

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF JUSTICE
JULY 1, 2005 THROUGH JUNE 30, 2006**

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the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
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Issued on August 31, 2006

NEBRASKA DEPARTMENT OF JUSTICE

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NEBRASKA DEPARTMENT OF JUSTICE

BACKGROUND

The Nebraska Department of Justice/Office of the Attorney General operates, in many respects, as the “State’s law firm.” The Nebraska Attorney General, an independently elected constitutional officer, heads this diverse organization of highly specialized attorneys and support staff. As Nebraska’s third largest “law firm,” employing over 118 people, including attorneys and support staff, the Department is divided into four main bureaus, each handling a wide array of legal areas.

The Civil Litigation Bureau

- Civil Rights Claims
- Inmate Litigation
- Workers’ Compensation
- Tort Claim Lawsuits
- Employment Discrimination

The Criminal Bureau

- Child Protection
- Criminal Appeals
- Domestic Violence
- White Collar Crime
- Drug and Violent Crime

The Legal Services Bureau

- Department of Roads Legal Division
- Attorney General Opinions
- Advises State Agencies, Boards, Departments, and Commissions
- Constitutional Litigation

The Public Protection Bureau

- Environmental, Agriculture, and Natural Resources
- Consumer Protection
- Health and Licensing
- Tobacco Enforcement
- Liquor Control Commission
- Equal Opportunity Commission
- Anti-trust
- Medicaid Fraud
- Administrative License Revocation

NEBRASKA DEPARTMENT OF JUSTICE

BACKGROUND

(Continued)

Major Objectives

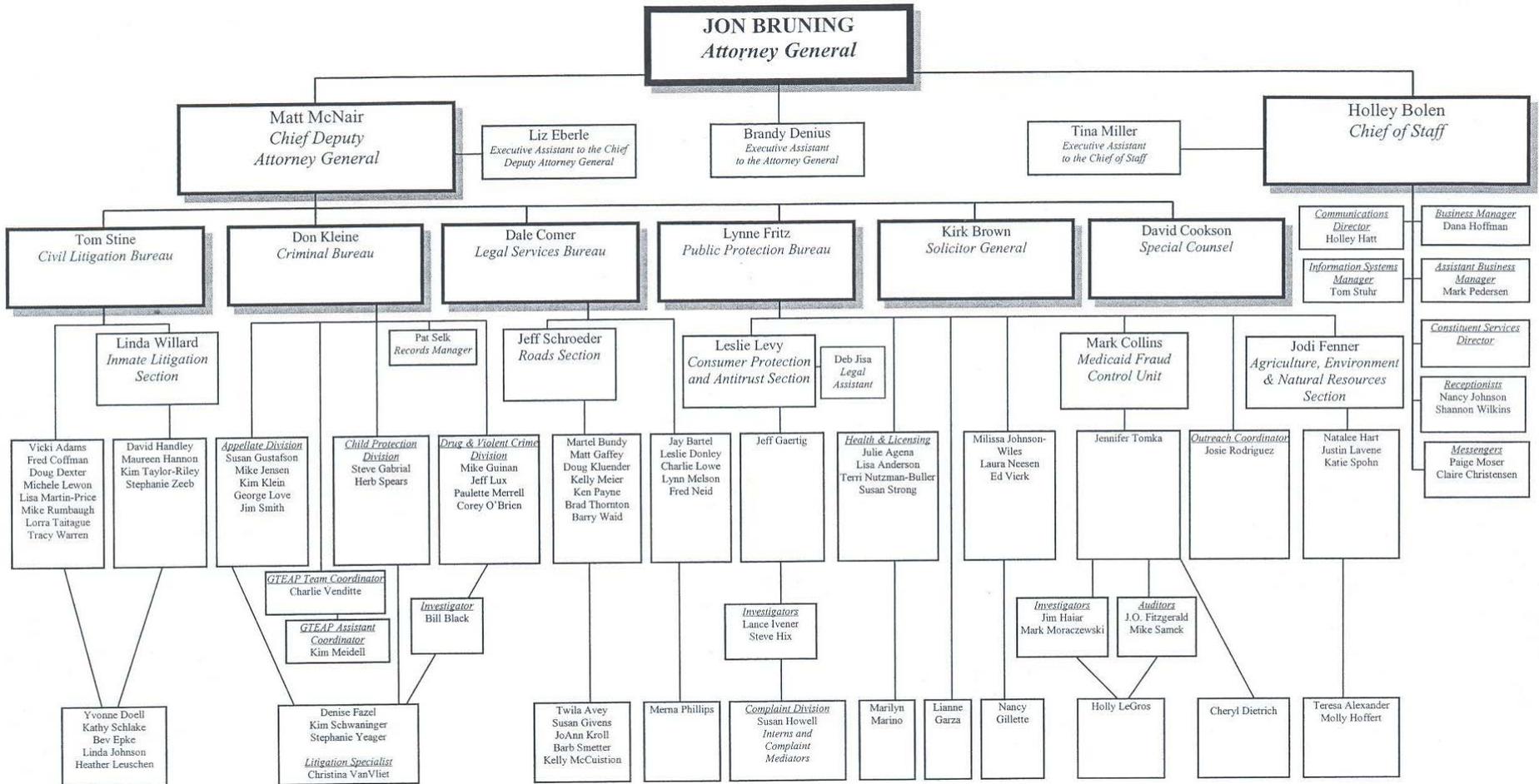
To uphold and defend the Constitution and laws of the State of Nebraska, provide skilled assistance to local prosecutors in fighting illegal drugs and the prosecution of child sexual abuse, prevent and prosecute consumer fraud and deceptive trade practices, and protect Nebraskans from fraudulent business activities and scams by educating consumers, uphold and protect the civil rights of all Nebraskans, defend Nebraska's interests in disputes with other states, and provide professional legal representation in all civil proceedings on behalf of the State.

