

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF JUSTICE
JULY 1, 1999 THROUGH JUNE 30, 2000**

NEBRASKA DEPARTMENT OF JUSTICE

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NEBRASKA DEPARTMENT OF JUSTICE

BACKGROUND

The Attorney General has been a Constitutional Officer since 1875. A 1919 Legislative act created the Department of Justice to be administered by the Attorney General.

The Attorney General provides opinions to State Constitutional Officers, Agencies, Boards, Commissions, the Legislature, and County Attorneys on criminal matters and matters relating to the public revenue.

The Department has general control and supervision of all actions and legal proceedings in which the State may be a party or be interested. It also has charge and control of all legal business of all Departments and Bureaus of the State, which requires the services of attorney or counsel in order to protect the interests of the State.

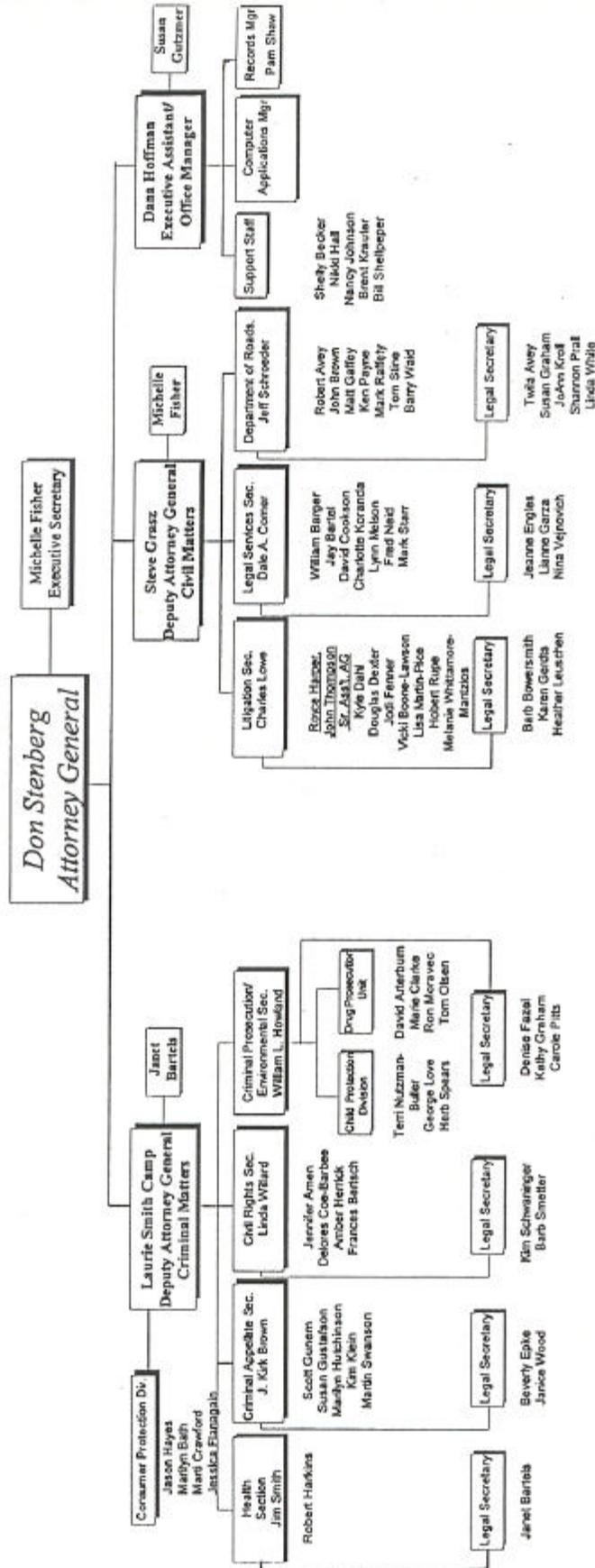
The department includes the following sections:

- Litigation
- Legal Services
- Department of Roads
- Civil Rights
- Consumer Protection
- Criminal Appellate
- Criminal Prosecution
- Health

MISSION STATEMENT

The Attorney General is responsible for the representation of the State in all legal matters, both civil and criminal, where the State is named as a party or may have an interest in the outcome of the litigation or dispute.

NEBRASKA DEPARTMENT OF JUSTICE
 ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF JUSTICE

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Justice, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Internal Control Over Receipts:*** Several issues related to internal control over receipts were noted, including: lack of segregation of duties, lack of an initial control record for money received, lack of documentation for amount of title fees received, lack of proper documentation for forwarded receipts, and inaccurate payroll billings.
2. ***Budget Monitoring:*** The Department did not adequately monitor its budget at a detailed level.
3. ***Payroll Allocation:*** There was no documentation to support the allocation of payroll between more than one fund for an employee tested.
4. ***Segregation of Duties Over Fixed Assets:*** One individual could handle all phases of a fixed asset transaction from beginning to end. There were no controls to compensate for the lack of segregation of duties.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department 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. Where no response has been included, the Department declined to respond. 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 audit.

