

**ATTESTATION REPORT
OF THE
NEBRASKA SUPREME COURT**

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

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NEBRASKA SUPREME COURT

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NEBRASKA SUPREME COURT

BACKGROUND

The Nebraska Supreme Court, established in 1867 and located in Lincoln, is Nebraska's highest court. The Supreme Court consists of a chief justice selected at large and six associate judges selected from six districts in Nebraska. The Nebraska Constitution assigns the Supreme Court general administrative authority over all courts in the State. This authority is exercised by the Chief Justice as head of the judicial branch and includes promulgation of uniform rules of practice and procedure for all courts. The Supreme Court is also responsible for regulating the practice of law including admission to practice and the discipline of lawyers and is the recipient entity for State General Fund monies directed towards the judicial branch of government. This includes the Supreme Court itself, the Court of Appeals, the County Court System, the District Court System, and the State Probation System.

The Court of Appeals, established in 1991, consists of six judges, with one judge appointed by the Governor from each Supreme Court judicial district. The Court of Appeals hears appeals for criminal and civil cases, except for cases involving a death sentence or life imprisonment or cases involving the constitutionality of a statute. Parties to an appeal may file a petition with the Supreme Court to bypass review by the Court of Appeals. Following a decision by the Court of Appeals, any party to a case may petition the Supreme Court for further review of the decision.

District courts have original jurisdiction in all felony cases, equity cases, domestic relation cases, and civil cases where the amount in controversy involves more than \$52,000. District courts also serve as appellate courts in deciding some appeals from county courts and various administrative agencies. There are 12 judicial districts in Nebraska and 56 district judges who serve Nebraska's 93 counties. Clerks of the district court are county officers, elected and paid by the counties.

County courts have exclusive original jurisdiction in estate cases, probate matters, guardianship and conservatorship cases, actions based on violation of a city or village ordinance, juvenile court matters in counties without a separate juvenile court, adoptions, and eminent domain proceedings. The county courts have concurrent jurisdiction with the district courts in civil matters with amounts in controversy of less than \$52,000, criminal matters classified as misdemeanors or infractions, some domestic relations matters, paternity actions, and matters with a jurisdictional limit of \$3,500 filed in Small Claims courts. There are 12 judicial districts in the Nebraska county court system, each composed of 1 to 17 counties, and 58 county court judges. A clerk magistrate is appointed in each county, except Douglas, Lancaster, and Sarpy counties, where judicial administrators are appointed. The State pays county judges and county court employees. Each county pays for the cost of facilities, supplies, and equipment.

The Nebraska Probation System is responsible for juvenile intake services, presentence and other probation investigations, the direct supervision of persons placed on probation, and non-probation-based programs and services authorized by interlocal agreements. In 2003, the Legislature created the Community Corrections Act (Act), to provide for the development and establishment of community-based facilities and programs to promote rehabilitation of offenders as an alternative to incarceration. In response to the Act, the Probation office developed a

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BACKGROUND

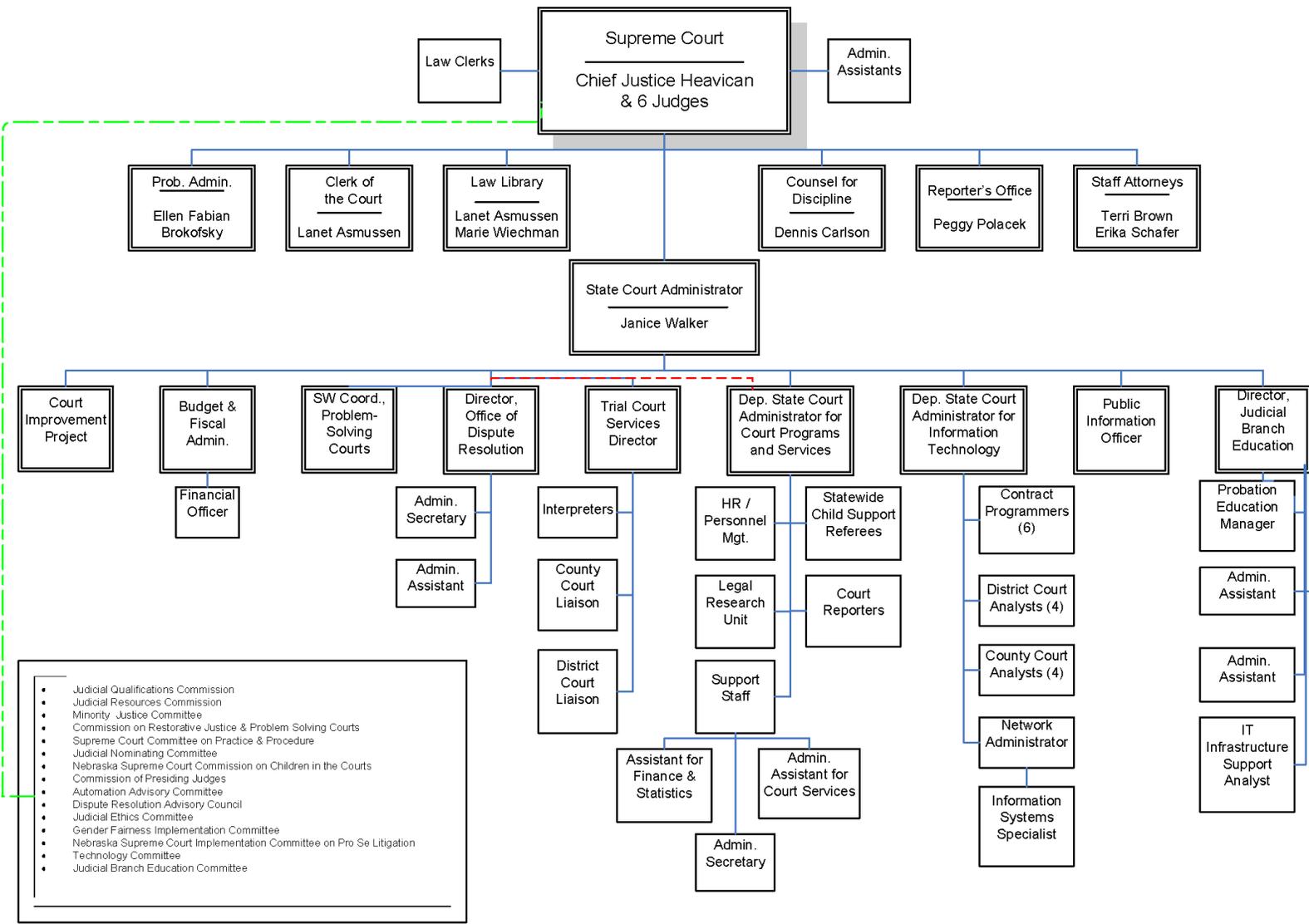
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standardized model for the delivery of substance abuse services, which includes a Fee for Service Voucher Program to pay for substance abuse evaluations. In addition, a specialized substance abuse supervision program was established, which targets supervision for high risk substance abusing offenders.

NEBRASKA SUPREME COURT

ORGANIZATIONAL CHARTS

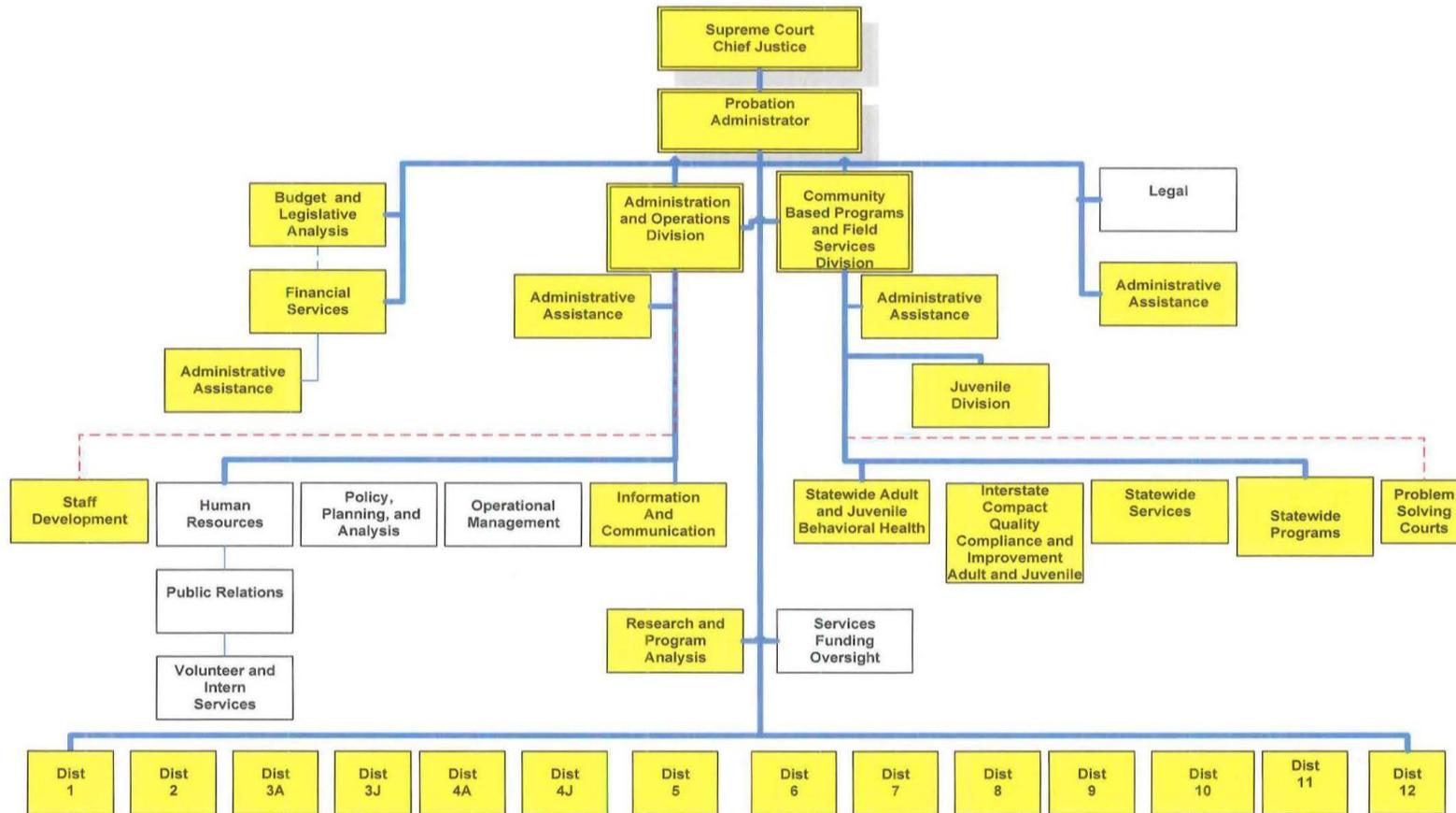
ADMINISTRATIVE OFFICE OF THE COURTS



NEBRASKA SUPREME COURT

ORGANIZATIONAL CHARTS

ADMINISTRATIVE OFFICE OF PROBATION



NEBRASKA SUPREME COURT

EXIT CONFERENCE

An exit conference was held May 30, 2013, with the Court to discuss the results of our examination. Those in attendance for the Nebraska Supreme Court were:

