

**ATTESTATION REPORT
OF
LANCASTER COUNTY COURT
JULY 1, 2011 THROUGH JUNE 30, 2012**

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Issued on September 17, 2012

LANCASTER COUNTY COURT

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LANCASTER COUNTY COURT

SUMMARY OF COMMENTS

During our examination of Lancaster County Court, we noted a certain deficiency in internal control that we consider to be a material weakness and other operational matters that are presented here.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedule will not be prevented, or detected and corrected on a timely basis.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Segregation of Duties:*** Considered to be a material weakness, two individuals were capable of handling all phases of a transaction from beginning to end.
2. ***Trust Balances:*** The County Court did not review its trust balances on an ongoing, timely basis to ensure such balances were complete, accurate, and in compliance with the Unclaimed Property Act.
3. ***IRS 1099 Forms:*** The County Court did not have procedures in place to determine if the U.S. Department of the Treasury, Internal Revenue Service (IRS) form 1099 needed to be issued and filed.

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.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

1. Segregation of Duties

Good internal control includes a plan of organization, procedures, and documentation 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 is not 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 consider this to be a material weakness.

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 importance of segregation of duties. We have limited staff to utilize to address concerns in this area. Please note that bookkeeping employees only receipt in garnishment checks, not any cash amounts. The other bookkeeper then issues checks for matters in which the first bookkeeper receipted in the checks. The monthly reconciliation is a complicated, detailed process. The auditors were advised that a staff person was being trained in this area. The morning deposits are randomly done by another individual (no less than once each week). If one bookkeeper is gone, another staff person is assigned to make the deposit. Management will take a more active role in review of work performed by the bookkeepers.

2. Trust Balances

Neb. Rev. Stat. § 69-1307.01 (Reissue 2009), which is found in the Uniform Disposition of Unclaimed Property Act, presumes intangible personal property held by a court and unclaimed for more than three years as abandoned. Neb. Rev. Stat. § 69-1310 (Reissue 2009), provides any unclaimed abandoned property, as of June 30 each year, must be reported and remitted to the State Treasurer by November 1 of each year. In addition, good internal control and sound business practices require overdue balances of the County Court be reviewed on an ongoing, timely basis to determine what action should be taken to collect and/or otherwise resolve those balances.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Trust Balances** (Concluded)

During review of the County Court's June 30, 2012, trust balances, the following was noted:

- The County Court did not attempt to refund one \$46 traffic citation overpayment received in October 2008.
- The County Court did not attempt to pay out one \$95 restitution payment received in March 2011.
- One \$1,000 payment received in December 2004 remained in a holding account rather than being properly applied to the related judgement.
- One \$45 non-case receipt received in May 2007 was not applied and/or refunded to the payee and was past due for reporting and remittance to the Nebraska State Treasurer as unclaimed property.

When trust balances are not reviewed on a consistent and timely basis, there is an increased risk trust balances are not correct and current. When unclaimed property is not reported and remitted to the State Treasurer, in accordance with the Unclaimed Property Act, the County Court is not in compliance with applicable State statute.

We recommend the County Court implement procedures which ensure a complete, accurate, and timely review of all trust balances. In addition, we recommend all unclaimed property in the County Court's possession be reported and remitted to the State Treasurer in accordance with the Unclaimed Property Act.

County Court's Response: Lancaster County Court staff work very hard to review reports monthly for past due actions. We will make a stronger effort to even more carefully review reports so as to make sure we take prompt action.

3. **IRS 1099 Forms**

The U.S. Department of the Treasury's Internal Revenue Service (IRS) Code instructions for form 1099-MISC require the filing of a 1099 form for each nonemployee paid compensation of \$600 or more. The instructions state:

"If the following four conditions are met, you must generally report a payment as nonemployee compensation.

- *You made the payment to someone who is not your employee;*
- *You made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations);*
- *You made the payment to an individual, partnership, estate, or, in some cases, a corporation; and*
- *You made payments to the payee of at least \$600 during the year."*

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. IRS 1099 Forms (Concluded)

During testing, it was determined the County Court did not have procedures in place to accumulate information on payments to payees who potentially were paid over \$600 during the year. When procedures are not in place to ensure conformity with all IRS reporting requirements, there is an increased risk of potential liability related to noncompliance.

We recommend the County Court review this situation with the Nebraska State Court Administrator's Office and seek specific, documented guidance on 1099 form responsibilities of the County Court.

County Court's Response: We are waiting for further instruction/procedures for this area from the administrative office of the courts.



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, 2012. 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, 2012, 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 are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We performed our examination to express an opinion on whether the Schedule is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the Comments Section of the report.

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, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 28, 2012

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, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
ASSETS				
Cash and Deposits	\$ 1,126,147	\$ 13,456,365	\$ 12,342,677	\$ 2,239,835
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 40,974	\$ 1,403,556	\$ 1,389,844	\$ 54,686
Law Enforcement Fees	4,720	158,465	157,238	5,947
State Judges Retirement Fund	15,278	499,451	495,819	18,910
Court Administrative Fees	31,074	961,040	957,216	34,898
Legal Services Fees	15,826	533,189	529,127	19,888
Due to County Treasurer:				
Regular Fines	36,116	1,341,533	1,323,558	54,091
Overload Fines	5,225	95,444	94,019	6,650
Regular Fees	14,695	127,456	128,948	13,203
Due to Municipalities:				
Regular Fines	74,910	2,614,099	2,592,379	96,630
Regular Fees	5,833	218,351	216,848	7,336
Trust Fund Payable	881,496	5,503,781	4,457,681	1,927,596
Total Liabilities	<u>\$ 1,126,147</u>	<u>\$ 13,456,365</u>	<u>\$ 12,342,677</u>	<u>\$ 2,239,835</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, 2012

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 including 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 as 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.