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

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

1. **Internal Control Over Receipts**

Good internal control requires a system designed to safeguard assets and provide reliable financial records. A good system of internal control should include an adequate segregation of duties so no one individual can handle all phases of a transaction from beginning to end. If an adequate segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation of duties. Neb. Rev. Stat. Section 84-710, R.R.S. 1999 requires receipts to be deposited with the State Treasurer within three business days from the date of receipt when the aggregate amount is \$500 or more.

We noted the following during our audit:

- ◆ There was not an adequate segregation of duties over the receipt process. One individual had the ability to handle all phases of a receipt transaction from beginning to end. Additionally, there was no initial listing created of monies received when the mail was opened. The individual who opened the mail forwarded all monies to the checks were returned to the office manager. After the money was received back from the office manager, the monies were recorded in a receipt book and in a check registry. The checks were not endorsed until the checks were returned to the office manager with the general document.
- ◆ Receipts were not written for all amounts deposited. One of three deposits tested included approximately \$13,000 that was deposited, but not recorded in a receipt book or check registry. This comment was noted in the prior audit. Additionally, one of three receipts tested could not be traced to the Nebraska Accounting System (NAS). A receipt for approximately \$9,000 was written, but not deposited to NAS. The check was forwarded to another state agency and the receipt was not voided.
- ◆ There was no independent review of the monies recorded in the receipt book or check registry to the monies deposited to NAS. A similar comment was noted in our prior audit.
- ◆ Payroll billings were not accurate. The Department billed other state agencies for attorney services under contract. Two of two Intrastate Transaction Documents (ITDs) tested included billings to state agencies for incorrect amounts. The Department did not receive the full amount of reimbursement owed based on the terms of the contracts. The Department did not receive \$1,604 for one year for the first contract and \$207 for one month for the second contract.
- ◆ Forwarded receipts were not properly documented. A forwarded receipt is a receipt belonging to an entity other than the Department, usually for court ordered settlements. The Department did not deposit these monies. The procedures established by the Department required them to document the amount received in a check registry and then document the disposition of the check. For example, if the check was to be forwarded in

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

1. **Internal Control Over Receipts** (Continued)

the mail, it was sent as a certified letter, with a copy of the letter maintained in the check registry. If the money was hand-delivered to the entity, the entity was required to sign a form that was maintained in the check registry. One of four forwarded receipts tested did not include documentation for the disposition of the check.

- ◆ The Department did not have adequate procedures to ensure fees received from the Department of Motor Vehicles were accurate. The Department of Justice received \$.20 for every title issued, for a total of approximately \$118,000 in the fiscal year.
- ◆ One of two receipts tested for approximately \$32,000, was not deposited to NAS within three days as required by Neb. Rev. Stat. Section 84-710, R.R.S. 1999. The Department made the deposit after eight days.

The risk of the loss or misuse of State funds greatly increases without an adequate segregation of duties, without an initial listing of monies received, without written receipts for all monies received, without an independent review of recorded receipts to deposited receipts, and without documentation for the disposition of forwarded receipts. The risk that all money owed to the Department is not collected also greatly increases without accurate payroll billings and without reviewing documentation regarding motor vehicle titles issued.

We recommend the Department implement procedures to ensure adequate internal controls exist for all money received by the office. This would include an adequate segregation of duties or compensating controls over the receipt process, the establishment of an initial listing of monies received, written receipts for monies received, a review of recorded receipts to receipts deposited to NAS, accurate payroll billings, proper documentation for forwarded receipts, and a review of documentation for motor vehicle titles issued to ensure all fees are being collected. We also recommend the Department ensure all monies received are deposited within the number of days required by statute.

Department's Response: A "check log" has been created for initial listing of monies received when the mail is opened by the Receptionist. The checks received by the Attorney General's Office are not always for this agency's deposit. The Office Manager waits for direction from the attorney handling the case before a deposit is made or the check is forwarded on to another agency. Therefore, it would be inappropriate to endorse a check when received.

Receipts will be written for all amounts deposited by the Attorney General's Office. The \$9,000 check in question was entered incorrectly in our receipt book due to the fact that it was not forwarded to the Office Manager for review first. Once the Office Manager reviewed the check

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

1. **Internal Control Over Receipts** (Concluded)

and talked to the attorney handling the case it was forwarded to the appropriate agency – please note that the paperwork for this transaction was in our check registry book with all of the appropriate signatures. This was simply an oversight by the receptionist.