NAME	TITLE
Janice Walker	State Court Administrator
Ellen Brokofsky	State Probation Administrator
Eric Asboe II	Budget & Fiscal Officer I
Judy Beutler	Deputy State Court Administrator
Steve Rowoldt	Deputy Probation Administrator
Ralene Cheng	Financial Officer
Jacki Allensworth	Financial Officer
Carole McMahon-Boies	Director Judicial Education
Eileen Janssen	Assistant for Finance & Statistics
Joyce Welsch	Personnel Administrator
Deb Minardi	Deputy Probation Administrator
Paula Crouse (via telephone)	Interim IT Deputy

NEBRASKA SUPREME COURT

SUMMARY OF COMMENTS

During our examination of the Nebraska Supreme Court (Court), we noted certain deficiencies and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Law Clerks' Leave:*** The Court had 17 Law Clerks during the year that did not earn vacation or sick leave. Also, they were not required to complete timesheets or certify they worked forty hours per week.
2. ***Terminated Employees:*** We noted four terminated employees were paid incorrectly. Variances in net pay ranged from an underpayment of \$46 to an overpayment of \$113.
3. ***Service Date:*** We noted one individual earned leave at the 22-year service rate rather than the 9-year service rate.
4. ***Employee Time Charges:*** We noted a lack of adequate review of payroll allocated between State and Federal funds. We also noted \$271,405 in questioned costs for payroll charges of employees that did not have support for their time worked on grants.
5. ***Donated Sick Leave Bank:*** The Court's Sick Leave Bank was not properly maintained and there were errors in documentation and hours for the donors and recipients of the Sick Leave Bank.
6. ***Payroll Issues:*** Several issues were noted regarding the processing of payroll including: missing or incomplete I-9 forms, deductions or taxes withheld which could not be verified to documentation, lack of adequate timesheets, and compensatory time per timesheets that did not agree to the State's accounting system, EnterpriseOne.
7. ***Revenue Issues:*** The Court did not reconcile receipts collected per JUSTICE to receipts recorded in EnterpriseOne, or perform other procedures to ensure the fees collected by county and district courts were properly remitted and recorded correctly. Over \$8 million of revenue was recorded as miscellaneous revenue and should have been recorded as sales and charges revenue.
8. ***Internal Control Over Receipts:*** The Court was not reviewing accounts receivable reports to ensure all accounts were paid, journal entries were not performed timely, checks were not endorsed immediately, and procedures were not adequate to ensure receipts agreed to supporting documentation.
9. ***Internal Control Over Capital Assets:*** The Court did not have written policies and procedures for assets. We also noted one individual was authorized to perform all capital asset transactions; an annual inventory was not completed for all items; and three assets could not be located.

NEBRASKA SUPREME COURT

SUMMARY OF COMMENTS

(Continued)

10. **Contracts:** The Court did not follow contract procedures for six contract expenditures tested. Contracts were not entered into the State accounting system, there was no support that one contract was competitively bid, and one contract was not adequately monitored.
11. **Travel:** There was a lack of compliance with Internal Revenue Service (IRS) regulations and Court policies relating to travel expenses. The Court did not properly report commuting mileage and did not adequately review mileage logs. Lodging and meal reimbursements were not reasonable. Questionable expenses totaled \$3,896.
12. **Excessive Cash Fund Balances:** Fund balances at December 31, 2012, appeared excessive for seven funds. Balances at year-end were sufficient to cover 11 to 38 months' expenditures for the funds.
13. **Fixed Assets to Counties:** The Court used Federal grant money to purchase eight teleconferencing video systems. These systems were subsequently given to counties for use in the probation district offices. The Court lacks the authority to convey to political subdivisions State property purchased with Federal funds.
14. **Allotment Exceeded:** The Court exceeded their appropriated spending authority by \$219,777 for Program 435 Probation Community Correction.
15. **System Reconciliation:** The Court did not reconcile the number of JUSTICE case searches paid for through Nebraska Interactive to the number of searches performed according to the JUSTICE application. The JUSTICE application currently does not count the number of searches performed through Nebraska Interactive.
16. **Security Settings:** The JUSTICE application did not force users to meet several NITC password requirements, including length and complexity. It was noted for five counties tested that roughly 300 users were not required to periodically change their password.
17. **User Access:** We noted 18 generic IDs were shared among users to gain access to the Court's JUSTICE application. We also noted terminated employees still had active server IDs and access within JUSTICE.
18. **Business Continuity:** We noted that backup tapes at each of the 93 County Courts were generated; however, there was no requirement to store them off-site.
19. **Control Over Changes to JUSTICE Application:** The system used by the Court to document the request, testing, and approval of changes to the JUSTICE application, did not tie to changes placed into production. Additionally, there was no review by the Court of changes made by the programmers to ensure all changes made were appropriate and authorized.

NEBRASKA SUPREME COURT

SUMMARY OF COMMENTS

(Continued)

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Nebraska Supreme Court.

Draft copies of this report were furnished to the Court to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

1. Law Clerks' Leave

Neb. Rev. Stat. § 81-1320 (Reissue 2008) states:

Permanent employees of the State of Nebraska shall be entitled to sick leave with full pay computed at the rate of eight work hours per month for each calendar month of service.

Neb. Rev. Stat. § 81-1328 (Reissue 2008) states:

State employees shall, during each year of continuous employment, be entitled to ninety-six working hours of vacation leave with full pay...Employees who are regularly employed less than forty hours a week shall be entitled to vacation leave proportionate to their regular workweek.

Neb. Rev. Stat. § 81-1321 (Reissue 2008) states, in relevant part:

[S]tate employee shall mean any person or officer employed by the state including the head of any department or agency, except when such head is a board or commission, and who works a full-time or part-time schedule on an ongoing basis.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) states:

All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.

A good internal control plan requires procedures to ensure adequate documentation is on file certifying all employees render forty hours of work each week.

Neb. Rev. Stat. § 84-1307(2) (Cum. Supp. 2012) states “The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees shall begin participation in the retirement system upon employment”

The Court had a total of seventeen Law Clerks during the year who worked directly for the Justices of the Supreme Court and Court of Appeals. The salaries for these employees ranged from \$46,779 to \$48,360 a year. Eight of the fifteen Law Clerks currently on staff have been with the Court for more than a year and are full-time employees in EnterpriseOne.

- Law Clerks did not earn vacation or sick leave. The Court was not consistent in determining the Law Clerks' status. Law Clerks participated in the State Retirement Plan as a permanent employee but did not earn leave as a permanent employee. Court policy allows for Law Clerks to begin earning leave after five years of service.
- There was no documentation to support hours worked and paid for Law Clerks. The Court does not require Law Clerks who work directly for the Justices of the Supreme Court and Court of Appeals to complete timesheets or certify they work 40 hours per week.

A similar finding was noted in our prior report.

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COMMENTS AND RECOMMENDATIONS
(Continued)

1. Law Clerks' Leave (Concluded)

Noncompliance with State statutes results in the loss of compensatory benefits for certain employees.

We recommend the Court implement procedures to ensure all permanent State employees earn vacation and sick leave as provided in State statutes. We also recommend the Court implement procedures to ensure all employees maintain adequate documentation to support forty hours of work each week.

Court's Response: The recent decision to allow Law Clerks to participate in State benefits, such as retirement, unintentionally did not include leave accrual. The Supreme Court intends to implement this recommendation.

2. Terminated Employees

Neb. Rev. Stat. § 84-1301(5)(a) (Cum. Supp. 2012) states:

Compensation does not include insurance premiums converted into cash payments, reimbursement for expenses incurred, fringe benefits, per diems, or bonuses for services not actually rendered, including, but not limited to, early retirement inducements, cash awards, and severance pay, except for retroactive salary payments paid pursuant to court order, arbitration, or litigation and grievance settlements.

The Nebraska Supreme Court Personnel Policies and Procedures Manual (Revised 2008), Section 27(A) – Holidays states, “In order to receive pay for an observed holiday, an employee must be in a paid status on the workday immediately preceding and immediately following the holiday.”

A good internal control plan and sound business practice require procedures to ensure payroll deductions are accurate and leave balances are correct in EnterpriseOne. Also, a good internal control plan would require employees be paid only for actual hours worked including any compensatory hours earned.

We tested 8 of 130 terminated employees and noted the following:

- Four employees' final paycheck was not correct. Errors included an underpayment of \$34 for the inclusion of severance pay in income for the retirement calculation; an underpayment of \$21 for dental insurance deducted twice; an underpayment of \$46 for four hours of compensatory time not paid; and an overpayment of \$113 for the payment of an ineligible holiday and for hours paid but not worked.
- One of the employees noted above did not have compensatory time recorded correctly in EnterpriseOne, per their monthly leave report.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Terminated Employees (Concluded)

Another employee noted above did not earn the correct amounts of vacation and sick leave as they only worked part of the month. Furthermore, this same employee had a vacation balance remaining in EnterpriseOne; however, the balance should have been zero. A similar finding was noted in our prior report.

Without adequate policies and procedures for administering payroll, there is a risk employees will not be paid correctly.

We recommend the Court follow State statute to ensure only eligible compensation is used in calculating final payouts and retirement contributions. We also recommend the Court follow established policies regarding holiday pay. Finally, we recommend the Court establish adequate procedures to ensure all payroll deductions are accurate and leave balances are correct.

Court's Response: The Supreme Court will review procedures in order to reduce errors.

3. Service Date

We noted one employee earned leave at the 22-year service rate of 16.67 hours of vacation and 20 hours of sick leave per month rather than the 9-year service rate of 12 hours of vacation and 13.33 hours of sick leave per month. The employee had a five-year, three month break in employment. A request from the employee to the State Court Administrator to reinstate prior service years was approved. However, the Court's service date policy clearly did not provide a grace period for which an employee's prior service could be recognized once the five-year deadline had passed.

In Article 2-Court Reporting Personnel in § 1-214 of the Nebraska Supreme Court Rules, it states:

All leave, including holiday leave, vacation leave, sick leave, funeral leave, family leave, military leave, civil leave, injury leave, and workers' compensation disability leave, shall be taken as provided in the authorized leave policies of the Nebraska Supreme Court Personnel Policies & Procedures.

Nebraska Supreme Court Personnel Policies and Procedures Manual (Revised 2008), Section 27 – Authorized Leave states, “These leave policies also apply to official court reporters with some exceptions to the vacation leave policy as set out in the Supreme Court Rules Relating to Official Court Reporters.”

Nebraska Supreme Court Personnel Policies and Procedures Manual (Revised 2008), Section 8 – Service Date states:

An employee's service date is used to determine the amount of annual vacation and sick leave earned, and to compute eligibility for the Public Employees Retirement System. For most employees, this is the date of hire. If an employee leaves employment or is on leave without pay status with the Nebraska Court System

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

3. **Service Date** (Concluded)

for other than disciplinary reasons and returns to employment with the Nebraska Court System within 5 years, the service date will be adjusted for the period of absence. The employee will earn leave at the same rate as when they left employment with the Nebraska Court System and their accumulated unpaid sick leave balance will be reinstated. However, the employee will be considered a “new employee” for original provisional status purposes.

Without having the correct adjusted service date, the employee will have the incorrect accrual of vacation and sick leave. The approval to reinstate service years is also not compliant with the Nebraska Supreme Court’s Personnel Policies and Procedures.

We recommend the Court correct the employee’s adjusted service date to her date of rehire and adjust her leave earned accordingly. We also recommend the Court follow their policies regarding service dates outlined in the Nebraska Supreme Court Personnel Policies and Procedures Manual and not recognize an employee’s former service years once the five-year deadline has passed.

Court’s Response: The Supreme Court will review the current policy to determine if changes need to be made.