MISSION STATEMENT

The Attorney General provides for the interpretation, application, and enforcement of the law by the Department of Justice. Duties and responsibilities include providing legal opinions and advice to the Legislature, State agencies and county attorneys; defense and prosecution on behalf of the State; antitrust enforcement; environment and natural resources issues; consumer protection and assisting county attorneys in cases involving crimes against children. The Department of Justice is responsible for all legal business of State departments which requires legal services to protect the interests of the State of Nebraska.

NEBRASKA DEPARTMENT OF JUSTICE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF JUSTICE

EXIT CONFERENCE

An exit conference was held August 16, 2006, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Justice were:

| NAME | TITLE |
|---------------|-------------------------------|
| Matt McNair | Chief Deputy Attorney General |
| Dana Hoffman | Business Manager |
| Mark Pedersen | Assistant Business Manager |

NEBRASKA DEPARTMENT OF JUSTICE

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Justice, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. **Batch Management:** Two employees were authorized on NIS Batch Management to both prepare and approve/post the same batch documents.
2. **Travel:** Supporting documentation for travel expenses should be improved.
3. **Timesheets:** Six of seven full-time employees tested did not complete timesheets to document 40 hours of work each week, only leave usage was recorded.
4. **Contractual Expenses:** A payment tested did not have specific rates included in the contract agreement.
5. **Segregation of Duties Over Capital Assets:** An adequate segregation of duties did not exist in the capital asset process. One individual was responsible for maintaining, adding, and deleting items from the NIS capital asset listing.
6. **Capital Assets Listing:** During the testing of five assets, one item was no longer in the possession of the Department and two items were not properly tagged with an inventory number and were not identified as "Property of the State of Nebraska."
7. **Reconciliation of Bank Records to the Nebraska Information System:** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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. The Department declined to respond.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

1. **Batch Management**

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 a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

Two employees were authorized on NIS Batch Management to both prepare and approve/post the same batch documents. One of these individuals was also responsible for the review of the General Ledger. Although it is Department procedure for a second individual to be involved with all transactions, there is the possibility one individual could prepare, approve, and post the same batch documents. Consequently there is an increased risk for errors or fraud to occur and not be detected, resulting in loss or misuse of State funds. A similar comment was noted in our 2003 Management Letter.