We will have an independent review of the monies recorded in the receipt book to the monies deposited to NAS. This will be reviewed by Susan Gutzmer.

Our payroll billings to other state agencies for attorneys under contract will be accurate.

When checks are forwarded in the mail by certified letter, we will keep a copy of the certified letter form in our check registry.

It is difficult for the Attorney General's Office to report to the Auditor's that the fees received by this agency from the Department of Motor Vehicles are accurate when DMV will not send the Attorney General's Office any kind of report on the titles issued. Perhaps this is an issue that should be discussed with the Department of Motor Vehicles by the State Auditor's Office.

It is always the intent of our Agency to deposit all checks within three days time. Any time a check is not deposited within three days, it is because the attorney handling the case is not available to give his/her direction on the final destination of the check. It would be inappropriate to deposit a check that did not belong to this office.

Auditors' Response: It is the responsibility of the Department to work with the Department of Motor Vehicles in order to ensure all money owed to the Department is received.

2. **Budget Monitoring**

Good fiscal policy requires agencies to monitor budgets at the level of control established by the Legislature, which is fund type, within a program, within an agency. The Department of Administrative Service (DAS) – Budget Division encourages state agencies to use the Budget Status Report to monitor their budget.

During our audit and as noted in the previous audit for fiscal years 1998 and 1997, the Department's monitoring of its budget should be improved. The Department monitored its budget for one program in total. Appropriations for the program were compared to the total disbursements for the program.

Without a more detailed review of the budget amounts, significant deviations from budget at the fund or object of expenditure level may not be easily determined. Also, when the Budget Status Report is not used, the DAS Budget Division is unable to review the Department's disbursements compared to its budget.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

2. Budget Monitoring (Concluded)

We recommend the Department implement procedures enabling them to monitor their budget on a more detailed level.

Department's Response: The Budget of this agency is monitored on a monthly basis in a file kept by the Office Manager. This agency has never gone over budget which demonstrates that our budget is properly monitored.

Auditors' Response: The budget monitoring performed by the Department is not at a level that would indicate whether the budget was exceeded at the object of expenditure level. In our opinion a more detailed monitoring of the budget is warranted.

3. Payroll Allocation

Good internal controls require adequate supporting documentation to ensure payroll charges to more than one fund are accurate.

During our testing of payroll for the Department, we noted one of three employees tested was paid from more than one fund. The two funds were the General Fund and the Department of Justice Revolving Fund. There was no written documentation to support the allocation between the funds. Therefore, we were unable to determine whether the allocation was correct or reasonable.

Without proper documentation to support the salary allocation between funds, there is an increased risk the General Fund or one of the Department's funds could be charged an incorrect amount.

We recommend the Department implement procedures to ensure the salary allocations are supported by adequate documentation.

Department's Response: This agency will implement procedures to ensure the salary allocations are supported by adequate documentation.

4. Segregation of Duties Over Fixed Assets

Good internal control requires a proper segregation of duties so no one individual is authorized to handle all phases of the fixed asset procedures. If a proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

During our testing, we noted there was a lack of segregation of duties over the fixed asset process as the same person was able to perform all of the fixed asset tasks. The same person maintained the inventory list, added items to the Statewide Inventory System (SWIS), had the ability to

COMMENTS AND RECOMMENDATIONS

4. Segregation of Duties Over Fixed Assets (Concluded)

delete items from inventory, and also reviewed the 4800 Expenditures Not On Inventory report. We also noted there was no independent review of a history report (which records all transactions processed on SWIS).

There is an increased risk of undetected errors, irregularities, and loss or theft of State assets without a proper segregation of duties or compensating controls.

We recommend the Department implement procedures to ensure an adequate segregation of duties over fixed assets.

Department's Response: This agency does it's best to implement procedures to ensure an adequate segregation of duties over fixed assets. Another position would need to be added to the AG's Office to adequately perform all of the extra duties requested by the Auditor's Office. Because we do not have the funds to add another position, we feel that we have worked hard to have the necessary checks and balances to all of our accounting procedures. The examples of which are as follows:

- *The Deputy Attorney General reviews and initials all budget status reports.*
- *All Receipt Transactions are reviewed and signed by a Deputy Attorney General or Staff Member.*
- *All payroll is reviewed and vacation and sick leave entered by Susan Gutzmer.*
- *All NEIS transactions are reviewed and initialed by the Deputy Attorney General.*

Auditors' Response: We do not agree that another position is needed to compensate for the lack of segregation of duties over fixed assets. A documented review of the history report from the Statewide Inventory System (SWIS) by a person independent of the fixed asset transaction process would be an adequate control to compensate for the lack of segregation of duties.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF JUSTICE

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Justice as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were 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 statements present only the Nebraska Department of Justice, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Justice as of June 30, 2000, and the receipts and disbursements 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 January 11, 2001, on our consideration of the Nebraska Department of Justice'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.