4. **Employee Time Charges**

OMB A-87 Attachment B (8)(h)(3) states:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

OMB A-87 Attachment B (8)(h)(4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,*
- (b) A Federal award and a non Federal award,*
- (c) An indirect cost activity and a direct cost activity,*
- (d) Two or more indirect activities which are allocated using different allocation bases, or*
- (e) An unallowable activity and a direct or indirect cost activity.*

OMB A-87 Attachment B (8)(h)(5) states:

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Employee Time Charges** (Concluded)

- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes...

A good internal control plan requires procedures to ensure adequate documentation is on file to support payroll is charged to the proper activity.

During review of 35 employees paid from Federal funds we noted the following:

- Two employees paid solely from a Traffic Safety Federal grant did not have certifications that 100% of time was worked on the Federal grant. Total charged to the grant for the calendar year was \$41,185.
- Twelve employees with time charged to both Federal and State funds did not have personnel activity reports completed for the time worked on the Federal grants. Total calendar year 2012 questioned costs were \$230,220.

Grant	# of Employees paid from grant	Questioned Costs
Child Support Enforcement	11	\$ 187,807
Violence Against Women	1	42,413
Traffic Safety	2	41,185
Total Questioned Costs		\$ 271,405

For the Administrative Office of the Courts, we noted procedures were not adequate to ensure payroll allocations were correctly entered in EnterpriseOne. One employee tested was paid from multiple funds; without adequate documentation we were unable to determine if the payroll was coded correctly.

A similar finding was noted in our prior report.

Without adequate documentation of time worked on Federal grants and a review of payroll allocations entered in EnterpriseOne, there is a risk that payroll will not be charged correctly.

We recommend the Court implement procedures to ensure employees record their time worked on Federal grants either through personnel activity reports or through a certification. We also recommend the Court ensure payroll is charged correctly and agrees to the supporting documentation.

Court's Response: The Supreme Court intends to implement procedures and work with granting agencies to ensure compliance with Federal regulations.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Donated Sick Leave Bank

The Supreme Court's Personnel Policies and Procedures Manual (Revised 2008), Section 27(B) – Vacation Leave states, "Each employee's vacation leave account shall be balanced as of the closing date of the last pay period of each calendar year. Vacation leave in excess of 35 days shall be forfeited ... In no case shall carryover vacation continue from year to year."

Section 28 – Catastrophic Illness Donation Program states, "Employees may contribute accrued vacation leave and/or accumulated compensatory time to a Sick Leave Bank that will be available to benefit another employee of the Nebraska Supreme Court who is suffering from a catastrophic illness."

Section 28(A) – Eligibility of Recipient states:

The employee must be suffering a serious illness or injury resulting in a prolonged absence lasting at least thirty work days during the past six months ... must produce satisfactory medical verification ... must have exhausted all earned paid leave time including compensatory time, sick leave, and vacation leave

A good internal control plan requires procedures to ensure:

- Adequate documentation is maintained for all donations, requests, and approvals of donated leave.
- Donated and received hours are properly calculated and tracked.
- Sick and vacation balances are properly recorded and adjusted in EnterpriseOne.

We noted the Court's spreadsheet for recording the Sick Leave Bank was not properly updated. The last date entered for donated hours was in December 2010 and the last date entered for received hours was in May 2011. To perform testing, we obtained documentation from the Court for employees who had donated and received hours and updated the spreadsheet from this documentation. Based on our review, the Sick Leave Bank had a balance at December 31, 2012, of \$114,191.

We selected three donor employees and three recipient employees for testing and noted the following:

- Two donors had a vacation balance after donation that exceeded the allowable carryover at year end by 31.5 and 5 hours. These hours should have been lapsed in EnterpriseOne but were not.
- Two recipients did not have medical verification forms on file for each catastrophic leave request.
- Two recipients received 1.5 and 12 donated hours more than they needed.
- All three recipients' sick balances recorded in EnterpriseOne were not correct with variances of .5, 1, and 12 hours. It appears the actual sick leave used and donated does not equal the amounts reported on the paystubs as sick leave paid.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Donated Sick Leave Bank** (Concluded)

- One recipient with multiple requests did not have a catastrophic leave request form on file. Additionally, two catastrophic leave approval letters were not on file.

We also noted there was not a documented review by a second individual to ensure the calculations of leave donated and received were correct.

Without adequate procedures and supporting documentation, there is a risk of improper payments and noncompliance with the Court's policies.

We recommend the Court follow established policies to lapse accrued vacation leave. Additionally, we recommend the Court establish adequate procedures to ensure calculations of the number of hours to be donated and/or received are correct; documentation to support donated/received hours is maintained and sick and vacation balances are properly recorded in EnterpriseOne. Further, we recommend a documented review of calculations by a second individual and the Court update the Sick Leave Bank spreadsheet after each donation and request. Finally, we recommend the Court review employees who have received donations and make any necessary corrections.

Court's Response: The Supreme Court will review current policy and procedures with the goal of increasing accuracy and documentation.

6. **Payroll Issues**

The 1986 Immigration Reform and Control Act requires all U.S. employers to verify the identity and work authorization or eligibility of all individuals, whether U.S. citizens or not, hired after November 6, 1986. Employers are required to do this by completing the Employment Eligibility Verification Form I-9, either on paper or online, for all employees.

IRS Publication 505 requires employers to withhold appropriate Federal and State income taxes based upon authorization by an employee on a W-4 form. If no W-4 is on file, employers are required to withhold at the highest withholding rate, single with no exemptions.

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) states:

All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.

Sound business practice and a good internal control plan require payroll deductions including benefits, waived benefits, and additional tax withholdings be approved by the employee and supported by adequate documentation.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

6. **Payroll Issues** (Continued)

We tested 26 employees and noted the following:

- An I-9 form was not on file for four employees tested and a completed I-9 form was not on file for seven employees tested.
- For four employees tested, we could not verify the deductions or taxes withheld from the employees' pay were appropriate.
 - For one employee, the W-4 form on file noted an additional withholding of \$450; however, the actual amount of additional taxes withheld was \$400. Correspondence on file noted the employee requested the change from \$450 to \$400; however, a new W-4 form was not completed.
 - For another employee, documentation in their personnel file noted they elected 70 & Over Dependent Life insurance in November 2008. In March 2012, a Department of Administrative Services Benefits employee contacted the Court because this employee did not have a spouse listed for the coverage. The Court then changed the coverage to regular Dependent Life Insurance without contacting the employee. After we inquired about documentation to support the Dependent Life insurance it was determined the employee did not have any dependents to qualify for the coverage.
 - For a third employee, there was no documentation on file to support they elected the life insurance coverage and accidental death and dismemberment insurance coverage withheld from their paycheck.
 - Finally, for a newly hired employee, there was no documentation on file stating they had waived dental and vision insurance coverage. The insurance premiums were not withheld from their pay.
- Eleven employees' holiday pay was recorded as regular pay in EnterpriseOne.
- Ten employees recorded only their leave used and did not have a timesheet to document actual time worked or certify they worked forty hours per week.
- Seven employees' timesheets/leave reports did not contain the employee's signature and/or a supervisor's approval signature.
- Two employees' compensatory time earned or used per their timesheets did not agree to EnterpriseOne.

Finally, we noted the Nebraska Supreme Court Personnel Policies and Procedures (Revised 2008), Section 1 – Range of Applicability states:

These policies, except where otherwise specifically stated hereinafter or in any other Nebraska Supreme Court rule, expressly do not apply to judges, the Clerk of the Supreme Court and Court of Appeals, the Reporter of the Supreme Court and Court of Appeals, the State Court Administrator, the State Probation Administrator, the Counsel for Discipline, official court reporters, or private staff of the individual justices of the Supreme Court or judges of the Court of Appeals. Such private staff consists of administrative assistants, career law clerks, and law clerks.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Payroll Issues (Concluded)

With the exception of Court Reporters, there was no personnel policy and procedure manual for the employee groups noted above. The Court Reporters do have a separate personnel policy and procedure manual; however, it is incomplete and doesn't address all personnel issues.

A similar finding was noted in our prior report.

Without adequate policies and procedures, there is a risk employees will not be paid correctly or in accordance with State and Federal regulations.

We recommend the Court maintain adequate supporting documentation for all payroll deductions, tax withholdings, and I-9 forms. We also recommend the Court develop procedures to ensure compliance with Neb. Rev. Stat. § 84-1001. Furthermore, we recommend the timesheets, leave reports, and certifications be signed by the employee, have a documented supervisor approval, and agree to EnterpriseOne. Finally, we recommend the Court update their personnel policies and procedures to include all necessary employees.

Court's Response: The Supreme Court recently created the position of Personnel Administrator. This position will be leading efforts to improve policies and procedures.

7. Revenue Issues

A good internal control plan requires procedures to ensure amounts remitted to the Court are correct, properly recorded, and appropriately identified as receivables at fiscal year end.

During calendar year 2012, the Court received approximately \$16.6 million in various fees from the county and district courts. County and district courts use the Judicial User System to Improve Court Efficiency (JUSTICE) application to account for fees and transactions. Fees collected are then submitted to the State online through the State Treasurer's website and recorded in EnterpriseOne. We noted the following:

- The Court did not reconcile receipts collected per JUSTICE to receipts recorded in EnterpriseOne, or perform other procedures to ensure the fees collected by county and district courts were properly remitted and recorded to the correct fund and account.
- The Court did not have procedures for determining the receivable amount at fiscal year-end for fees collected by county and district courts in June 2012 and receipted by the Court in July 2012. No receivables were reported to the Department of Administrative Services for inclusion in the statewide financial statements.

We also noted over \$6.8 million of revenue from county and district courts was recorded as miscellaneous revenue and should have been recorded as sales and charges revenue. We further noted over \$1.2 million of revenue from JUSTICE case search receipts that was recorded as miscellaneous revenue and should have been recorded as sales and charges revenue.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

7. Revenue Issues (Concluded)

Without procedures to ensure amounts collected by the county and district courts are properly recorded in EnterpriseOne, there is an increased risk for loss or misuse of State funds. Additionally, when revenue is not coded to the appropriate account and fiscal year end receivables are not adequately accounted for, financial statements may not be accurately presented.

A similar finding was noted in our prior report.

We recommend the Court implement procedures to ensure the amounts collected are properly recorded in EnterpriseOne and all revenue is coded to the appropriate fund and account. Additionally, we recommend the Court implement procedures to determine the receivable balance at fiscal year end, and report the receivable to the Department of Administrative Services.

Court's Response: The Supreme Court recognizes these issues regarding revenue. At this time, the Court lacks the resources to fully implement this finding. However, the issue will be reviewed to determine what can be accomplished with current personnel.

8. Internal Control Over Receipts

Neb. Rev. Stat. § 69-1305.02 (Reissue 2009) states, "A credit memo that remains unredeemed for more than three years after issuance is presumed abandoned and the amount presumed abandoned is the amount credited, as shown on the memo itself." Property presumed abandoned shall be reported to the State Treasurer as provided in Neb. Rev. Stat. § 69-1310.

A good internal control plan and sound business practice requires procedures to ensure:

- An initial listing of checks is prepared when the mail is opened and agreed to the amount deposited in EnterpriseOne.
- Checks are endorsed and receipted immediately.
- Credit card receipts deposited agree to the monthly statement from the credit card processor.
- Property presumed abandoned is reported to the State of Nebraska Unclaimed Property Division.
- Journal entries are performed timely and adequate supporting documentation is maintained.
- All accounts receivable are followed up for timely collection. This would include a review of the Open Accounts Receivable Report in EnterpriseOne.

