

**ATTESTATION REPORT
OF
LANCASTER COUNTY COURT
JULY 1, 2007 THROUGH JUNE 30, 2008**

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Issued on February 4, 2009

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 to the State Treasurer that were over three years old as required by State Statute.
3. ***Control Over Receipts:*** Checks mailed to the County Court were transported to a personal residence to be receipted.
4. ***Overdue Balances:*** For 7 of 20 overdue balances tested, subsequent action was not taken to collect and/or resolve amounts due to the County Court.
5. ***Payment Not Applied Timely:*** For 1 of 10 traffic balances tested from the Monthly Case Balance Report, the balance was not applied to fees/fines 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 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 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 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: 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. § 69-1310 (Reissue 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, 2008, the County Court had a trust balance totaling \$100 which had been inactive for three years. As of January 16, 2009, this balance had not been remitted to the State Treasurer.

We also noted at June 30, 2008, the County Court had 32 checks totaling \$4,632 which had been outstanding for over three years. As of January 16, 2009, these items had not been remitted to the State Treasurer in compliance with the Unclaimed Property Act.

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. A similar comment was included in the prior year report.

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.

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. The audit report does not reflect the improvement made in this area.

3. Control Over Receipts

Good internal control requires all monies be received and receipted in designated locations only.

We noted checks written and mailed to the County Court were physically taken to an employee's personal residence to be receipted in JUSTICE.

Without physical control of assets, especially liquid assets such as cash or checks, there is an increased risk such assets will be misappropriated.

We recommend County Court employees discontinue the practice of taking checks and other assets off of County Court premises to be receipted in JUSTICE.

County Court's Response: No cash ever left the building. I agree the practice is not the best choice, but given the number of hours staff spend in the building, I do not expect them to return late at night and/or on weekends. We deserve and need to spend time with our families. We have modified our practice so that checks are not leaving the building.

4. 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 7 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, 2008, total overdue balances excluding restitution were \$1,214,967.

LANCASTER COUNTY COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Overdue Balances** (Concluded)

Without regular review of overdue case balances there is an increased risk 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.

County Court's Response: This is also an area where lack of staff contributes to the inability to take prompt action. The report implies that we don't review this report regularly. I would like to point out that one year ago this report was 238 pages and totaled \$2,111,405 and as of December 31, 2008, it was 125 pages and totaled \$1,214,967. I believe we've made great progress in cleaning up this area and will continue to strive to take prompt action.

5. **Payment Not Applied Timely**

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

During our review of the June 2008 Monthly Case Balance Report, we noted one balance of \$107 which was receipted to a holding account in January 2003 but not applied to fees and fines due until January 2009.

When the County Court's financial reports are not consistently reviewed in a timely manner there is an increased risk of errors, omissions, or irregularities occurring without detection. Such errors increase the risk of misstatement of the financial schedule.

We recommend the County Court review its Monthly Case Balance Report on an ongoing basis and take action in a timely manner 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. Again, an overwhelming workload for staff prevents court staff from staying on top of all reports.

We will continue to strive to review all reports monthly to ensure that monies are appropriately directed and correct actions are taken.



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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, 2008. 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 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, 2008, 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 January 20, 2009, 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 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

January 20, 2009

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, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
ASSETS				
Cash and Deposits	\$ 2,840,059	\$ 14,898,841	\$ 14,337,012	\$ 3,401,888
 LIABILITIES				
Due to State Treasurer:				
Regular Fees	\$ 57,478	\$ 1,639,085	\$ 1,606,749	\$ 89,814
Law Enforcement Fees	5,180	123,743	123,002	5,921
State Judges Retirement Fund	19,936	496,041	491,469	24,508
Court Administrative Fees	36,985	1,053,602	1,048,289	42,298
Legal Services Fees	23,098	588,167	583,237	28,028
 Due to County Treasurer:				
Regular Fines	64,594	1,749,334	1,721,890	92,038
Overload Fines	9,056	96,827	102,233	3,650
Regular Fees	10,204	247,076	247,157	10,123
 Due to Municipalities:				
Regular Fines	98,521	2,751,602	2,721,875	128,248
Regular Fees	6,865	212,339	209,101	10,103
Trust Fund Payable	2,508,142	5,941,025	5,482,010	2,967,157
Total Liabilities	\$ 2,840,059	\$ 14,898,841	\$ 14,337,012	\$ 3,401,888

The accompanying notes are an integral part of the schedule.

LANCASTER COUNTY COURT
NOTES TO FINANCIAL SCHEDULE
For the Fiscal Year Ended June 30, 2008

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 2003) to be secured either by a surety bond or as provided in the Public Funds Deposit Security Act.



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LANCASTER COUNTY COURT
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION
OF THE FINANCIAL SCHEDULE PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

We have examined the accompanying Schedule of Lancaster County Court as of and for the year ended June 30, 2008, and have issued our report thereon dated January 20, 2009. 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 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 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 the accounting system and procedures prescribed by the Nebraska Supreme Court such that there is more than a remote likelihood that a misstatement of the entity's Schedule 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 Schedule 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 a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lancaster County Court's Schedule 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 Schedule 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 Standard*.

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 (Control Over Receipts), Comment Number 4 (Overdue Balances), and Comment Number 5 (Payment Not Applied Timely).

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

January 20, 2009

Deann Haeffner, CPA
Assistant Deputy Auditor