We recommend the Department review NIS Batch Management and make changes needed to ensure no one individual can approve/post batch documents they prepare.

2. **Travel**

Good internal control requires procedures to ensure all reimbursements are reasonable and necessary expenses and that adequate supporting documentation is maintained. Neb. Rev. Stat. Section 81-1025(1) R.R.S. 1999 requires, "Each operator of a state-owned motor vehicle, except a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency holds the title, shall report the points between which the motor vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such motor vehicle, and the department to which such motor vehicle belongs." Neb. Rev. Stat. Section 81-1174 requires expense reimbursements be presented monthly. Nebraska State Accounting Manual, AM-005, Travel Expense Policies, states "Original receipts are required as support for all expenditures . . . The requirement to provide receipts includes, but is not limited to, lodging, car rental, commercial travel, and registration fees." Federal General Service Administration (GSA) per diem rates provide guidance for reasonable lodging and meal expenses in travel status.

During testing of ten travel expense documents, we noted the following:

- Travel logs for State vehicles were not complete. Travel logs for April included a trip April 3-7 from Lincoln to South Sioux City for 617 miles, and a trip April 18 from Lincoln to Omaha with 172 miles listed. Mileage was not recorded for all points that the vehicle traveled, and was not listed each day and time used. We also noted other entries that did not list each day and all points of travel.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Travel (Concluded)

- One document included expenses for November 2004 and May 2006. Mileage for November 2004 was reimbursed at the current May 2006 rate rather than the rate when the expense was incurred resulting in an overpayment of \$40.
- One document included rental car expense that did not have an original receipt as required for support.
- One document included meals which exceeded GSA guidelines for one day by \$15. The GSA guideline for Lake Tahoe was \$49 and the employee was reimbursed \$64.
- One document included lodging costs in Phoenix of \$250 per night for three people for two nights; the GSA guideline was \$127. The expense reimbursement did not include an explanation to support exceeding GSA guidelines.

A similar finding was noted in our prior report. Without adequate review and documentation of expenses, there is an increased risk for loss or errors to occur.

We recommend the Department implement procedures to ensure travel expenses are reasonable, adequately documented, and in accordance with State requirements.

3. Timesheets

Neb. Rev. Stat. Section 84-1001 R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees ... shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Title 273 NAC 9-002 states, "Each agency shall maintain a record for each employee, accounting for time worked and all absences from work."

Six of seven full-time employees tested did not complete timesheets to document forty hours of work each week; only leave usage was recorded. The employees did not certify they had worked not less than forty hours each week.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate leave payments.

We recommend the Department implement procedures to ensure all employees maintain adequate documentation to support forty hours of work each week.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Contractual Expenses

Good business practices require a contract to have specific terms regarding rates to be paid. Good internal control requires payments be reviewed to ensure compliance with contract conditions.

We noted a \$58,323 payment for legal services; the contract indicated billing would be at the “preferred rates” but did not specify those rates. The Department did not have the specific rates included in the contract or in an addendum and did not monitor the rates charged were appropriate. Total payments to the contractor for the fiscal year ended June 30, 2006, was \$903,285.

Without specific contractual terms, there is an increased risk for loss or misuse of funds.

We recommend the Department ensure all contracts include specific rates and review payments to ensure compliance with contract conditions.

5. Segregation of Duties Over Capital Assets

Good internal control requires a proper segregation of duties so no one individual is in a position to handle all phases of a transaction from the beginning to end. If a proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation. Good internal control also requires a documented review and approval of the capital asset Exception Reports and the Additions and Retirements Report.

An adequate segregation of duties did not exist in the capital asset process. One individual was responsible for maintaining, adding, and deleting items from the NIS capital asset listing. The same individual also performed physical inventory, reviewed the Exception Reports, and reviewed the Additions and Retirements Report. No one approved any of the work performed by this individual. This was also a comment in the prior two audits.