For one of four items tested, the journal entry to record revenue for credit card fee receipts was not performed for eight months.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

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

The Court was not reviewing the Open Accounts Receivable Report to ensure all accounts were paid. When reviewing the February 2013 report, we noted eight uncollected accounts dated from 2003 to August 2012, totaling \$34,605.

Customer	Invoice Date	Amount
University of Nebraska - Kearney	5/2/2003	\$ 190
Nebraska Department of Revenue	8/12/2003	110
Nebraska State Patrol	7/6/2004	12,296
Baylor Evnen Curtiss Gritmit & Witt	2/13/2012	8
Baylor Evnen Curtiss Gritmit & Witt	2/13/2012	1
Baylor Evnen Curtiss Gritmit & Witt	2/13/2012	1
Nebraska Commission on Law Enforcement	8/1/2012	14,666
Nebraska Commission on Law Enforcement	8/1/2012	7,333
Total		\$ 34,605

Our review of the Administrative Office of Courts and Probation noted:

- An initial list of checks was not prepared when the mail was opened.
- Checks were not immediately endorsed as mail was opened. The court distributed the mail from one location to another prior to endorsing the checks.
- Adequate procedures were not in place to ensure the \$321,730 in Mandatory Continuing Legal Education (MCLE) credit card receipts agreed to the monthly statement from the credit card processor.

Our review of the State Library noted:

- Procedures were not adequate to ensure credits were properly returned to the payor or remitted to Unclaimed Property. As of the end of January 2013, the Court had 169 credit balances dating back to 2005, totaling \$4,312.
- Checks were returned to the vendor if they were for the wrong amount rather than endorsing all checks “deposit only” and issuing a refund check.
- Receipts were not written for monies received at the counter unless a receipt was requested and receipts issued were out of sequence.

We also noted the Interpreter’s office did not have procedures to ensure the amounts deposited in EnterpriseOne agreed to the listing of cash receipts. Finally, we noted the Clerk of the Court did not prepare an initial list of checks when the mail was opened.

A similar finding was noted in our prior report.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

8. Internal Control Over Receipts (Concluded)

Without proper policies and procedures over receipts, there is a risk of loss or misuse of funds. Additionally, when revenue is not recorded timely, the financial statements may be misstated.

We recommend the Court implement procedures to ensure all money received is accounted for. We also recommend the Court implement procedures to ensure receipts are correct and supported by documentation. Finally, we recommend the Court implement procedures to ensure the Open Accounts Receivable Report is reviewed on a regular basis and journal entries are done timely.

Court's Response: The Supreme Court has already begun changing procedures in order to implement these recommendations.

9. Internal Control Over Capital Assets

Neb. Rev. Stat. § 81-1118.02(1) (Cum. Supp. 2012) states:

Each executive, department, commission, or other state agency, including the Supreme Court...shall annually make or cause to be made an inventory of all property, including furniture and equipment, belonging to the State of Nebraska and in the possession, custody, or control of any executive, department, commission, or other state agency. The inventory shall include property in the possession, custody, or control of each executive, department, commission, or other state agency as of June 30...

Neb. Rev. Stat. § 81-1118.02(3) (Cum. Supp. 2012) states, "Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska."

A good internal control plan requires procedures to ensure:

- An adequate segregation of duties so no one individual is in a position to both perpetrate and conceal errors or irregularities.
- A review of all the capital asset reports to make certain all items were correctly added or properly deleted.
- Items listed on the capital asset listing are traceable to the capital asset and belong to the Court.
- Items are added in EnterpriseOne in the proper account and at the correct cost.

During the review of capital assets, we noted the following:

- The Court did not have written policies for assets including the dollar threshold at which an asset should be capitalized, acquisition dates, and depreciation periods. Therefore, the Court was not consistently recording similar items correctly. We noted a projector that was categorized as Law Enforcement and Security Equipment and depreciated over ten years that should have been categorized as Computer Hardware and depreciated over three years.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

9. **Internal Control Over Capital Assets** (Continued)

- One individual was authorized to perform all capital asset transactions including maintenance of records, recording additions, creating the Surplus Property Notification forms and performing the annual inventory. The Surplus Property Notification forms used to dispose of assets did not have a documented approval and no individual from the Court ensured items were removed from the listing.
- An annual inventory was not completed for all items on the capital asset listing or for supplies totaling \$287,608, which included Nebraska Reports, Appellate Reports, Session Laws, and State statutes.
- There were no procedures to ensure all items were added to the asset listing and at the correct cost. For two of three asset additions tested, the costs were understated by \$2,430 and \$2,495. Also, five servers totaling \$21,505 were not entered in EnterpriseOne and, therefore, not on the asset listing. Per the Court, the servers were purchased from February 2007 through June 2012 and ranged from \$3,271 to \$6,628 each.
- The Unposted Fixed Asset Transactions Report and the Fixed Asset No Cost Report did not have a documented review. Also, the Additions and Retirements Report and other asset integrity reports were not reviewed to ensure activity recorded was accurate.
- A Mac Pro computer, that cost \$2,502, was charged to an expense account when it should have been recorded as capital outlay and added as an asset in EnterpriseOne.
- Three items on the asset listing, a copier/printer and two computers, could not be located and two items, a large flat screen television and a projector located with the Court were not included on the asset listing.
- The Court's policy is to expense software; however, we noted 83 Liberty Recording Software assets totaling \$179,665 that were improperly included on the EnterpriseOne asset listing.

A similar finding was noted in our prior report.

Without proper capital asset policies and procedures including a complete annual inventory, adequate segregation of duties, and a review of EnterpriseOne asset reports, there is an increased risk of loss or misuse of State funds and noncompliance with State statute. In addition, when incorrect costs and item codes for capital assets are added to the system, there is an increased risk depreciation will not be calculated correctly.

We recommend the Court implement procedures to ensure the accuracy of asset records. We also recommend the Court implement procedures to ensure an adequate segregation of duties exists over capital assets to include a documented review of all

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

9. **Internal Control Over Capital Assets** (Concluded)

capital asset additions, surplus property requests, deletions, and capital asset reports. Furthermore, we recommend the Court ensure a complete annual physical inventory is performed for all items on the capital asset listing, as well as for all supplies inventories.

Court's Response: Although lack of resources may again become a significant obstacle in implementing these recommendations, the Supreme Court will be conducting a thorough review of its capital asset policies and procedures.

10. **Contracts**

Per Neb. Rev. Stat. § 73-503(1) (Cum. Supp. 2012), all State agencies shall process and document all contracts for services through the State accounting system. The requirements of this section also apply to the Court.

A good internal control plan and sound business practice requires contracts be competitively bid and be adequately monitored to ensure contract provisions are met.

We tested six contract payments ranging from \$12,000 to \$118,868. The following was noted:

- The Court did not properly enter six contracts for service into the State accounting system.
- One contract did not have adequate documentation to support the amount paid. The contract was for computer support to be billed at \$22 per computer per month. In January 2012, the invoiced amount changed from \$5,104 to \$4,833 per month. After our inquiry, the Court contacted the vendor who noted they had mistakenly reduced the invoice. The Court was not adequately monitoring the contract to ensure the proper amount was paid.
- Documentation was not available to support that one contract was competitively bid. The vendor had contracted with the Nebraska Office of the Chief Information Officer (OCIO) until 2005, when the Court initiated a separate contract with the vendor; however, the Court did not have documentation that the contract was competitively bid at that time. Expenditures to the vendor in calendar year 2012 totaled \$665,701.

A similar finding was noted in our prior report.

When contracts are not properly monitored, there is an increased risk payments will not be made in accordance with contract terms, which could result in a loss or misuse of State funds. In addition, without adequate procedures to ensure contracts are competitively bid, there is an increased risk for loss or misuse of State funds.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

10. **Contracts** (Concluded)

We recommend the Court implement procedures to ensure all contracts are entered into the State accounting system as required by statute. We also recommend the Court implement procedures to ensure contracts are monitored to ensure contract terms are met. Finally, we recommend the Court implement procedures to ensure contracts are competitively bid.

Court's Response: The Supreme Court is in the process of establishing an additional position with duties in the area of contracts. This position will be able to assist in implementing these recommendations.

11. **Travel**

Internal Revenue Service (IRS) Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, states the value of an employer's vehicle provided to an employee to be used for business purposes is calculated by multiplying each one-way commute (that is, from home to work or from work to home) by \$1.50.

Nebraska Supreme Court Other Personnel – Related Policies, Section 5(C) – Mode of Travel states:

If an officer or employee chooses to use his or her personal automobile in lieu of air travel even though air travel is a more economical method of transportation, the officer or employee will be reimbursed only the amount equal to the cost of the airfare. Other expenses such as lodging and meals that may be incurred because of traveling by personal automobile will not be reimbursed.

Section 5(E)(1) – Meals states:

Only actual amounts paid for meals may be claimed ... The Administrative Office of the Courts/Probation requires all officers and employees to keep itemized receipts (not credit card receipts) for meal expenses ... Unsubstantiated meal expenses will not be reimbursed ... If departure is before 6:30 a.m. or 1½ hours before the officer or employee begins work, whichever is earlier, breakfast may be reimbursed.

A good internal control plan requires procedures to ensure payment for expenses are reasonable and necessary.

We tested 20 travel documents and noted the following:

Three hotel bills reviewed were not reasonable as the employees were within 50 miles of their workplace and the necessity for lodging was not documented:

- Lodging was provided to six employees within 50 miles of their workplace for 11 nights totaling \$847. Also, one employee lived within 2½ hours of the location and was provided a hotel room the night prior, when the event commenced the next day at 1:00 p.m. This extra night amounted to \$77.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

11. **Travel** (Concluded)

- Lodging was provided to 14 employees within 50 miles of their workplace for 24 nights totaling \$1,848.
- Lodging was provided to 13 employees within 50 miles of their workplace for 13 nights totaling \$1,001. Also, two rooms for two nights were billed at \$10 higher per night than the General Services Administration rate of \$77.

A non-eligible meal of \$12 was reimbursed based on the time of the trip. The employee chose to drive versus the more economical air travel. The departure time on the quoted flight was 11:20 am, therefore, breakfast was not allowable. We also noted no detailed receipts were on file for three meals totaling \$36; only credit card receipts were on file.

We noted an unreasonable miscellaneous expense where valet parking was chosen in lieu of on-site parking resulting in an additional \$7 per day for five days or \$35.

Commuting trips were not properly added to the employees' income as noted:

- One employee had 27 commuting trips totaling \$40.50 in July 2012 that were not reported as income.
- One employee had 20 commuting trips totaling \$30 in October 2012 that were not reported as income.
- One employee had commuting income over-reported by \$1.50.

A similar finding was noted in our prior report.

Without proper review of travel expenditures, there is an increased risk for loss or misuse of State funds and noncompliance with IRS regulations.

We recommend the Court implement procedures to thoroughly review travel expenditures for accuracy, reasonableness, and compliance with Court policies. We also recommend the Court implement procedures to comply with IRS regulations and properly add the value of commuting miles to employees' income.

Court's Response: Improvements have been made in this area, however, the Supreme Court intends to update its travel policy to increase internal control.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

12. Excessive Cash Fund Balances

Fund balances at December 31, 2012, appeared excessive for several funds; balances at year end were sufficient to cover several months' expenditures as noted in the following table:

Fund	Year End Balance	Avg. Monthly Expenditures	Months on Hand	State Statute Authorization
Supreme Court Education	\$ 1,027,950	\$ 27,202	38	§ 33-154*
Counsel for Discipline	\$ 1,158,766	\$ 40,063	29	§ 24-229**
Dispute Resolution Cash	\$ 408,800	\$ 23,000	18	§ 33-155*
Probation Program	\$ 8,210,667	\$ 473,358	17	§ 29-2262.06*
Parenting Act	\$ 610,502	\$ 40,214	15	§ 33-107.02*
MCLE Cash***	\$ 314,187	\$ 21,123	15	N/A
Supreme Court Automation	\$ 3,580,701	\$ 328,686	11	§ 33-107.03*

*State statute sets the fee.

