

**ATTESTATION REPORT
OF
LANCASTER COUNTY COURT
JULY 1, 2009 THROUGH JUNE 30, 2010**

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Issued on May 19, 2011

LANCASTER COUNTY COURT

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LANCASTER COUNTY COURT

SUMMARY OF COMMENTS

During our examination 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 and old outstanding checks to the State Treasurer that were over three years old as required by State statute.
3. ***Bank Reconciliation:*** The County Court could not reconcile the accounting system balance to the bank balance at June 30, 2010.
4. ***Non-Monetary Receipts:*** Of the 25 non-monetary receipts tested, 3 could not be traced to supporting documentation.

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 examination.

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

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 performing numerous procedures such as 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 may not be 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 examinations.

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: We understand and share the concern about segregation of duties. Funding is not available for additional personnel at this time and frankly the current workload does not warrant additional staff. However, that does not negate the importance of the issue. We will continue to monitor the segregation of duties and work toward a better way of dividing work whenever possible.

2. Unclaimed Property

Neb. Rev. Stat. § 69-1310 (Reissue 2009), 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.

During our review of the June 30, 2010, Monthly Case Balance Report and bank reconciliation, we noted the following:

- Four trust balances totaling \$1,466 were over three years old and were not remitted to unclaimed property.
- One outstanding check issued on May 7, 2007, for \$235 was not remitted to unclaimed property.
- One trust balance had a negative balance of \$450 as a result of bond proceeds being paid out twice.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Unclaimed Property** (Concluded)

We recommend the County Court work to promptly remit all unclaimed property in its possession in accordance with State statute. Additionally, we recommend the County Court review the Monthly Case Balance Report to ensure trust balances are current and accurate.

County Court's Response: Court staff were under the impression that monies in overpayment status automatically rolled over to unclaimed property after three years. Having learned we are mistaken, we are cleaning up the case balance report. We implemented procedures for the monies receipted into overpayment to be adjusted to unclaimed property in a timely manner. Working the case balance report has cleaned up the current unclaimed property report.

3. **Bank Reconciliation**

Sound accounting practice and good internal control require regular, detailed reconciliations between monies on deposit and the accounting records to ensure errors, omissions, or irregularities that might occur are detected and resolved in a timely manner.

The County Court prepares monthly bank reconciliations, but had maintained a variance between the accounting system (JUSTICE) book balance and the bank balance since December 2009. As of June 30, 2010, the variance noted by the County Court was \$407. Upon further review by the auditors, the bank balance to book balance was reconciled to a variance of \$11 at June 30, 2010.

When variances between the County Court's bank balance and book balance are not sufficiently itemized to ensure their accuracy and/or be resolved in a timely manner, there is an increased risk errors, omissions, or irregularities might occur and go undetected and/or unresolved.

We strongly recommend the County Court work with the State Court Administrator to identify and correct any variances noted between the accounting records and the bank records in a timely manner.

County Court's Response: The bookkeepers have dedicated many hours to searching for the errors on our bank account. Part of the errors were due to a misunderstanding about handling stop pay fees. That has now been corrected. Many of the offages were due to problems balancing with nebraska.gov who insist our account with them is in balance when that simply is not possible.

4. **Non-Monetary Receipts**

Good internal control requires supporting documentation be available for all non-monetary receipt transactions in order to ensure receipts are accurate and proper.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Non-Monetary Receipts (Concluded)

During our review of non-monetary receipts, we noted 3 of the 25 receipts selected for testing could not be traced to supporting documentation.

When adequate documentation is not maintained to support non-monetary receipts, there is an increased risk that improper receipts could be made.

We recommend the County Court implement procedures to ensure adequate documentation is on file to support all non-monetary receipts.

County Court's Response: Staff have been reminded of the absolute importance of sheriff fees that come in after a case has been bound over to district court being given to a supervisor who will make necessary corrections. Monies receipted would then accurately reflect what was done and why. File documentation would support the action. The court will develop a formal written policy for authorization of writing off small amounts in certain circumstances without actually having a judges written order.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.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 ACCOUNTANT'S REPORT

We have examined the accompanying Schedule of Changes in Assets and Liabilities Arising from Cash Transactions of Lancaster County Court as of and for the fiscal year ended June 30, 2010. The County Court's management is responsible for the Schedule. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents, in all material respects, the assets and liabilities arising from cash transactions of the Agency Funds of Lancaster County Court as of June 30, 2010, and the related activity for the fiscal year then ended, based on the accounting system and procedures prescribed by the Nebraska Supreme Court as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2011, on our consideration of Lancaster County Court's internal control over financial reporting (internal control) 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 and compliance and the results of that testing, and not to provide an opinion on the internal control or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of management, the Supreme Court, others within 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.

Signed Original on File

May 6, 2011

Deann Haeffner, CPA
Assistant Deputy Auditor

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

For the Fiscal Year Ended June 30, 2010

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
ASSETS				
Cash and Deposits	\$ 1,407,511	\$ 12,980,219	\$ 13,292,835	\$ 1,094,895
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 63,392	\$ 1,484,298	\$ 1,489,335	\$ 58,355
Law Enforcement Fees	4,207	141,014	139,509	5,712
State Judges Retirement Fund	18,469	531,375	530,192	19,652
Court Administrative Fees	40,254	1,095,392	1,100,915	34,731
Legal Services Fees	22,464	572,583	573,186	21,861
Due to County Treasurer:				
Regular Fines	69,791	1,597,530	1,618,231	49,090
Overload Fines	1,375	101,899	101,799	1,475
Regular Fees	5,204	156,793	152,062	9,935
Due to Municipalities:				
Regular Fines	103,569	2,655,255	2,664,180	94,644
Regular Fees	8,920	253,549	255,691	6,778
Trust Fund Payable	<u>1,069,866</u>	<u>4,390,531</u>	<u>4,667,735</u>	<u>792,662</u>
Total Liabilities	<u>\$ 1,407,511</u>	<u>\$ 12,980,219</u>	<u>\$ 13,292,835</u>	<u>\$ 1,094,895</u>

The accompanying notes are an integral part of the schedule.

LANCASTER COUNTY COURT
NOTES TO FINANCIAL SCHEDULE
For the Fiscal Year Ended June 30, 2010

1. Criteria

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 Schedule of Changes in Assets and Liabilities Arising from Cash Transactions of the County Court reflect 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 Schedule 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 Schedule of Changes in Assets and Liabilities Arising from Cash Transactions have been prepared, based on the accounting system and procedures prescribed by the Nebraska Supreme Court. Under this system 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.

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. § 25-2713 (Reissue 2008). 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. § 77-2326.04 (Reissue 2009) to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.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 EXAMINATION OF THE FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have examined the accompanying Schedules of Lancaster County Court as of and for the year ended June 30, 2010, and have issued our report thereon dated May 6, 2011. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered Lancaster County Court's internal control over financial reporting (internal control) as a basis for designing our procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Court's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Schedules will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the Comments Section of the report to be a material weakness: Comment Number 1 (Segregation of Duties).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lancaster County Court's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, 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 items that we reported to management of Lancaster County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property) Comment Number 3 (Bank Reconciliation), and Comment Number 4 (Non-Monetary Receipts).

The County Court's written response to the findings identified in our examination are described in the Comments Section of the report. We did not examine 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 County Court, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

May 6, 2011

Deann Haeffner, CPA
Assistant Deputy Auditor