The accompanying combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Handwritten signature of Timothy J. Chambers CPA in cursive script.

Manager

January 11, 2001

NEBRASKA DEPARTMENT OF JUSTICE
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES
AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**

June 30, 2000

	<u>Governmental Fund Type</u>		<u>Fiduciary</u>	<u>Account Group</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>		
<u>Assets</u>						
Cash in State Treasury	\$ -	\$ 110,118	\$ 1,235,465	\$ -		\$ 1,345,583
Deposit with Vendors	1,286	19	-	-		1,305
Petty Cash	300	-	-	-		300
Property, Plant, and Equipment (Note 5)	-	-	-	450,206		450,206
Total Assets	<u>\$ 1,586</u>	<u>\$ 110,137</u>	<u>\$ 1,235,465</u>	<u>\$ 450,206</u>		<u>\$ 1,797,394</u>
<u>Fund Balances and Other Credits</u>						
Other Credits,						
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 450,206		\$ 450,206
Fund Balances:						
Reserved For Postage	1,286	19	-	-		1,305
Unreserved, Undesignated	300	110,118	1,235,465	-		1,345,883
Total Fund Balances and Other Credits	<u>\$ 1,586</u>	<u>\$ 110,137</u>	<u>\$ 1,235,465</u>	<u>\$ 450,206</u>		<u>\$ 1,797,394</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF JUSTICE
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	
RECEIPTS:				
Appropriations	\$ 3,413,042	\$ -	\$ -	\$ 3,413,042
Intergovernmental:				
Federal Grants from Other State Agencies	-	217,240	-	217,240
Other	52	-	-	52
Sales and Charges:				
Motor Vehicle Title Fees	-	118,055	-	118,055
Professional and Technical Services	500	401,877	817,512	1,219,889
Miscellaneous:				
Investment Interest	-	5,906	56,876	62,782
Other	856	(72)	10,050	10,834
TOTAL RECEIPTS	<u>3,414,450</u>	<u>743,006</u>	<u>884,438</u>	<u>5,041,894</u>
DISBURSEMENTS:				
Personal Services	2,654,023	743,435	299	3,397,757
Operating	622,498	5,903	75,590	703,991
Travel	71,927	1,494	5,202	78,623
Capital Outlay	64,594	-	9,892	74,486
TOTAL DISBURSEMENTS	<u>3,413,042</u>	<u>750,832</u>	<u>90,983</u>	<u>4,254,857</u>
Excess of Receipts Over Disbursements	<u>1,408</u>	<u>(7,826)</u>	<u>793,455</u>	<u>787,037</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	279	-	-	279
Deposits to State General Fund	(1,687)	-	-	(1,687)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,408)</u>	<u>-</u>	<u>-</u>	<u>(1,408)</u>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	-	(7,826)	793,455	785,629
FUND BALANCE, JULY 1, 1999	1,586	117,963	442,010	561,559
FUND BALANCE, JUNE 30, 2000	<u>\$ 1,586</u>	<u>\$ 110,137</u>	<u>\$ 1,235,465</u>	<u>\$ 1,347,188</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL, CASH, FEDERAL, AND REVOLVING FUNDS
 For the Year Ended June 30, 2000

	GENERAL FUND			CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations		\$ 3,413,042			\$ -	
Intergovernmental:						
Federal Grants from Other State Agencies		-			-	
Other		52				
Sales and Charges:						
Motor Vehicle Title Fees		-			118,055	
Professional and Technical Services		500			392	
Miscellaneous:						
Investment Interest		-			2,708	
Other		856			(72)	
TOTAL RECEIPTS		<u>3,414,450</u>			<u>121,083</u>	
DISBURSEMENTS:						
Personal Services		2,654,023			110,626	
Operating		622,498			4,678	
Travel		71,927			-	
Capital Outlay		64,594			-	
TOTAL DISBURSEMENTS	<u>3,565,149</u>	<u>3,413,042</u>	<u>152,107</u>	<u>115,715</u>	<u>115,304</u>	<u>411</u>
Excess of Receipts Over Disbursements		<u>1,408</u>			<u>5,779</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		279			-	
Deposit to State General Fund		(1,687)			-	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(1,408)</u>			<u>-</u>	
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		-			5,779	
FUND BALANCES, JULY 1, 1999		<u>1,586</u>			<u>40,347</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 1,586</u>			<u>\$ 46,126</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL, CASH, FEDERAL, AND REVOLVING FUNDS
 For the Year Ended June 30, 2000