**State statute provides authority to set the fee.

***Mandatory Continuing Legal Education.

Sound business practice and a good internal control plan require procedures to ensure fund balances are not excessive and amounts charged for fees are reasonable and appropriate in relation to the costs.

A similar finding was noted in our prior report.

There is an increased risk the Court is charging higher fees than required to cover the costs of operations.

We recommend the Court implement procedures to review the balances in the cash funds on a regular basis to ensure the fees charged are appropriate and fund balances are not excessive.

Court's Response: During the recent budget crisis the Supreme Court was given authority to use several cash funds as the Court deemed necessary. The purpose was to offset General Fund reductions in order to maintain court and probation services. As a result, fund balances were kept high in case additional expenditures needed to be made from these funds. This authority is no longer necessary and the Supreme Court is in the process of trying to reduce the balance in several of the funds.

13. Fixed Assets to Counties

The Court used Federal grant money to purchase eight teleconferencing video systems to assist with probation-related activities. These systems were subsequently passed on to counties for use in the probation district offices located therein. The Court lacks formal guidelines or procedures for conveying to political subdivisions State property purchased with Federal funds.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

13. Fixed Assets to Counties (Continued)

District probation offices provide a continuum of client services in one location, including educational opportunities, employment assistance, and a variety of classes and groups that are either court ordered or offered because there is a need for them. The offices are governed primarily by Neb. Rev. Stat. § 29-2259 (Cum. Supp. 2012). Subsection (4) provides, in relevant part:

The expenses incident to the conduct and maintenance of the principal office within each probation district shall in the first instance be paid by the county in which it is located

Subsection (5) adds:

Each county shall provide office space and necessary facilities for probation officers performing their official duties and shall bear the costs incident to maintenance of such offices other than salaries, travel expenses, and data processing and word processing hardware and software that is provided on the state computer network.

As indicated by the above statutes, counties are to pay for the “expenses incident to the conduct and maintenance” of probation district offices located within their boundaries, as well as provide for their “office space and necessary facilities.” Therefore, procuring teleconferencing video systems, such as those furnished by the Court, appears to constitute a county responsibility.

28 CFR § 66.32(b), which governs the management of equipment purchased by states with Federal funds, requires:

A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

No express statutory provisions address the Court’s donation of State property to counties for use in probation district offices. At the same time, however, Neb. Rev. Stat. § 81-161.04 (Reissue 2008) does direct the handling and disposition of surplus personal property held by State agencies. Specifically, subsection (1) of that statute directs, in relevant part:

Whenever any using agency has any personal property for which it no longer has any need or use, it shall notify the materiel division in writing setting forth a description of the property and the approximate length of time that the property has been in the possession of the using agency.

In response to an inquiry by the APA, the Materiel Division of the Department of Administrative Services has asserted that § 81-161.04 does not apply to the Court. Nevertheless, that statute could serve as an ideal model of good business practice in this regard – especially in light of the fact that the Court currently lacks any formal guidelines or procedures for the disposal of its assets.

It should be noted that the \$40,960 of Federal funds used to purchase the eight teleconferencing video systems at issue were obtained through the Edward Byrne Memorial Justice Assistance Grant Program. Subawards of that money by the State to units of local government are permitted under 42 USC § 3751(b). There is no supporting documentation, however, of any such formal subawards by the Court to the counties.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

13. Fixed Assets to Counties (Concluded)

Of particular concern regarding the Court's donation of State property purchased with Federal funds is the fact that, subsequent to such informal conveyance, the Court makes no effort to track or account for the ultimate disposition of the personal property conferred. Therefore, the Court maintains no records detailing either the specifics of the donations or the ensuing use or destination of the property.

By donating to the counties, without either a formal subaward agreement or the appropriate guidelines or procedures, teleconferencing video systems purchased for the State with Federal grant money, the Court places itself at risk of potential impropriety, including fraud, theft or abuse.

We recommend the Court implement an appropriate formal process for the conveyance of State property.

Court's Response: The fixed assets specifically mentioned in the finding still remain as State property. However, the Supreme Court agrees that a formal process is necessary and will be establishing a procedure.

14. Allotment Exceeded

The Legislature makes appropriations for each fiscal year. An appropriation is an authorization to make expenditures and incur obligations. This authority is granted by the Legislature and each agency is expected to operate within those limits.

The 102nd Legislature, LB 390, appropriated \$4,071,208 in General Funds for Program 435, Probation Community Corrections. In addition, \$186,641 was re-appropriated from fiscal year 2011 to fiscal year 2012 bringing the total General Funds available for Program 435 to \$4,257,849.

Program 435 expenditures for fiscal year 2012, including expenditures obligated in fiscal year 2012 and paid in fiscal year 2013, totaled \$4,477,626. The Court exceeded their appropriated spending authority by \$219,777 for Program 435.

When expenditures and obligations exceed appropriations, the Court is not in compliance with spending limitations established by the State Legislature.

We recommend the Court operate Program 435 within the spending limitations established by the State Legislature.

Court's Response: The Supreme Court will review current procedures regarding obligations.

15. System Reconciliation

Good internal control plans include procedures to ensure all funds received reconcile to other system applications.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

15. **System Reconciliation** (Concluded)

The Court did not reconcile the number of paid JUSTICE case searches through Nebraska Interactive to the number of searches performed according to the JUSTICE application. The JUSTICE application currently does not count the number of searches performed through Nebraska Interactive.

We noted for 3 of 4 journal entries tested, the supporting documentation on file did not adequately support the number of paid case searches processed through Nebraska Interactive. The Court was unable to trace the search totals provided by Nebraska Interactive to JUSTICE to ensure totals were accurate. JUSTICE case search receipts totaled \$1,279,474 during calendar year 2012.

A similar finding was noted in our prior reports.

When a reconciliation of searches is not performed, there is an increased risk the Court is not receiving all funds due to them.

We recommend the Court implement procedures to reconcile search activity to funds received from Nebraska Interactive.

Court's Response: The Supreme Court will work with Nebraska Interactive to determine reasonable options for reconciliation.

16. **Security Settings**

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Password Standard 8-301, Section 2.1, Password Construction states:

The following are the minimum password requirements for State of Nebraska passwords:

- *Must contain at least eight (8) characters*
 - *Must not repeat any character sequentially more than two (2) times*
- *Must contain at least three (3) of the following four (4):*
 - *At least one (1) uppercase character*
 - *At least one (1) lowercase character*
 - *At least one (1) numeric character*
 - *At least one (1) symbol*
- *Must change at least every 90 days*
- *Can not repeat any of the passwords used during the previous 365 days.*

Additionally, NITC Standards and Guidelines, Information Security Policy 8-101, Section 5, Physical and Environmental Security states, in relevant part:

To prevent unauthorized access to information, agencies will implement automated techniques or controls to require authentication or re-authentication after a predetermined period of inactivity for desktops, laptops, PDA's and any other computer systems where authentication is required. These controls may include such techniques as password protected screen savers, automated logoff processes, or re-authentication after a set time out period.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

16. **Security Settings** (Concluded)

A good internal control plan includes utilizing system parameters to enforce password and re-authentication rules that require users to comply with NITC Standards.

The JUSTICE application did not force users to meet several NITC password requirements including length and complexity. It was also noted for the five counties tested, that roughly 300 users at each county were not required to periodically change their password. See table below.

User Group	Merrick	Holt	Platte	Adams	Douglas
	Number of Users				
County Users	96	95	97	97	97
JUSPUBLIC (Public Access)	1	1	1	1	1
Supreme Court Employees	34	37	37	42	53
Generic Programmer ID	1	1	1	1	1
Other State Agencies	166	166	166	166	166
Total	298	300	302	307	318

We also noted, the JUSTICE application requires a user to re-authenticate to the server after four hours of inactivity. While the Standard does not indicate what the “predetermined period of inactivity” should be, four hours does not seem reasonable and in line with the intent of the Standard; to prevent unauthorized access to information.

A similar finding was noted in our prior reports.

Strong password and re-authentication settings reduce the risk of an unauthorized user gaining access to confidential information and key financial data.

We recommend password complexity requirements be implemented to ensure user compliance with NITC Standards. When systems are not capable of forcing users to comply with NITC requirements, we recommend requesting a waiver for NITC’s consideration. Furthermore, we recommend the Court eliminate the use of non-expiring passwords or obtain authorization for their use from NITC. Additionally, we recommend the re-authentication facility be set to a more reasonable level.

Court’s Response: The Supreme Court, as a result of the audit, has instituted minimum password requirements which are being implemented in stages. Regarding the finding on periodically changing passwords, although changes in requirements are being made, it should be noted that a significant percentage of these user IDs are for inquiry purposes only and have no authority to change records.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

17. User Access

NITC Standards and Guidelines, Information Security Policy 8-101, Section 3, Personnel Accountability and Security Awareness states, in part:

Each user must understand his/her role and responsibilities regarding information security issues and protecting state information. Access to agency computer(s), computer systems, and networks where the data owner(s) has authorized access, based upon the 'Principle of Least Privilege', must be provided through the use of individually assigned unique computer identifiers, known as UserIDs, or other technologies including biometrics, token cards, etc. Each individual is responsible for reasonably protecting against unauthorized activities performed with their UserID.

Additionally, NITC Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control states, in part:

All individuals requiring special privileges (programmers, database administrators, network and security administrators, etc.) will have a unique privileged account (UserID) so activities can be traced to the responsible user.

Furthermore, NITC Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control states, in part:

A user account management process will be established and documented to identify all functions of user account management, to include the creation, distribution, modification and deletion of user accounts. Data owner(s) are responsible for determining who should have access to information and the appropriate access privileges Agencies or data owner(s) should perform annual user reviews of access and appropriate privileges.

We noted eighteen generic IDs were shared among users to gain access to the Court's JUSTICE application. One of the generic IDs was utilized by the JUSTICE programmers to gain access to the JUSTICE production environment.

Good internal control includes a process to ensure terminated users' access is removed timely.

We also noted 30 employees of various entities terminated employment and still had active server IDs and access within the JUSTICE application. See table below.

User Description	# of Termed Users	Termination Date Range	# of Users that Terminated prior to 2012
Supreme Court Employees	4	August 2012 to November 2012	0
County Employees	22	Prior to 2003* to February 2013	7
City of Omaha	4	2010 to November 2012	1
Totals	30		8

*Actual termination date not available in County system

Furthermore, we noted a terminated contracted programmer still had an active ID for the software used to move changes to the JUSTICE production environment.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

17. User Access (Concluded)

A similar finding was noted in our prior reports.

Inadequate authentication procedures may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources. Shared IDs make it difficult to identify the individual who accessed the computer system. When access to applications is not terminated timely, it creates the opportunity for inappropriate access to State resources.

We recommend eliminating all shared IDs when feasible to ensure individuals have a unique ID and to make users accountable for transactions on the computer system. When it is not feasible to prevent the use of shared IDs, compensating controls should be in place to identify who and when the ID was used. We further recommend a formalized process to remove access to the server and the JUSTICE application be established and followed. Terminated users' access should be removed immediately and the Court should review user access on a periodic basis to ensure access is appropriate.

Court's Response: The Supreme Court has, as a result of the audit, already reduced the number of user IDs and is working with the OCIO to implement a plan to regularly review IDs.

