

**AUDIT REPORT
OF
LANCASTER COUNTY COURT
JULY 1, 2005 THROUGH JUNE 30, 2006**

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Issued on January 30, 2007

LANCASTER COUNTY COURT

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LANCASTER COUNTY COURT

SUMMARY OF COMMENTS

During our audit of Lancaster 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. ***Unclaimed Property:*** The County Court did not report and remit trust balances and outstanding checks to the State Treasurer in accordance with the Unclaimed Property Act.
2. ***Overdue Balances:*** Warrants, suspensions, or other follow up actions had not been performed by the County Court for all 20 overdue case balances tested. In addition, total overdue balances increased \$8,673,198 from December 2005 to December 2006.
3. ***Non-Case Receipts:*** Three of five June 30, 2006, non-case receipts tested, totaling \$875, were not subsequently applied to cases, refunded, or otherwise addressed by the County Court 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 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.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Unclaimed Property

Neb. Rev. Stat. Section 69-1310 R.R.S. 2003, the Unclaimed Property Act, provides any unclaimed property, after three years, is presumed abandoned. Any presumed abandoned property, as of June 30 each year, must be reported and remitted to the State Treasurer by November 1 of each year.

At June 30, 2006, the County Court had at least 13 trust balances, totaling \$8,304, which had been inactive at least four years. The County Court remitted these balances to the State Treasurer in October 2006; at least one year beyond their required remittance. Additionally, the County Court had six trust balances totaling \$2,245, which had been inactive at least three years but as of January 12, 2007, had not been remitted to the State Treasurer.

We also noted at June 30, 2006, the County Court had nine checks totaling \$488, which had been outstanding for over three years. As of January 12, 2007, these items had not been remitted to the State Treasurer in compliance with the Unclaimed Property Act.

When unclaimed property is not reported and remitted to the State Treasurer in a timely manner there is, in addition to statutory noncompliance, an increased risk of loss, theft, or misuse of such property.

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with the State Statute.

2. 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 or otherwise resolve those accounts.

As of December 24, 2005, the total for overdue case balances, including restitution, was \$2,291,538. As of December 29, 2006, this balance had increased to \$10,964,736, an increase of \$8,673,198 or 378%. Additionally, all 20 overdue case balances tested did not have warrants, suspensions, or other follow up actions performed by the County Court.

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

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Non-Case Receipts

Good internal control and sound business practice require trust balances received by the County Court be reviewed on a regular basis to determine what action should be taken on those accounts.

We noted three of five June 30, 2006, non-case receipts tested, totaling \$875, had not been subsequently applied or otherwise resolved in a timely manner. Without a regular ongoing review of non-case receipts, there is an increased risk non-case receipts will not be completely and accurately disposed of by the County Court.

We recommend the County Court review non-case receipts on a regular ongoing basis to determine what action, if any, needs to be taken to resolve those unapplied receipts.

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LANCASTER 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 Lancaster County Court as of and for the fiscal year ended June 30, 2006, 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 Lancaster 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 Lancaster County Court as of June 30, 2006, 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 12, 2007, on our consideration of Lancaster 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 12, 2007


Dawn Hauffman CPA
Deputy State Auditor

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

For the Fiscal Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and Deposits	\$ 1,622,935	\$ 15,940,271	\$ 14,001,599	\$ 3,561,607
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 66,076	\$ 1,512,884	\$ 1,517,942	\$ 61,018
Law Enforcement Fees	7,352	161,910	162,278	6,984
State Judges Retirement Fund	15,126	440,862	435,598	20,390
Court Administrative Fees	38,586	975,768	974,697	39,657
Legal Services Fees	19,159	501,898	498,730	22,327
Due to County Treasurer:				
Regular Fines	53,057	1,268,826	1,269,062	52,821
Overload Fines	4,375	77,662	78,842	3,195
Regular Fees	14,933	250,671	258,311	7,293
Due to Municipalities:				
Regular Fines	124,880	2,693,836	2,698,304	120,412
Regular Fees	5,886	190,922	189,043	7,765
Trust Fund Payable	1,273,505	7,865,032	5,918,792	3,219,745
Total Liabilities	\$ 1,622,935	\$ 15,940,271	\$ 14,001,599	\$ 3,561,607

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

LANCASTER COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Lancaster 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 Lancaster 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.

LANCASTER COUNTY COURT
NOTES TO FINANCIAL STATEMENT
(Continued)

2. Deposits and Investments (Concluded)

The carrying amounts and bank balances of total deposits, consisted of checking accounts, savings accounts, and money market accounts, 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, 2006	\$ 3,561,607	\$ 900	\$ 3,560,707	\$ 4,051,244

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.

STATE OF NEBRASKA
Auditor of Public Accounts



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LANCASTER 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 Lancaster County Court as of and for the year ended June 30, 2006, and have issued our report thereon dated January 12, 2007. The report was modified to emphasize that the financial statement presents only the Agency Funds of Lancaster 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 Lancaster 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lancaster 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 Lancaster County Court in the Comments Section of this report as Comment Number 1 (Unclaimed Property), Comment Number 2 (Overdue Balances), and Comment Number 3 (Non-Case Receipts).

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

January 12, 2007


Deputy State Auditor