	FEDERAL FUND			REVOLVING FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Appropriations	\$	-		\$	-	
Intergovernmental:						
Federal Grants from Other State Agencies		217,240			-	
Other		-			-	
Sales and Charges:						
Motor Vehicle Title Fees		-			-	
Professional and Technical Services		-		401,485		
Miscellaneous:						
Investment Interest		-		3,198		
Other		-		-		
TOTAL RECEIPTS		<u>217,240</u>		<u>404,683</u>		
DISBURSEMENTS:						
Personal Services		229,409		403,400		
Operating		1,225		-		
Travel		1,494		-		
Capital Outlay		-		-		
TOTAL DISBURSEMENTS	<u>273,411</u>	<u>232,128</u>	<u>41,283</u>	<u>450,745</u>	<u>403,400</u>	<u>47,345</u>
Excess of Receipts Over Disbursements		<u>(14,888)</u>		<u>1,283</u>		
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-		-		
Deposit to State General Fund		-		-		
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>		<u>-</u>		
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		(14,888)		1,283		
FUND BALANCES, JULY 1, 1999		<u>41,863</u>		<u>35,753</u>		
FUND BALANCES, JUNE 30, 2000	\$	<u>26,975</u>		\$	<u>37,036</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL, CASH, FEDERAL, AND REVOLVING FUNDS
 For the Year Ended June 30, 2000

	TOTALS		
	(MEMORANDUM ONLY)		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Appropriations	\$	3,413,042	
Intergovernmental:			
Federal Grants from Other State Agencies		217,240	
Other		52	
Sales and Charges:			
Motor Vehicle Title Fees		118,055	
Professional and Technical Services		402,377	
Miscellaneous:			
Investment Interest		5,906	
Other		784	
TOTAL RECEIPTS		4,157,456	
DISBURSEMENTS:			
Personal Services		3,397,458	
Operating		628,401	
Travel		73,421	
Capital Outlay		64,594	
TOTAL DISBURSEMENTS	4,405,020	4,163,874	241,146
Excess of Receipts Over Disbursements		(6,418)	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		279	
Deposit to State General Fund		(1,687)	
TOTAL OTHER FINANCING SOURCES (USES)		(1,408)	
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses		(7,826)	
FUND BALANCES, JULY 1, 1999		119,549	
FUND BALANCES, JUNE 30, 2000	\$	111,723	

See Notes to Financial Statements.

(Concluded)

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Justice are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Justice (the Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Department of Justice. No component units were identified. The Nebraska Department of Justice is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust and Agency Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

5000 - Revolving Funds - account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

D. Budgetary Process. The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, federal, and revolving fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general, cash, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement. Budget amounts are not shown for object of expenditure amounts on the Budget and Actual Statement, as the Department did not budget on an object of expenditure level. Total budgeted amounts shown are equal to appropriated amounts.

There are no annual budgets prepared for Trust Funds, and, as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2000 follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES		
	Total	PRIMARY GOVERNMENT		
		General	Special Revenue	Trust and Agency
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund balances into				
Financial Statement fund structure:				
General	\$ 1,586	\$ 1,586	\$ -	\$ -
Cash	46,126	-	46,126	-
Federal	26,975	-	26,975	-
Revolving	37,036	-	37,036	-
Budgetary fund balances classified into Financial				
Statement fund structure	\$ 111,723	1,586	110,137	-
Entity Difference:				
Record funds not budgeted		-	-	1,235,465
Financial Statement Fund Balances, June 30, 2000		\$ 1,586	\$ 110,137	\$ 1,235,465

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000 have been recorded at cost by the Department. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except for Fund 4111, Anti-Drug Abuse were designated for investment during fiscal year 2000.

- G. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

- H. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

- I. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Appropriations. Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements. Included in this major account were federal grant monies received by the Department from the Nebraska Commission on Law Enforcement and Criminal Justice. A total of \$217,240 was received in fiscal year ending June 30, 2000.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. Included in this major account were motor vehicle title fees received by the Department, reimbursements from other State agencies for legal services provided by the Department, and court ordered settlements.

Miscellaneous. Receipts from sources not covered by other major categories. Miscellaneous fees included investment interest and a prior period adjustment for the overpayment of an account.

J. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

K. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage deposits.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters, and health care insurance. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Justice's financial statements.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

Litigation. The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgement against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$97,748 and the Department contributed \$152,486.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
Equipment	\$ 403,283	\$ 56,795	\$ 9,872	\$ 450,206

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **Full Accountability of the General Fund**

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations. To show the full accountability over this fund the following schedule reflects appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 1999	\$ 50,273
New Appropriations	3,514,876
Total Appropriations	<u>3,565,149</u>
Disbursements	<u>(3,413,042)</u>
Ending (Appropriations) Balance June 30, 2000	<u>\$ 152,107</u>

7. **Personnel Costs for Attorneys Assigned to the Nebraska Department of Roads**

Certain Department employees work exclusively on legal issues for the Nebraska Department of Roads. These employees are under the direction of the Attorney General. However, the Department of Roads pays the personnel costs for these Department employees out of their funds. These personnel costs are not included in the financial statements for the Department. Such costs were \$651,999 for the fiscal year ending June 30, 2000.