18. Business Continuity

NITC Standards and Guidelines, Information Technology Disaster Recovery Plan Standard 8-201, Section 1.0 states, in part:

Each agency must have an Information Technology Disaster Recovery Plan that supports the resumption and continuity of computer systems and services in the event of a disaster. The plan will cover processes, procedures, and provide contingencies to restore operations of critical systems and services as prioritized by each agency.... The Information Technology Disaster Recovery Plan should be effective, yet commensurate with the risks involved for each agency. The following elements, at a minimum, must be included:

- *Identification of critical computer systems and services to the agency's mission and business functions.*
- *Critical systems and services preservation processes and offsite storage strategy and methods to protect storage media....*

Additionally, under Section 5.2 the Standard states:

The highest authority within an agency or institution is responsible for the protection of information resources, including developing and implementing disaster recovery/business continuity programs consistent with this standard. The authority may delegate this responsibility but delegation does not remove the accountability.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS
(Continued)

18. Business Continuity (Concluded)

IT Governance Institute's Control Objectives for Information and Related Technology (COBIT) 4.1 states, in part:

The need for providing continuous IT services requires developing, maintaining and testing IT continuity plans, utilizing offsite backup storage and providing periodic continuity plan training. An effective continuous service process minimises[sic] the probability and impact of a major IT service interruption on key business functions and processes.

Backup tapes at each of the 93 County Courts were generated; however, there was no requirement to store them off-site.

A similar finding was noted in our prior reports.

When tapes are not maintained off-site, there is an increased risk for the loss of data or prolonged system down time.

We recommend the Court require the Counties to store backup tapes off-site to ensure effective data retention.

Court's Response: The Supreme Court will work with the OCIO to determine reasonable options.

19. Control Over Changes to JUSTICE Application

NITC Standards and Guidelines, Information Security Policy 8-101, Section 3, Personnel Accountability and Security Awareness states, in part:

To reduce the risk of accidental or deliberate system misuse, separation of duties must be implemented where practical. Whenever separation of duties is impractical, other compensatory controls such as monitoring of activities, audit trails and management supervision must be implemented.

Furthermore, NITC Standards and Guidelines, Information Security Policy 8-101, Section 9, System Development and Maintenance states, in part:

To protect information systems and services, a formal change management system must be established to enforce strict controls over changes to all information processing facilities, systems, software, or procedures. Agency management must formally authorize all changes before implementation and ensure that accurate documentation is maintained. These change control procedures will apply to agency business applications as well as systems software used to maintain operating systems, network software, hardware changes, etc.

Good internal control includes a formal methodology to guide the development of applications and systems. Changes to existing applications and systems should undergo initial evaluation, authorization, and implementation procedures to ensure they have met expectations and minimized user disruption. These processes should be adequately documented.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

19. Control Over Changes to JUSTICE Application (Concluded)

The Court uses a system known as JTrac to document the request, testing, and approval of changes to JUSTICE. Production changes to the JUSTICE application were implemented on 214 days of the calendar year. We selected a sample of 21 days to trace implemented changes to a Service Request in JTrac. For 16 days tested, the APA was unable to tie changes placed into production to an approved Service Request in JTrac. Additionally, there was no periodic review of actual changes made by the programmers to ensure all changes made were appropriate and authorized.

Without proper and consistent change control standards, changes to the application may be made without specific management approvals. This could lead to data loss, loss of financial data integrity, and unintended system down time.

We recommend the software utilized by the Court to make changes to the JUSTICE application note, or in some way trace to the JTrac change management system maintained to document the request, testing, and approval of changes. Additionally, we recommend the Court periodically obtain and review a report of JUSTICE changes from the OCIO to ensure changes made were appropriate and authorized.

Court's Response: The Supreme Court has started changing procedures to implement this recommendation.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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NEBRASKA SUPREME COURT

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Supreme Court
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Supreme Court (Court) for the calendar year ended December 31, 2012. The Court'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 Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Supreme Court for the calendar year ended December 31, 2012, 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 are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control

over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Supreme Court, others within the Court, and the appropriate Federal and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

SIGNED ORIGINAL ON FILE

June 5, 2013

Mike Foley
Auditor of Public Accounts

NEBRASKA SUPREME COURT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	General Fund 10000	Supreme Court Reports Fund 20510	Probation Supervision Fund 20520	Supreme Court Education Fund 20530
REVENUES:				
Appropriations	\$ 74,353,669	\$ -	\$ -	\$ -
Intergovernmental	5,500	-	-	62,918
Sales & Charges	9,309,632	70,108	544,459	397,278
Miscellaneous	(7,375)	19,386	9,084	23,281
TOTAL REVENUES	83,661,426	89,494	553,543	483,477
EXPENDITURES:				
Personal Services	67,031,836	13,326	24,262	163,676
Operating	6,284,342	136,988	628,172	86,187
Travel	1,031,554	-	-	76,556
Capital Outlay	4,230	-	-	-
Government Aid	1,707	-	-	-
TOTAL EXPENDITURES	74,353,669	150,314	652,434	326,419
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,307,757	(60,820)	(98,891)	157,058
OTHER FINANCING SOURCES (USES):				
Sales of Assets	2,646	-	-	-
Deposit to General Fund	(9,310,403)	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	(250,683)	-
TOTAL OTHER FINANCING SOURCES (USES)	(9,307,757)	-	(250,683)	-
Net Change in Fund Balances	-	(60,820)	(349,574)	157,058
FUND BALANCES, JANUARY 1, 2012	9,125	126,165	657,760	870,892
FUND BALANCES, DECEMBER 31, 2012	\$ 9,125	\$ 65,345	\$ 308,186	\$ 1,027,950
FUND BALANCES CONSIST OF:				
General Cash	\$ -	\$ 61,696	\$ 248,208	\$ 1,029,056
Petty Cash	125	-	-	-
NSF Items	-	3,532	-	-
Deposits with Vendors	9,000	-	-	-
Accounts Receivable Invoiced	-	427	-	1
Due From Other Funds	-	-	60,000	-
Due From Other Government	-	-	(22)	(1,107)
Due to Vendors	-	(310)	-	-
Due to Fund	-	-	-	-
TOTAL FUND BALANCES	\$ 9,125	\$ 65,345	\$ 308,186	\$ 1,027,950

(Continued)

The accompanying notes are an integral part of the schedule.

NEBRASKA SUPREME COURT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	CT APP Special Advocate Fund 20535	Supreme Court Automation Fund 20540	NE Statutes Distribution Cash Fund 20545	Dispute Resolution Cash Fund 20550	Parenting Act Fund 20555
REVENUES:					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	9,700	-	-	-
Sales & Charges	-	4,639,242	330	284,808	521,785
Miscellaneous	1,322	(13,426)	178	9,262	14,081
TOTAL REVENUES	1,322	4,635,516	508	294,070	535,866
EXPENDITURES:					
Personal Services	-	523,821	-	-	-
Operating	190,000	3,407,699	7	6,000	6,431
Travel	-	23,953	-	-	1,824
Capital Outlay	-	(11,236)	-	-	-
Government Aid	-	-	-	270,000	474,316
TOTAL EXPENDITURES	190,000	3,944,237	7	276,000	482,571
Excess (Deficiency) of Revenues Over (Under) Expenditures	(188,678)	691,279	501	18,070	53,295
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Operating Transfers In	200,000	-	-	-	-
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	200,000	-	-	-	-
Net Change in Fund Balances	11,322	691,279	501	18,070	53,295
FUND BALANCES, JANUARY 1, 2012	11,023	2,889,422	-	390,730	557,207
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 22,345</u>	<u>\$ 3,580,701</u>	<u>\$ 501</u>	<u>\$ 408,800</u>	<u>\$ 610,502</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ 22,345	\$ 3,581,033	\$ 501	\$ 408,800	\$ 610,502
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Accounts Receivable Invoiced	-	4	-	-	-
Due From Other Funds	-	-	-	-	-
Due From Other Government	-	-	-	-	-
Due to Vendors	-	(336)	-	-	-
Due to Fund	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ 22,345</u>	<u>\$ 3,580,701</u>	<u>\$ 501</u>	<u>\$ 408,800</u>	<u>\$ 610,502</u>

(Continued)

The accompanying notes are an integral part of the schedule.

NEBRASKA SUPREME COURT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	Probation Contractual Services Fund 20560	Counsel For Discipline Fund 20570	Probation Program Fund 20580	MCLE Cash Fund 20595	Federal General Fund 40000
REVENUES:					
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	554,235	-	3,619,661	-	821,153
Sales & Charges	-	533,388	2,490,162	321,959	-
Miscellaneous	4,259	32,463	185,403	7,787	-
TOTAL REVENUES	558,494	565,851	6,295,226	329,746	821,153
EXPENDITURES:					
Personal Services	416,634	385,440	(15,255)	106,502	-
Operating	28,205	89,034	5,664,985	146,188	804,764
Travel	5,124	6,280	30,561	791	16,389
Capital Outlay	-	-	-	-	-
Government Aid	-	-	-	-	-
TOTAL EXPENDITURES	449,963	480,754	5,680,291	253,481	821,153
Excess (Deficiency) of Revenues Over (Under) Expenditures	108,531	85,097	614,935	76,265	-
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	-	-	-	-
Deposit to General Fund	-	-	-	-	-
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
Net Change in Fund Balances	108,531	85,097	614,935	76,265	-
FUND BALANCES, JANUARY 1, 2012	84,415	1,073,669	7,595,732	237,922	-
FUND BALANCES, DECEMBER 31, 2012	\$ 192,946	\$ 1,158,766	\$ 8,210,667	\$ 314,187	\$ -
FUND BALANCES CONSIST OF:					
General Cash	\$ 192,946	\$ 1,158,766	\$ 8,189,799	\$ 314,187	\$ -
Petty Cash	-	-	-	-	-
NSF Items	-	-	-	-	-
Deposits with Vendors	-	-	-	-	-
Accounts Receivable Invoiced	-	-	44,000	-	-
Due From Other Funds	-	-	-	-	-
Due From Other Government	-	-	-	-	-
Due to Vendors	-	-	(23,132)	-	-
Due to Fund	-	-	-	-	-
TOTAL FUND BALANCES	\$ 192,946	\$ 1,158,766	\$ 8,210,667	\$ 314,187	\$ -

(Continued)

The accompanying notes are an integral part of the schedule.

