

**AUDIT REPORT
OF
LANCASTER COUNTY COURT**

JULY 1, 2002 THROUGH JUNE 30, 2003

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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. ***Pledged Security:*** The County Court did not have sufficient pledged securities during 6 of the 12 months of the audit period.
2. ***Unclaimed Property:*** The County Court did not remit to the State Treasurer all trust balances which were over three years old in accordance with State Statute.
3. ***Review of Non-Case Receipt Reports:*** Monthly non-case receipt reports were not reviewed by the County Court to ensure subsequent posting and/or attachment of defendant payments 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 since it contains only our comments and recommendations on the areas 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 comments and recommendations included in this report. The 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. Pledged Security

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. Neb. Rev. Stat. Section 77-2326.04 R.R.S. 2003 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."

The Lancaster County Court did not have sufficient pledged securities during 6 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:

	<u>Bank and</u> <u>Investment Balances</u>	<u>FDIC and</u> <u>Pledged Security</u>	<u>Difference</u>
July 2002	\$ 2,658,337	\$ 1,587,977	\$ 1,070,360
August 2002	\$ 2,406,028	\$ 1,571,049	\$ 834,979
September 2002	\$ 2,400,686	\$ 1,530,073	\$ 870,613
October 2002	\$ 2,231,291	\$ 1,466,104	\$ 765,187
November 2002	\$ 1,818,320	\$ 1,383,041	\$ 435,279
December 2002	\$ 1,859,430	\$ 1,323,971	\$ 535,459

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 the FDIC and pledged securities.

This was a prior comment, however, the Court took actions during January 2003 to correct this condition including a process whereby the adequacy of pledged securities is verified each month.

We recommend the Lancaster County Court continue to practice the procedures implemented during the audit period to ensure all monies on deposit at financial institutions are adequately protected from loss with a sufficient amount of pledged securities.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Unclaimed Property

Neb. Rev. Stat. Section 25-2717 R.R.S. 1995 requires the County Judge to notify the State Treasurer regarding any fees, money, or costs due or belonging to persons which have not been paid or demanded within three years from the date the funds were paid to the County Court, and, at the direction of the State Treasurer, to remit such funds to the State Treasurer for deposit pursuant to the Unclaimed Property Act.

We noted 12 of 75 outstanding checks tested, totaling \$1,149, had been outstanding for at least three years and had not been remitted to the State Treasurer. In addition, we noted 2 of 21 case balances and two of ten non-case receipts tested, totaling \$388, which were over three years old and had not been remitted to the State Treasurer.

The County Court did remit some of the unclaimed property in its possession to the State Treasurer on October 29, 2003, however, this remittance did not include all unclaimed property in the Court's possession at that time.

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

3. Review of Non-Case Receipt Reports

Good internal control requires the County Court conduct regular reviews of non-case receipt balances to ensure timely posting and/or attachment of defendant payments. Without a regular review of non-case receipt balances, there is an increased risk defendant payments will not be posted and/or attached to defendant cases in a timely manner.

We noted six of ten non-case receipts tested, with case balances on hand at June 30, 2003, had not been posted and/or attached to a related case. The Court had not taken actions to determine the status of these cases with the County Attorney and, as a result, as of February 17, 2004, the balances remained as non-case receipts.

We recommend the County Court implement a review of the monthly non-case receipt reports in order to assist in posting and/or attaching defendants' payments to their related cases in a timely manner.

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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, 2003, 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, 2003, 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 17, 2004, 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 17, 2004

A handwritten signature in cursive script that reads "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, 2003

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
ASSETS				
Cash and Deposits	\$ 2,151,841	\$ 11,618,056	\$ 11,532,441	\$ 2,237,456
LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 62,905	\$ 1,390,271	\$ 1,314,378	\$ 138,798
Law Enforcement Fees	4,272	84,962	81,890	7,344
Interest	-	5,627	5,471	156
State Judges Retirement Fund	2,982	74,816	60,514	17,284
Automation Fees	-	218,823	190,961	27,862
Legal Services Fees	4,402	186,092	172,090	18,404
Due to County Treasurer:				
Regular Fines	65,054	1,230,257	1,199,180	96,131
Overload Fines	5,630	72,474	73,823	4,281
Regular Fees	15,560	308,192	278,040	45,712
Due to Municipalities:				
Regular Fines	103,558	2,469,826	2,359,395	213,989
Regular Fees	5,041	162,754	162,754	5,041
Trust Fund Payable	1,882,437	5,413,962	5,633,945	1,662,454
Total Liabilities	\$ 2,151,841	\$ 11,618,056	\$ 11,532,441	\$ 2,237,456

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, 2003

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 a checking account 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, 2003	\$ 2,237,456	\$ 900	\$ 2,236,556	\$ 2,232,494

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 Comments Section of the report as Comment Number 1 (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, 2003, and have issued our report thereon dated February 17, 2004. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the Comments Section of our report as Comment Number 1 (Pledged Security). We also noted a certain immaterial instance of noncompliance that we have reported to the management of Lancaster County Court in the Comments Section of this report as Comment Number 2 (Unclaimed Property).

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. 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Lancaster County Court in the Comments Section of this report as Comment Number 1 (Pledged Security) and Comment Number 3 (Review of Non-Case Receipt Reports).

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.

February 17, 2004

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

Deputy State Auditor