NEBRASKA DEPARTMENT OF JUSTICE
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 2000

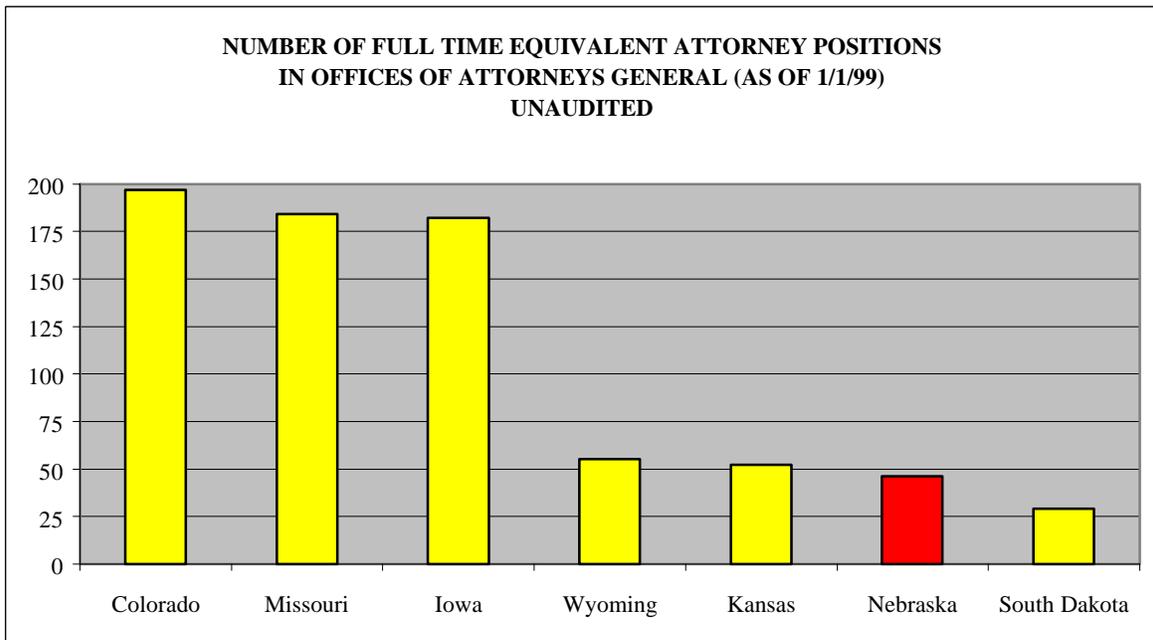
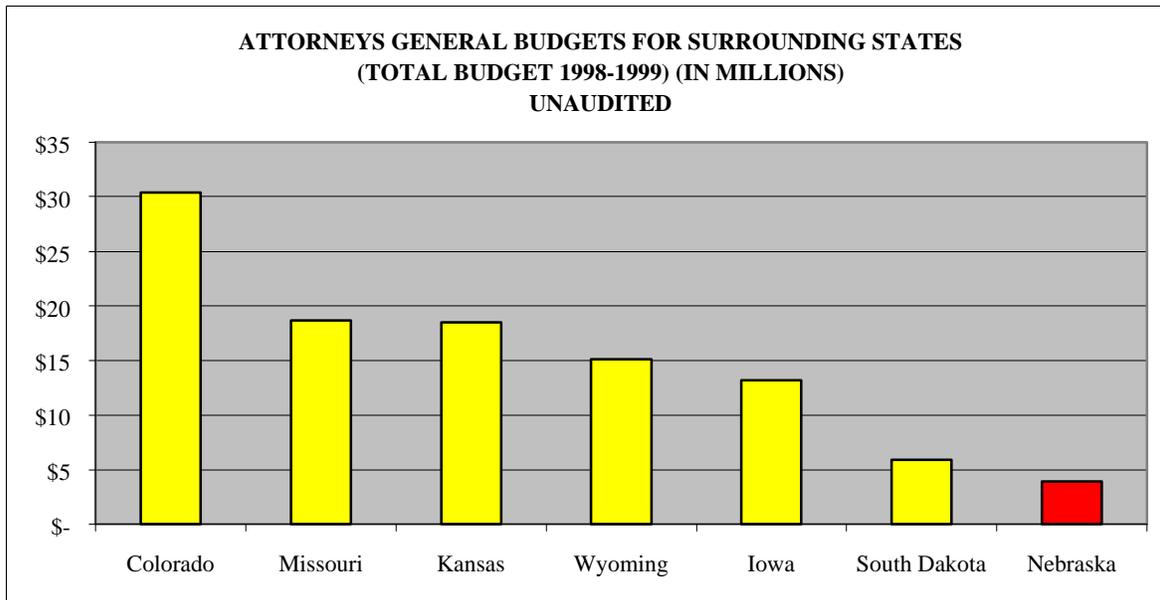
	Consumer Fraud Cash Fund 2111	Reports and Opinions Fund 2112	Anti-Drug Abuse Fund 4111	Justice Revolving Fund 5111	Totals (Memorandum Only)
Assets					
Cash in State Treasury	\$ 32,571	\$ 13,536	\$ 26,975	\$ 37,036	\$ 110,118
Deposit with Vendors	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19</u>
Total Assets	<u>\$ 32,590</u>	<u>\$ 13,536</u>	<u>\$ 26,975</u>	<u>\$ 37,036</u>	<u>\$ 110,137</u>
Fund Balances					
Fund Balances:					
Reserved	\$ 19	\$ -	\$ -	\$ -	\$ 19
Unreserved, Undesignated	<u>32,571</u>	<u>13,536</u>	<u>26,975</u>	<u>37,036</u>	<u>110,118</u>
Total Fund Balances	<u>\$ 32,590</u>	<u>\$ 13,536</u>	<u>\$ 26,975</u>	<u>\$ 37,036</u>	<u>\$ 110,137</u>