NEBRASKA SUPREME COURT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Calendar Year Ended December 31, 2012

	Supreme Court Grants Fund 40500	Juvenile Account Grant Fund 40510	Probation Grants Fund 40520	Totals (Memorandum Only)
REVENUES:				
Appropriations	\$ -	\$ -	\$ -	\$ 74,353,669
Intergovernmental	690,834	-	231,481	5,995,482
Sales & Charges	-	-	-	19,113,151
Miscellaneous	2,657	1	2,934	291,297
TOTAL REVENUES	693,491	1	234,415	99,753,599
EXPENDITURES:				
Personal Services	295,783	-	194,679	69,140,704
Operating	172,342	-	231,807	17,883,151
Travel	14,910	-	15,740	1,223,682
Capital Outlay	-	-	50,840	43,834
Government Aid	325,369	-	-	1,071,392
TOTAL EXPENDITURES	808,404	-	493,066	89,362,763
Excess (Deficiency) of Revenues Over (Under) Expenditures	(114,913)	1	(258,651)	10,390,836
OTHER FINANCING SOURCES (USES):				
Sales of Assets	-	-	-	2,646
Deposit to General Fund	-	-	-	(9,310,403)
Operating Transfers In	52,740	-	-	252,740
Operating Transfers Out	(52,740)	-	-	(303,423)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	(9,358,440)
Net Change in Fund Balances	(114,913)	1	(258,651)	1,032,396
FUND BALANCES, JANUARY 1, 2012	280,708	85	145,046	14,929,901
FUND BALANCES, DECEMBER 31, 2012	<u>\$ 165,795</u>	<u>\$ 86</u>	<u>\$ (113,605)</u>	<u>\$ 15,962,297</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ 13,321	\$ 86	\$ 4,936	\$ 15,836,182
Petty Cash	-	-	-	125
NSF Items	-	-	-	3,532
Deposits with Vendors	-	-	-	9,000
Accounts Receivable Invoiced	212,474	-	12,296	269,202
Due From Other Funds	-	-	-	60,000
Due From Other Government	-	-	(52)	(1,181)
Due to Vendors	-	-	(130,785)	(154,563)
Due to Fund	(60,000)	-	-	(60,000)
TOTAL FUND BALANCES	<u>\$ 165,795</u>	<u>\$ 86</u>	<u>\$ (113,605)</u>	<u>\$ 15,962,297</u>

(Concluded)

The accompanying notes are an integral part of the schedule.

NEBRASKA SUPREME COURT

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2012

1. Criteria

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

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) 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[.]

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable and accounts payable in the general ledger. 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 expenditures and related accounts payable recorded in the general ledger, as of December 31, 2012, include only those payables posted in the general ledger before December 31, 2012, and not yet paid as of that date. The amount recorded as expenditures, as of December 31, 2012, **does not** include amounts for goods and services received before December 31, 2012, which had not been posted to the general ledger as of December 31, 2012.

Other liabilities are recorded in accounts entitled Due to Vendors and Due to Fund for the Court. 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.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Court are:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

NEBRASKA SUPREME COURT

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 the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.

The major revenue account classifications established by State Accounting and used by the Court 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. It also includes fees collected by the State's county and district courts, such as court automation fees, probation administration enrollment and monthly program fees, intensive supervision probation fees, drug testing and electronic monitoring fees, offender assessment screens, dispute resolution fees, and Court education fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure account classifications established by State Accounting and used by the Court are:

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

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 SUPREME COURT

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

Capital Outlay – Expenditures that 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.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Court 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 resulting in an increase to the fund balance on the schedule. Cash accounts and deposits with vendors are included in the fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Court's funds at December 31, 2012, included amounts recorded in Due to Vendors and Due to Fund. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

Other Financing Sources – Operating transfers, proceeds of fixed asset dispositions, and deposits to the State General Fund.

2. Reporting Entity

The Nebraska Supreme Court is a State agency established under and governed by the laws of the State of Nebraska. As such, the Court is exempt from State and Federal income taxes. The schedule includes all funds of the Court included in the general ledger.

The Nebraska Supreme Court 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 SUPREME COURT

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, which 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

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Court takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires the Court to value 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 \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are 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 in the CAFR using the straight-line method with estimated useful lives of three to ten years.

(Continued on Next Page)

NEBRASKA SUPREME COURT

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

Capital asset activity of the Court recorded in the State Accounting System for the calendar year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 721,349	\$ 14,110	\$ 2,359	\$ 733,100
Less accumulated depreciation* for:				
Equipment				<u>666,954</u>
Total capital assets, net of depreciation				<u>\$ 66,146</u>

**Note: The accumulated depreciation noted in the table above was calculated in the accounting system through June 30, 2012. Depreciation for July through December 2012 was not run in the accounting system until the beginning of the calendar year 2013.*

6. Negative Fund Balance

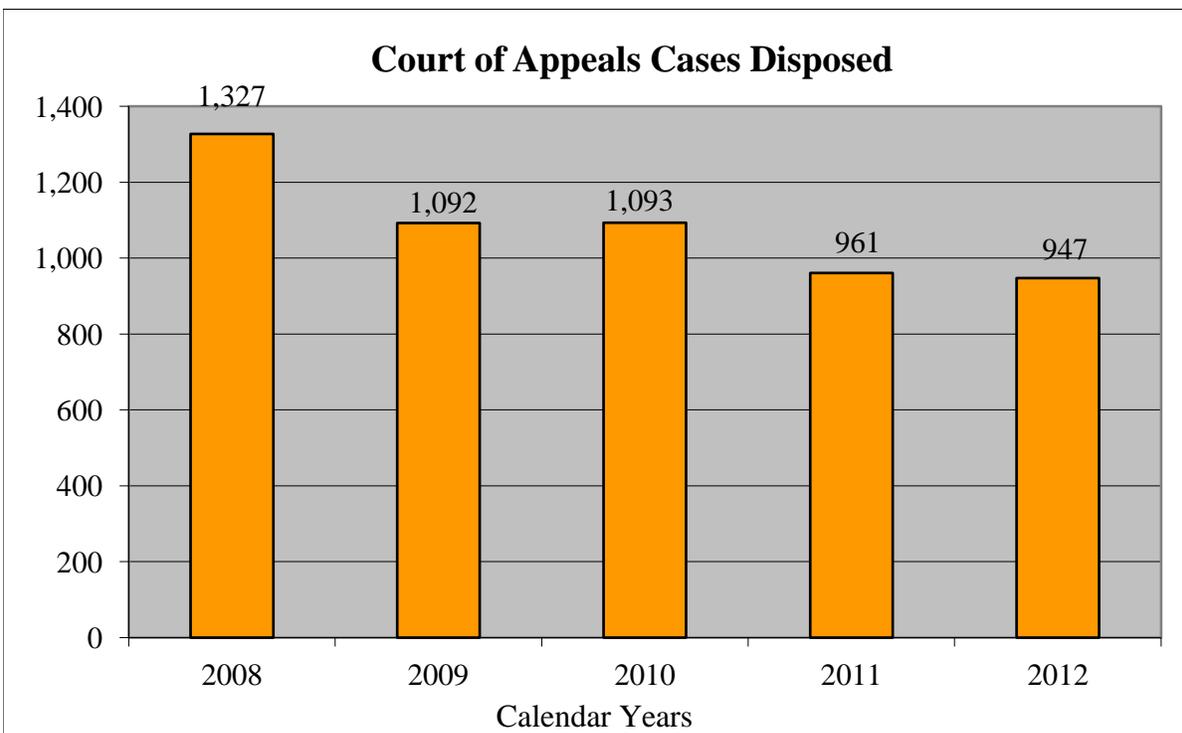
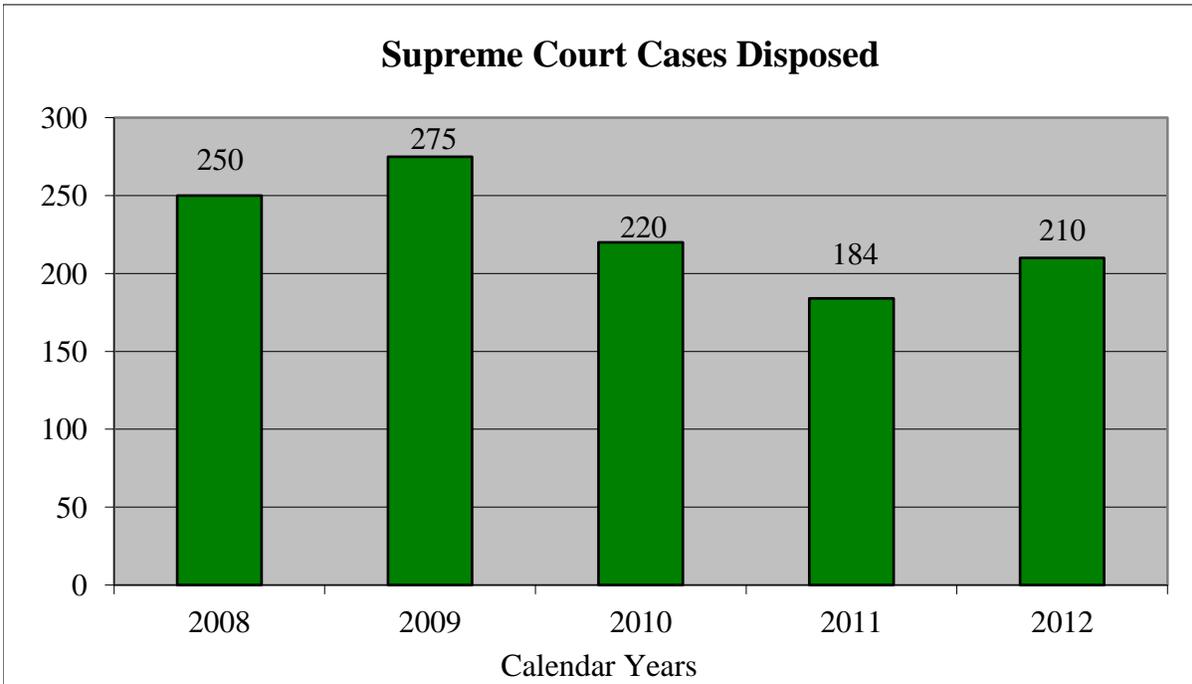
The Probations Grants Fund (40520) had a negative fund balance of \$113,605 at December 31, 2012, due to expenditures processed before grant reimbursement was received. The Court made payments in December 2012, in order to comply with the grant deadlines; however, reimbursement from the Nebraska Commission for Law Enforcement and Criminal Justice did not occur until January, 2013.