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

We recommend the Department implement procedures to ensure there are adequate controls over capital assets. Procedures should be implemented which include a documented review of the Additions and Retirements Report, the Exception Reports, and the Surplus Property Notification Forms by an individual separate from the capital asset process.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Capital Assets Listing

Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999 requires each agency to clearly tag all property as “Property of the State of Nebraska.” Good internal control requires an accurate listing and identification of all capital assets.

During the testing of five capital assets, we noted the following:

- One item on the capital assets listing was no longer in the possession of the Department. The asset was a computer which should have been removed from the capital asset listing in 1999.
- Two assets were not properly tagged with an inventory number and were not identified as “Property of the State of Nebraska.”

There is an increased risk of loss or misuse of State assets without the proper tags and identification.

We recommend the Department tag all assets on the capital asset listing with an identification number, label all assets as “Property of the State of Nebraska”; and remove all items from the listing which the Department no longer has in their possession.

7. Reconciliation of Bank Records to the Nebraska Information System

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer’s actual bank statements and Nebraska accounting records (in both the Nebraska Information System (NIS) and the Nebraska Accounting System (NAS), system before NIS). This has been an issue for the Department of Administrative Services Accounting Division (State Accounting) for many years. The APA’s previous comments noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although State Accounting continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of December 19, 2005, to be as follows:

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

State Accounting has worked on the reconciliation process, but continued progress is needed. State Accounting's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. State Accounting has completed their reconciliation process for the months of July of 2004 and May, June, and July of 2005. The APA has reviewed these reconciliations. The months of May, June, and July show variances of \$3,425,381, \$3,405,702, and \$3,405,862, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, State Accounting has started the reconciliation process for various months of the fiscal year ended June 30, 2006; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2005.

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the NIS, there is a greater risk for fraud and errors to occur and to remain undetected.

Although State Accounting has worked on the reconciliation process, the process is still not done in a timely manner. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

We recommend State Accounting continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of State Accounting; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA DEPARTMENT OF JUSTICE

INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska Department of Justice
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Justice (Department) for the fiscal year ended June 30, 2006. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. 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 schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Justice for the fiscal year ended June 30, 2006, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, 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 grant agreements 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 the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink that reads "Pat Reding, CPA". The signature is written in a cursive style.

Assistant Deputy Auditor

August 16, 2006

NEBRASKA DEPARTMENT OF JUSTICE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

| | General Fund 10000 | Odometer Fraud Fund 21110 | Report and Opinions Fund 21120 | Admin License Revocation Fund 21130 | Child Protection Cash Fund 21140 | State Settlement Fund 21160 | Nebraska Health Care 22640 | Federal Fund 40000 |
|--|--------------------------|---------------------------------|--------------------------------------|---|--|-----------------------------------|----------------------------------|--------------------------|
| REVENUES: | | | | | | | | |
| Appropriations | \$ 6,367,030 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | 3,248 | - | - | 195,865 | - | - | - | 463,168 |
| Sales & Charges | 5,444 | 114,764 | - | - | - | 110,000 | - | - |
| Miscellaneous | (1) | 303 | 685 | 1,250 | 2,795 | 610 | - | - |
| TOTAL REVENUES | 6,375,721 | 115,067 | 685 | 197,115 | 2,795 | 110,610 | - | 463,168 |
| EXPENDITURES: | | | | | | | | |
| Personal Services | 4,037,318 | 115,630 | - | 166,077 | - | - | 142,017 | 369,263 |
| Operating | 2,140,973 | 54 | 9,947 | 27,970 | 16,527 | - | 4,384 | 72,876 |
| Travel | 141,132 | - | - | 883 | 18,379 | - | 3,470 | 13,709 |
| Capital Outlay | 47,607 | - | - | 2,499 | - | - | - | 7,320 |
| TOTAL EXPENDITURES | 6,367,030 | 115,684 | 9,947 | 197,429 | 34,906 | - | 149,871 | 463,168 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 8,691 | (617) | (9,262) | (314) | (32,111) | 110,610 | (149,871) | - |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Sales of Assets | 1,793 | - | - | - | - | - | - | - |
| Deposit to General Fund | (10,484) | - | - | - | - | - | - | - |
| Operating Transfers In | - | - | - | - | - | - | 150,000 | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (8,691) | - | - | - | - | - | 150,000 | - |
| Net Change in Fund Balances | - | (617) | (9,262) | (314) | (32,111) | 110,610 | 129 | - |
| FUND BALANCES, JULY 1, 2005 | 1,586 | 3,828 | 17,223 | 25,905 | 125,912 | - | 6,334 | - |
| FUND BALANCES, JUNE 30, 2006 | \$ 1,586 | \$ 3,211 | \$ 7,961 | \$ 25,591 | \$ 93,801 | \$ 110,610 | \$ 6,463 | \$ - |
| FUND BALANCES CONSIST OF: | | | | | | | | |
| General Cash | \$ - | \$ 245 | \$ 7,966 | \$ 25,591 | \$ 93,801 | \$ 110,610 | \$ 6,463 | \$ - |
| Petty Cash | 300 | - | - | - | - | - | - | - |
| Deposits with Vendors | 1,286 | 19 | - | - | - | - | - | - |
| Due From Other Funds | - | 2,947 | - | - | - | - | - | - |
| Due From Other Government | - | - | - | - | - | - | - | - |
| Due to Fund | - | - | (5) | - | - | - | - | - |
| TOTAL FUND BALANCES | \$ 1,586 | \$ 3,211 | \$ 7,961 | \$ 25,591 | \$ 93,801 | \$ 110,610 | \$ 6,463 | \$ - |