NEBRASKA DEPARTMENT OF JUSTICE
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2000

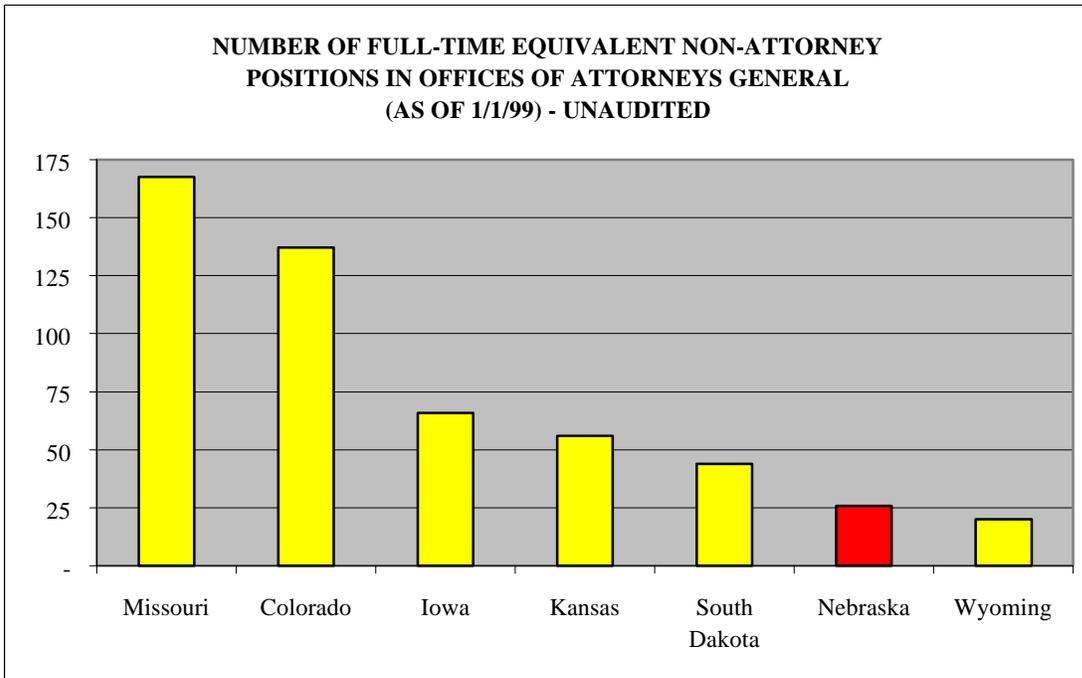
	Consumer Fraud Cash Fund 2111	Reports and Opinions Fund 2112	Anti-Drug Abuse Fund 4111	Justice Revolving Fund 5111	Totals (Memorandum Only)
RECEIPTS:					
Intergovernmental:					
Federal Grants from Other State Agencies	\$ -	\$ -	\$ 217,240	\$ -	\$ 217,240
Sales and Charges:					
Motor Vehicle Title Fees	118,055	-	-	-	118,055
Professional and Technical Services	-	392	-	401,485	401,877
Miscellaneous:					
Investment Interest	1,959	749	-	3,198	5,906
Other	(72)	-	-	-	(72)
TOTAL RECEIPTS	<u>119,942</u>	<u>1,141</u>	<u>217,240</u>	<u>404,683</u>	<u>743,006</u>
DISBURSEMENTS:					
Personal Services	110,626	-	229,409	403,400	743,435
Operating	4,678	-	1,225	-	5,903
Travel	-	-	1,494	-	1,494
TOTAL DISBURSEMENTS	<u>115,304</u>	<u>-</u>	<u>232,128</u>	<u>403,400</u>	<u>750,832</u>
Excess of Revenues Over (Under)					
Disbursements	<u>4,638</u>	<u>1,141</u>	<u>(14,888)</u>	<u>1,283</u>	<u>(7,826)</u>
Excess of Receipts and Other Financing					
Sources Over (Under) Disbursements and Other Financing Uses	4,638	1,141	(14,888)	1,283	(7,826)
Fund Balance, July 1, 1999	<u>27,952</u>	<u>12,395</u>	<u>41,863</u>	<u>35,753</u>	<u>117,963</u>
Fund Balance, June 30, 2000	<u>\$ 32,590</u>	<u>\$ 13,536</u>	<u>\$ 26,975</u>	<u>\$ 37,036</u>	<u>\$ 110,137</u>

