

**AUDIT REPORT
OF
LANCASTER COUNTY COURT
JULY 1, 2006 THROUGH JUNE 30, 2007**

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Issued on February 8, 2008

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. ***Segregation of Duties:*** Two individuals were capable of receipting monies, adjusting case balances, voiding receipts and checks, preparing the daily deposits, and preparing the monthly bank reconciliation.
2. ***Unclaimed Property:*** The County Court did not report and remit trust balances to the State Treasurer that were over three years old as required by State Statute.
3. ***Overdue Balances:*** Subsequent action to ensure resolution or collection of overdue case balances had not been performed by the County Court for 16 of 20 balances tested.
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.
5. ***Bond Assignments:*** The County Court did not consistently obtain written assignments from defendants to authorize the payment of bond deposits and/or proceeds to persons other than the defendant or to authorize application of bond proceeds to the defendant's fines/or court costs.

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. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

LANCASTER 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 two individuals were capable of receipting monies, adjusting case balances, voiding receipts and checks, preparing the daily deposits, and preparing the monthly bank reconciliations. Additionally, there was no independent review of work performed by these two individuals. 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 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.

County Court's Response: Lancaster County Court acknowledges the absolute importance of segregation of duties but we simply do not have enough staff to allow the desired total segregation of duties.

2. 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, 2007, the County Court had at least four trust balances totaling \$780, which had been inactive at least three years. The County Court remitted these balances to the State Treasurer in October 2007; at least one year beyond their required remittance for three of these balances and at least two years beyond required remittance for one balance. Additionally, the County Court had two trust balances, totaling \$332, which had been inactive at least three years, but as of January 15, 2008, had not been remitted to the State Treasurer.

We also noted at June 30, 2007, the County Court had 47 checks totaling \$3,485, which had been outstanding for over three years. As of January 15, 2008, these items had not been remitted to the State Treasurer in compliance with the Unclaimed Property Act.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Unclaimed Property** (Concluded)

A similar comment was included in the prior year report.

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.

County Court's Response: Lancaster County Court staff strive to remit all funds in a timely manner. Again, the caseload versus the number of employees does not allow all matters to be addressed in a timely manner.

3. **Overdue Balances**

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

We noted 16 of 20 overdue balances 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. As of December 31, 2007, total overdue balances excluding restitution were \$2,111,405.

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

A similar comment was included in the prior year report.

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

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Overdue Balances (Concluded)

County Court's Response: This is also an area where lack of staff contributes to the inability to take prompt action. I would like to point out that one year ago this report was 340 pages and totaled \$2,640,630 and as of December 31, 2007, it was 238 pages and totaled \$2,129,289. I believe we've made great progress in cleaning up this area and will continue to strive to take prompt action.

4. Monthly Report Review

Good internal control requires the County Court have procedures in place to conduct ongoing, detailed reviews of monthly financial reports, including the Monthly Case Balance Report and the Report of Non-Case Receipts. These reviews determine the accuracy and validity of the County Court's trust balances.

During our review of the June 2007 Monthly Case Balance Report, and the June 30, 2007, Report of Non-Case Receipts the following was noted:

- One balance consisting of a \$200 appearance bond, which had been posted in May 2002, was not forfeited or otherwise addressed by the County Court until August 2007.
- One balance of \$42, which was receipted in July 2006 to a holding account, was not applied to the defendant's work release balance until January 2008.
- Three non-case receipts, totaling \$875, had not been subsequently applied to a case or otherwise resolved in a timely manner. A similar issue was noted in the prior year report.

When the County Court's financial 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 and the Report of Non-Case Receipts on an ongoing basis and take action in a timely manner when necessary to resolve any issues noted.

County Court's Response: Efforts will be renewed to review and act upon areas of concern in a more timely manner.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Bond Assignments

Neb. Rev. Stat. Section 29-901(3)(a) R.S.Supp., 2006, related to the execution of an appearance bond, requires return of the bond deposit or bond deposit proceeds to the defendant upon various circumstances such as the performance of the defendant's appearance(s), declined and/or dismissed prosecution, bond reduction, etc. The Nebraska County Court Manual Chapter 13, IV (I) regarding bail financial accounting states, in part, "... if a person other than the defendant posts the bond, that person should be advised that the bond will be returned to the defendant unless the defendant assigns the bond, in writing, to the person who posted it ..."

The County Court did not consistently obtain written assignments from defendants to authorize the payment of bond deposits and/or proceeds to person's other than the defendants or to authorize application of bond proceeds to the defendant's fines/or court costs. Of the 15 adjustments tested, the following was noted:

- One instance in which a bond was refunded to someone other than the defendant and the Court had no documentation in writing from the defendant assigning the bond.
- One instance in which the defendant's bond was applied to fines and/or court costs without the County Court having obtained, in writing, an assignment from the defendant or a court order signed by the judge authorizing such application.

When bonds are not handled in accordance with State Statute and the Nebraska County Court Procedures manual, there is an increased risk of loss and/or liability.

We recommend the County Court be consistent in not returning bond proceeds to any person(s) other than the defendants unless the defendants have assigned, in writing, their bonds. Similarly, we also recommend that whenever a judge or defendant elects to have bond proceeds applied to fines and/or court costs the County Court obtain written documentation of this assignment.

County Court's Response: This area is a surprise because I perceive staff as very conscientious about bond refunds. Bond refund requests/orders will be reviewed and carefully documented in the future.

Overall County Court Response: Not having adequate staff, inability to attract desirable staff due to low pay, as well as high turnover contribute to the court's inability to address all issues in a timely manner. However, this in no way negates our responsibility to address the issues. We will strive to review all reports monthly to ensure that monies are appropriately directed and correct actions are taken.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 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 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, 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 January 31, 2008, 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, 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 31, 2008


Assistant Deputy 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, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and Deposits	\$ 3,561,607	\$ 13,948,343	\$ 14,669,891	\$ 2,840,059
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 61,018	\$ 1,551,734	\$ 1,555,274	\$ 57,478
Law Enforcement Fees	6,984	148,182	149,986	5,180
State Judges Retirement Fund	20,390	471,289	471,743	19,936
Court Administrative Fees	39,657	1,035,781	1,038,453	36,985
Legal Services Fees	22,327	536,545	535,774	23,098
Due to County Treasurer:				
Regular Fines	52,821	1,448,642	1,436,869	64,594
Overload Fines	3,195	101,693	95,832	9,056
Regular Fees	7,293	321,178	318,267	10,204
Due to Municipalities:				
Regular Fines	120,412	2,743,532	2,765,423	98,521
Regular Fees	7,765	227,174	228,074	6,865
Trust Fund Payable	3,219,745	5,362,593	6,074,196	2,508,142
Total Liabilities	\$ 3,561,607	\$ 13,948,343	\$ 14,669,891	\$ 2,840,059

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, 2007

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 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 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, 2007	\$ 2,840,059	\$ 950	\$ 2,839,109	\$ 3,361,211

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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Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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, 2007, and have issued our report thereon dated January 31, 2008. 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 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the Comments Section of the report to be a significant deficiency in internal control over financial reporting: Comment Number 1 (Segregation of Duties).

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, we believe the significant deficiency described above is not a material weakness.

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 2 (Unclaimed Property), Comment Number 3 (Overdue Balances), Comment Number 4 (Monthly Report Review), and Comment Number 5 (Bond Assignments).

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, others 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.

January 31, 2008


Assistant Deputy Auditor