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF JUSTICE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2006

| | Justice Federal Fund 41110 | Violence Against Women Fund 41120 | One Call Federal Grant Fund 41130 | Grant to Encourage Arrest Policy 41150 | Justice Revolving Fund 51110 | Court Ordered Settlements Fund 61110 | Totals (Memorandum Only) |
|--|----------------------------------|---|---|--|------------------------------------|--|---|
| REVENUES: | | | | | | | |
| Appropriations | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,367,030 |
| Intergovernmental | 108,000 | 44,131 | 12,000 | 116,286 | - | - | 942,698 |
| Sales & Charges | - | - | - | - | 657,194 | 471,133 | 1,358,535 |
| Miscellaneous | - | 9,472 | - | - | 2,991 | 463,833 | 481,938 |
| TOTAL REVENUES | 108,000 | 53,603 | 12,000 | 116,286 | 660,185 | 934,966 | 9,150,201 |
| EXPENDITURES: | | | | | | | |
| Personal Services | 88,365 | 33,786 | 14,433 | 64,934 | 657,611 | 145,727 | 5,835,161 |
| Operating | 9,572 | 1,620 | 1,962 | 26,345 | 39 | 1,037,112 | 3,349,381 |
| Travel | 5,388 | 534 | 195 | 12,895 | - | 26,767 | 223,352 |
| Capital Outlay | - | - | - | 3,355 | - | 3,706 | 64,487 |
| TOTAL EXPENDITURES | 103,325 | 35,940 | 16,590 | 107,529 | 657,650 | 1,213,312 | 9,472,381 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 4,675 | 17,663 | (4,590) | 8,757 | 2,535 | (278,346) | (322,180) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Sales of Assets | - | - | - | - | - | - | 1,793 |
| Deposit to General Fund | - | - | - | - | - | - | (10,484) |
| Operating Transfers In | - | - | - | - | - | - | 150,000 |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | - | - | - | - | 141,309 |
| Net Change in Fund Balances | 4,675 | 17,663 | (4,590) | 8,757 | 2,535 | (278,346) | (180,871) |
| FUND BALANCES, JULY 1, 2005 | 33,116 | 1,485 | 4,793 | - | 788 | 1,405,351 | 1,626,321 |
| FUND BALANCES, JUNE 30, 2006 | \$ 37,791 | \$ 19,148 | \$ 203 | \$ 8,757 | \$ 3,323 | \$ 1,127,005 | \$ 1,445,450 |
| FUND BALANCES CONSIST OF: | | | | | | | |
| General Cash | \$ 40,406 | \$ 19,148 | \$ 203 | \$ 8,757 | \$ 3,323 | \$ 1,128,023 | \$ 1,444,536 |
| Petty Cash | - | - | - | - | - | - | 300 |
| Deposits with Vendors | - | - | - | - | - | - | 1,305 |
| Due From Other Funds | - | - | - | - | - | - | 2,947 |
| Due From Other Government | 332 | - | - | - | - | (147) | 185 |
| Due to Fund | (2,947) | - | - | - | - | (871) | (3,823) |
| TOTAL FUND BALANCES | \$ 37,791 | \$ 19,148 | \$ 203 | \$ 8,757 | \$ 3,323 | \$ 1,127,005 | \$ 1,445,450 |