NEBRASKA DEPARTMENT OF JUSTICE

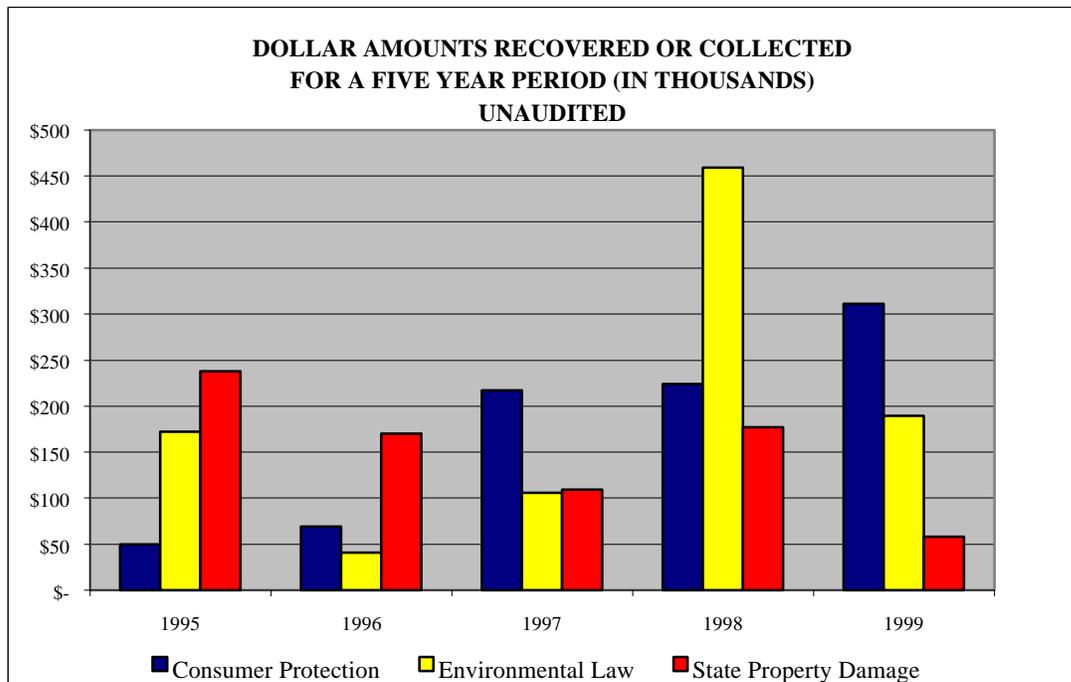


Source (both charts): Statistics on the Office of Attorney General, March 1999, published by the National Association of Attorneys General.

NEBRASKA DEPARTMENT OF JUSTICE



Source: Statistics on the Office of Attorney General, March 1999, published by the National Association of Attorneys General.



Source: State of Nebraska Annual Reports of the Attorney General.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF JUSTICE
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Department of Justice as of and for the year ended June 30, 2000, and have issued our report thereon dated January 11, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Justice. We conducted our audit in accordance with generally accepted auditing standards 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 the Nebraska Department of Justice's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Justice in the Comments Section of this report as Comment Number 1 (Internal Control Over Receipts).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Justice's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

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 the Nebraska Department of Justice's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A Reportable condition is described in the Comments Section of the report as Comment Number 1 (Internal Control Over Receipts).

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 that none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Justice in the Comments Section of the report as Comment Number 2 (Budget Monitoring), Comment Number 3 (Payroll Allocation), and Comment Number 4 (Segregation of Duties Over Fixed Assets).

This report is intended solely for the information and use of the agency, 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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Manager

January 11, 2001