

**AUDIT REPORT
OF
LANCASTER COUNTY COURT**

JULY 1, 2001 THROUGH JUNE 30, 2002

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LANCASTER COUNTY COURT

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LANCASTER COUNTY COURT

COMMENT AND RECOMMENDATION

During our audit of Lancaster County Court, we noted a certain matter involving the internal control over financial reporting that is presented here. The comment and recommendation is intended to improve the internal control over financial reporting in the following area:

Pledged Security

Neb. Rev. Stat. Section 77-2326.04 R.S.Supp., 2002 states, "No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation shall be made to accumulate in any bank . . . designated as a depository unless" the county judge or clerk of the county court "has received from such depository as security for the prompt repayment by the depository of his or her respective deposits in excess of the amount insured by the Federal Deposit Insurance Corporation either a surety bond in form and with corporate sureties approved by the county judge or judges or by formal resolution of the county board as the case may be, or in lieu thereof, the giving of security as provided in the Public Funds Deposit Security Act." Good internal control requires procedures to ensure deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) are adequately safeguarded from loss.

Lancaster County Court did not have sufficient pledged securities during 8 of the 12 months of the audit period. The bank and investment balances were in excess of the amount covered by the FDIC and the pledged securities of the Court at the end of each month as follows:

	Bank and Investment Balances	FDIC and Pledged Collateral	Difference
November 2001	\$ 2,144,236	\$ 1,903,738	\$ 240,498
December 2001	\$ 2,973,397	\$ 1,840,010	\$ 1,133,387
January 2002	\$ 3,016,491	\$ 1,816,258	\$ 1,200,233
February 2002	\$ 2,466,663	\$ 1,765,046	\$ 701,617
March 2002	\$ 2,162,437	\$ 1,730,674	\$ 431,763
April 2002	\$ 2,143,409	\$ 1,693,627	\$ 449,782
May 2002	\$ 2,232,336	\$ 1,666,398	\$ 565,938
June 2002	\$ 2,236,293	\$ 1,604,298	\$ 631,995

In the event of the failure of the financial institution, the risk of loss of Court monies increases when deposits are not adequately covered by FDIC and pledged securities.

We recommend Lancaster County Court implement procedures to ensure all monies on deposit at financial institutions are adequately protected from loss with a sufficient amount of pledged securities.

County Court's Response: As a result of the audit finding, Lancaster County Court has instituted a process whereby the adequacy of pledged collateral will be verified each month. The Court expects that this deficiency will have been corrected by February, 2003, at the latest.

LANCASTER COUNTY COURT

COMMENT AND RECOMMENDATION

It should be noted this report is critical in nature since it contains only our comment and recommendation on the area noted for improvement and does not include our observations on any strong features 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 comment and recommendation included in this report. The formal response received has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was 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.

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LANCASTER COUNTY COURT

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statement of Lancaster County Court as of and for the fiscal year ended June 30, 2002, 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, 2002, 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 February 21, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 21, 2003

A handwritten signature in cursive script that reads "Deann 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, 2002

	Balance July 1, 2001	Receipts	Disbursements	Balance June 30, 2002
ASSETS				
Cash and Deposits	\$ 1,642,698	\$ 9,707,510	\$ 9,198,367	\$ 2,151,841
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 56,110	\$ 1,302,455	\$ 1,295,660	\$ 62,905
Law Enforcement Fees	3,795	83,007	82,530	4,272
Interest	-	9,301	9,301	-
State Judges Retirement Fund	2,502	59,453	58,973	2,982
Legal Services Fees	3,850	86,795	86,243	4,402
Due to County Treasurer:				
Regular Fines	37,905	1,144,604	1,117,455	65,054
Overload Fines	7,675	81,576	83,621	5,630
Regular Fees	13,360	301,071	298,871	15,560
Due to Municipalities:				
Regular Fines	106,813	2,220,207	2,223,462	103,558
Regular Fees	5,356	160,406	160,721	5,041
Trust Fund Payable	1,405,332	4,258,635	3,781,530	1,882,437
Total Liabilities	\$ 1,642,698	\$ 9,707,510	\$ 9,198,367	\$ 2,151,841

The accompanying notes are an integral part of the financial statement.
Beginning balances were adjusted to more accurately reflect activity.

LANCASTER COUNTY COURT
NOTES TO FINANCIAL STATEMENT
For the Fiscal Year Ended June 30, 2002

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 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.S.Supp., 2002 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, consisting of checking 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, 2002	\$ 2,151,841	\$ 900	\$ 2,150,941	\$ 2,236,293

Funds were not 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, during the entire year, as noted in the Comment and Recommendation (Pledged Security).

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LANCASTER COUNTY COURT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Lancaster County Court as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. 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.

Compliance

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the Comments Section of our report as Pledged Security.

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 assurance 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 Lancaster 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 Pledged Security.

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 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.

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Deann Hauffman CPA".

Deputy State Auditor

February 21, 2003