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2006

1. Criteria

The accounting policies of the Nebraska Department of Justice (Department) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS – Accounting Division and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2006, includes only those payables posted to NIS before June 30, 2006, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2006, **does not** include amounts for goods and services received before June 30, 2006, which had not been posted to NIS as of June 30, 2006.

NIS also records other liabilities in accounts titled Due to Fund and Due to Government for the Department. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity.

The Department had accounts receivable not included in the Schedule of \$5,723 from other funds and other governments. DAS did not require the Department to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Department are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

50000 – Revolving Funds – account for the operation of state agencies which provide goods and services to other departments or agencies within state government. The Justice Revolving Fund is used to administer funds received from other governmental agencies for the provision of legal services. Money in the fund shall be used to pay the salaries and expenses of Department staff.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of court ordered settlements.

The major revenue object account codes established by NIS used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and court-ordered settlements.

The major expenditure object account titles established by NIS used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

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

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

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

Other significant object account codes established by NIS and used by the Department include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Department's funds at June 30, 2006, included Due to Fund and Due to Government. The activity of these accounts are not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. State Agency

The Nebraska Department of Justice 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 schedule includes all funds of the Department.

The Nebraska Department of Justice is part of the primary government for the State of Nebraska.

3. 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 because interfund balances and transactions have not been eliminated.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO THE SCHEDULE

(Continued)

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department for the fiscal year ended June 30, 2006, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------|------------|-------------------|
| Capital Assets | | | | |
| Equipment | \$ 512,070 | \$ 64,488 | \$ 136,769 | \$ 439,789 |
| Less accumulated depreciation for: | | | | |
| Equipment | | | | 292,680 |
| Total capital assets, net of depreciation | | | | \$ 147,109 |

6. Transfers

The Nebraska Health Care Fund 22640 is a common fund with the Health and Human Services System. A transfer is made each year to fund the salary of one attorney to enforce the Tobacco Master Settlement Agreement.

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NEBRASKA DEPARTMENT OF JUSTICE
**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN EXAMINATION OF THE SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Justice for the fiscal year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. 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.

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Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Justice's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion 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 schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Batch Management), Comment Number 5 (Segregation of Duties Over Capital Assets), and Comment Number 7 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule being examined 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, of the reportable conditions described above, we consider Comment Number 1 (Batch Management) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Justice's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, 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 Standards*.

We also noted certain additional items that we reported to management of the Nebraska Department of Justice in the Comments Section of this report as Comment Number 2 (Travel), Comment Number 3 (Timesheets), Comment Number 4 (Contractual Expenses), and Comment Number 6 (Capital Assets Listing).

This report is intended solely for the information and use of the Department and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

