaling \$329, related to defendant payments in full which had not been attached to fines/costs. In one of the four cases, the defendant had been suspended as a result of the County Court's failure to attach his payment to his fines and costs. As of April 18, 2005, these traffic case balances had not been identified by the County Court with corrective action taken.

When the County Court's trust reports are not consistently reviewed in a timely manner, there is an increased risk of errors, omissions, 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.

### 6. Investment Interest

Sound accounting practices and good internal controls require the prompt and consistent recording of all investment interest earnings so that the accounting records of the County Court provide a complete and accurate reflection of the assets and liabilities of the County Court.

# CASS COUNTY COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 6. Investment Interest (Concluded)

The County Court was not consistent in its handling/recording of investment interest as is noted in the following:

- As of June 30, 2004, the County Court had \$572 in accumulated unrecorded interest on one probate case. The accumulated investment interest earnings on this case were subsequently adjusted on February 11, 2005, prior to remittance to the State Treasurer as unclaimed property.
- Interest of \$33 had been receipted into the Holding Account on one civil case rather than adjusted onto the original investment and, as of April 19, 2005, remained in the case balance despite the investment from which the interest earnings had been earned having previously been paid out.
- On one civil case, the County Court had set up two separate savings accounts to hold the exact amounts of April and May 2004 monthly investment interest, \$172 and \$136, respectively. As of April 19, 2005, these savings accounts remain open with the original balances and accumulated interest earnings despite all investments from which the interest earnings had been earned having been previously paid out.

When investment interest earnings are not posted in a consistent and timely manner, there is an increased risk of loss or misuse of funds. In addition, the accounting records do not accurately reflect the true asset and liability balances of the County Court.

We recommend all investment interest earnings be recorded into the accounting records as soon as the County Court becomes aware of such earnings.

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## CASS COUNTY COURT

### INDEPENDENT AUDITORS' REPORT

Ms. Janice Walker  
Acting State Court Administrator  
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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, 2004, 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 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, 2004, 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 April 19, 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.

April 19, 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, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>ASSETS</b>				
Cash and Deposits	\$ 179,286	\$ 1,970,601	\$ 1,745,268	\$ 404,619
 <b>LIABILITIES</b>				
Due to State Treasurer:				
Regular Fees	\$ 21,285	\$ 167,884	\$ 171,723	\$ 17,446
Law Enforcement Fees	1,599	21,447	20,871	2,175
State Judges Retirement Fund	2,811	36,843	35,745	3,909
Court Administrative Fees	5,079	86,091	83,473	7,697
Legal Services Fees	3,999	55,957	54,298	5,658
 Due to County Treasurer:				
Regular Fines	54,241	495,673	500,161	49,753
Overload Fines	21,925	181,916	189,111	14,730
Regular Fees	2,345	29,959	31,299	1,005
 Due to Municipalities:				
Regular Fines	125	1,030	1,080	75
Trust Fund Payable	65,877	893,801	657,507	302,171
Total Liabilities	\$ 179,286	\$ 1,970,601	\$ 1,745,268	\$ 404,619

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, 2004

**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, 2004	\$ 404,619	\$ 475	\$ 404,144	\$ 568,388

However, 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.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2004, and have issued our report thereon dated April 19, 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 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 (Deposits Not Fully Secured), Comment Number 3 (Bond Assignments), Comment Number 4 (Credit Card Transactions), Comment Number 5 (Monthly Report Review), and Comment Number 6 (Investment Interest).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

April 19, 2005

  
Deputy State Auditor