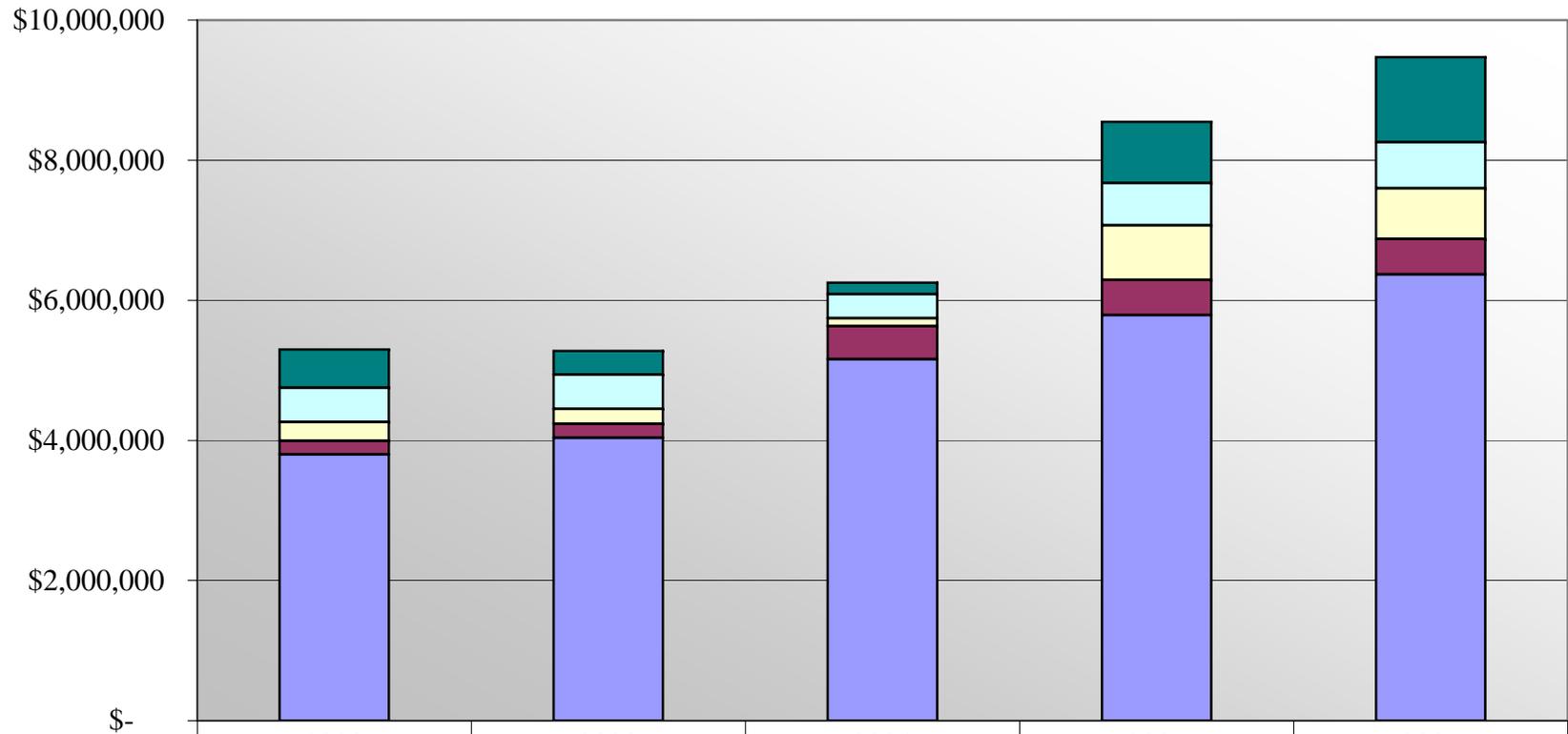
August 16, 2006

NEBRASKA DEPARTMENT OF JUSTICE

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF JUSTICE
SCHEDULE OF EXPENDITURES BY FUND TYPE
For the Fiscal Years Ended June 30, 2002 through 2006



| | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------|-------------|-------------|-------------|-------------|-------------|
| Trust | \$548,716 | \$338,998 | \$163,844 | \$872,907 | \$1,213,312 |
| Revolving | \$485,988 | \$490,199 | \$340,644 | \$606,041 | \$657,650 |
| Federal | \$272,151 | \$210,240 | \$114,528 | \$779,975 | \$726,552 |
| Cash | \$195,320 | \$202,885 | \$471,826 | \$498,486 | \$507,837 |
| General | \$3,797,664 | \$4,036,493 | \$5,160,845 | \$5,790,528 | \$6,367,030 |

NEBRASKA DEPARTMENT OF JUSTICE
SCHEDULE OF EXPENDITURES BY MAJOR ACCOUNT CATEGORY
For the Fiscal Years Ended June 30, 2002 through 2006