NEBRASKA SUPREME COURT

SUPPLEMENTARY INFORMATION

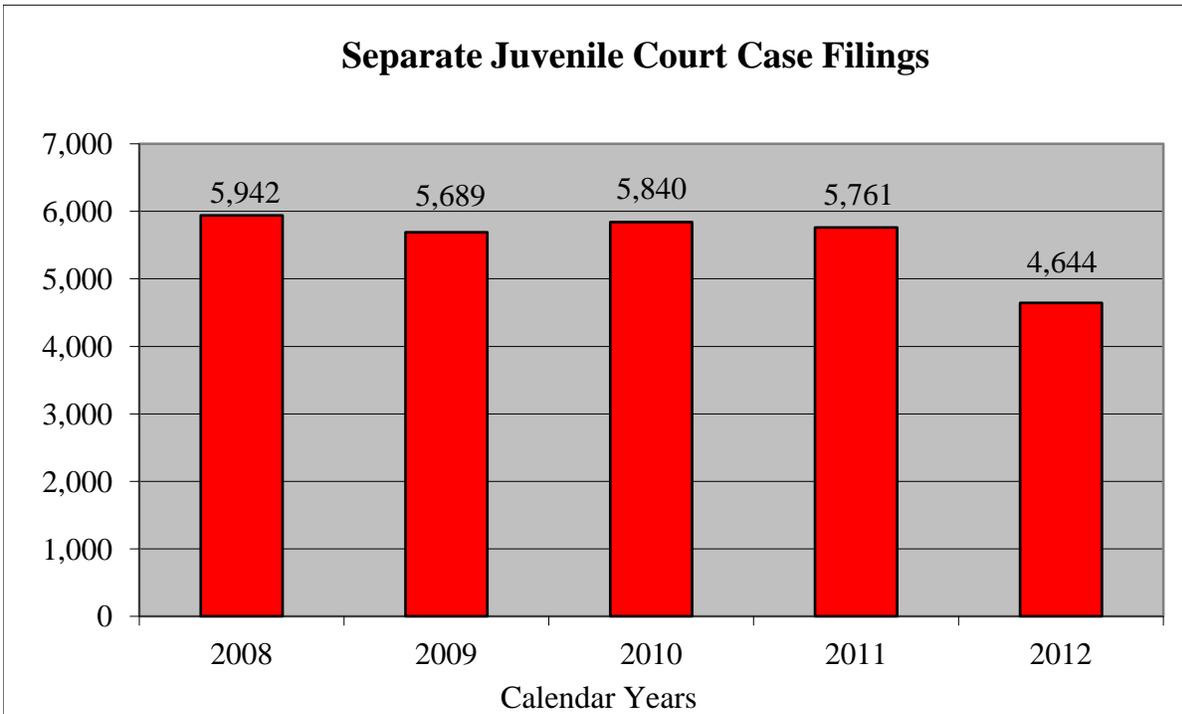
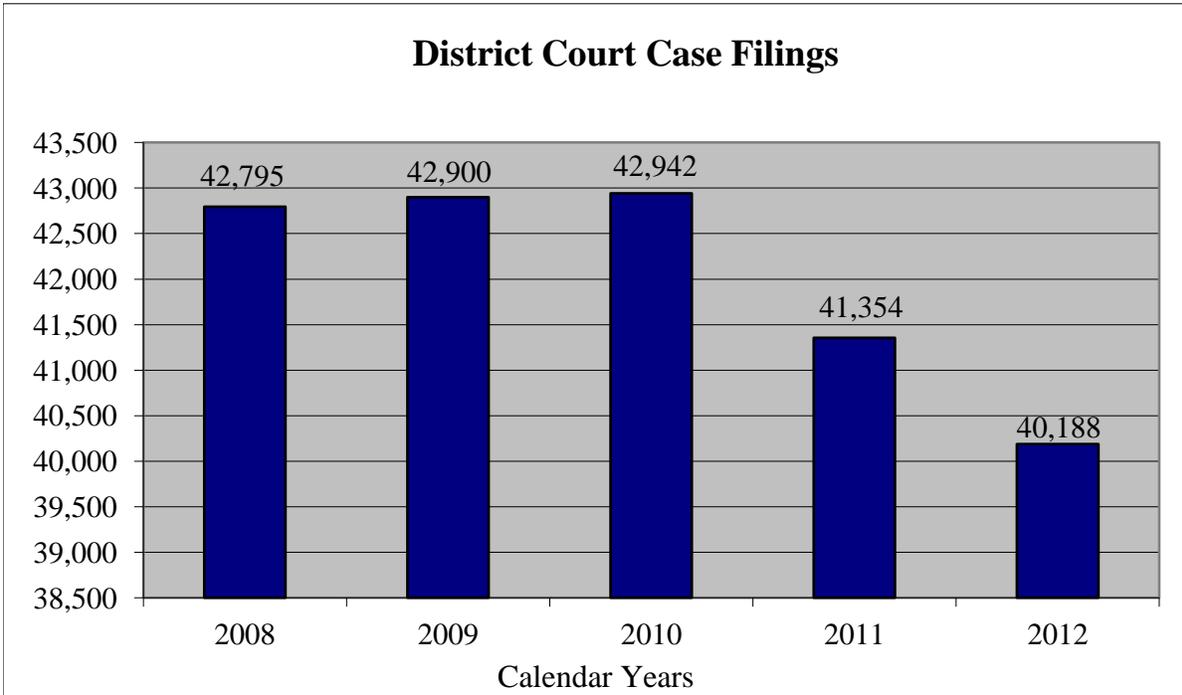
Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA SUPREME COURT
Calendar Years 2008 Through 2012



Source: Annual Caseload Reports for all Nebraska Courts

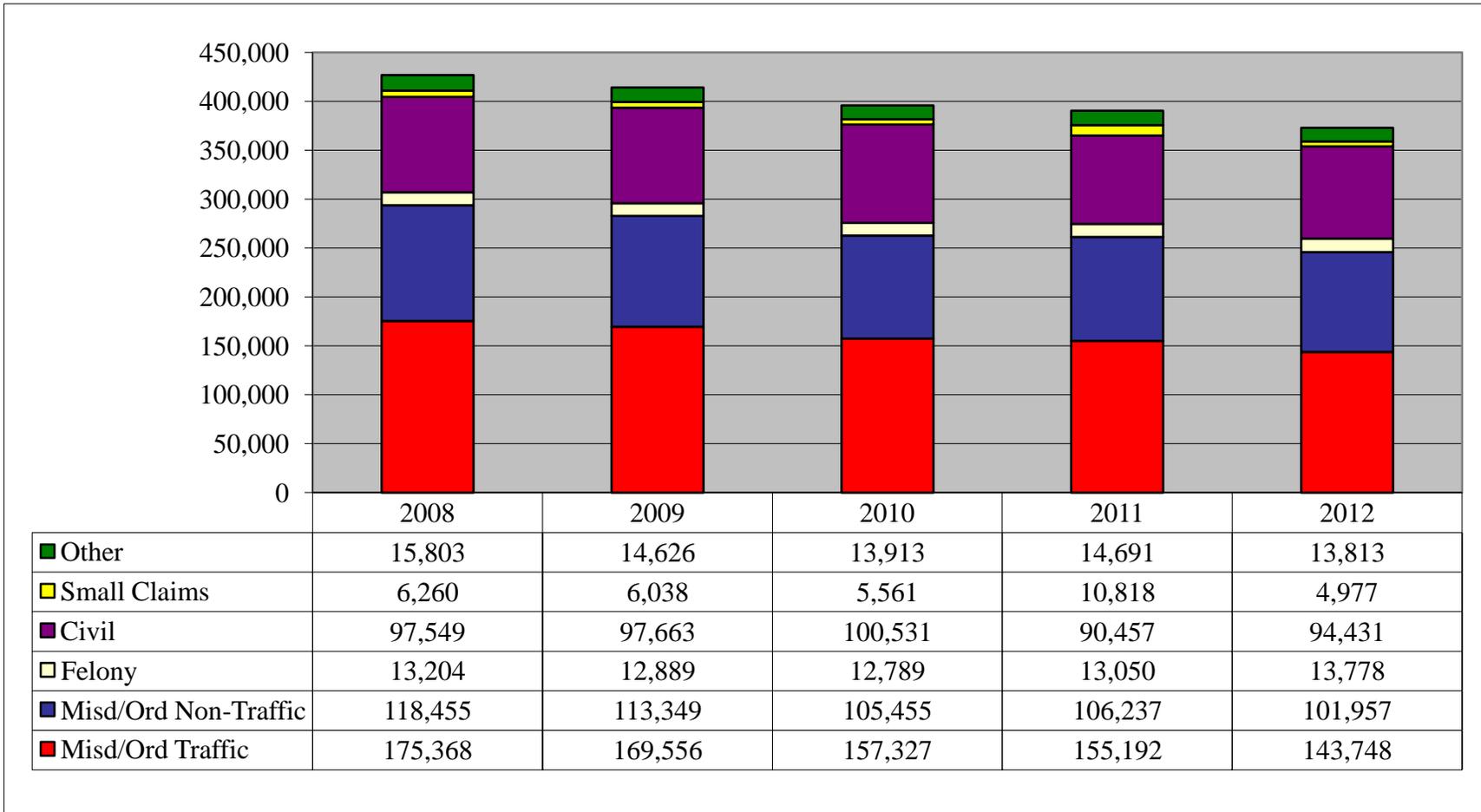
NEBRASKA SUPREME COURT
Calendar Years 2008 Through 2012



Sarpy, Lancaster, and Douglas Counties have established Separate Juvenile Courts from the County Courts.

Source: Annual Caseload Reports for all Nebraska Courts

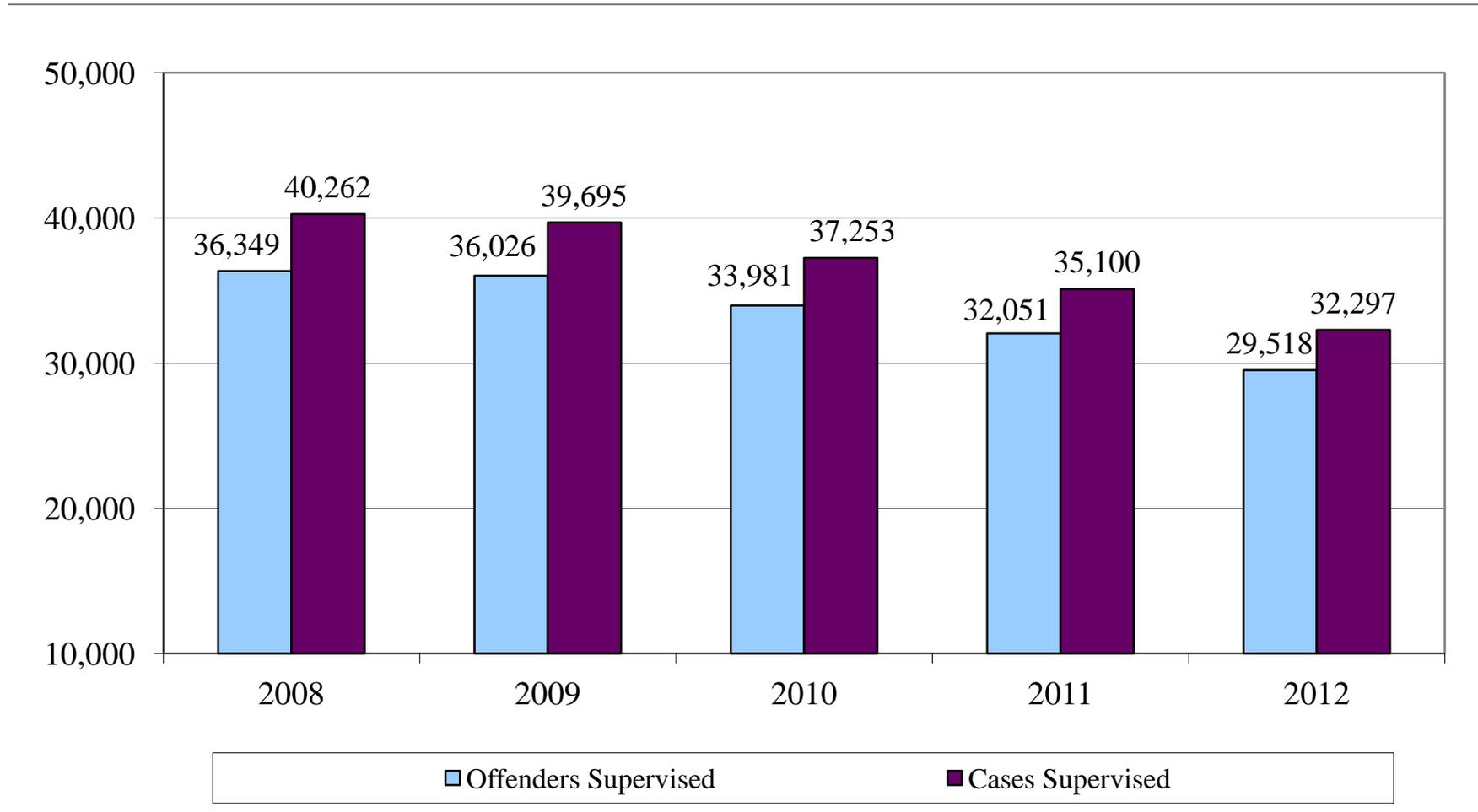
**NEBRASKA SUPREME COURT
COUNTY COURT CASE FILINGS**
Calendar Years 2008 Through 2012



Other Filings include Probation/Inheritance Tax; Guardianship/Conservatorship; Adoption; and Juvenile.

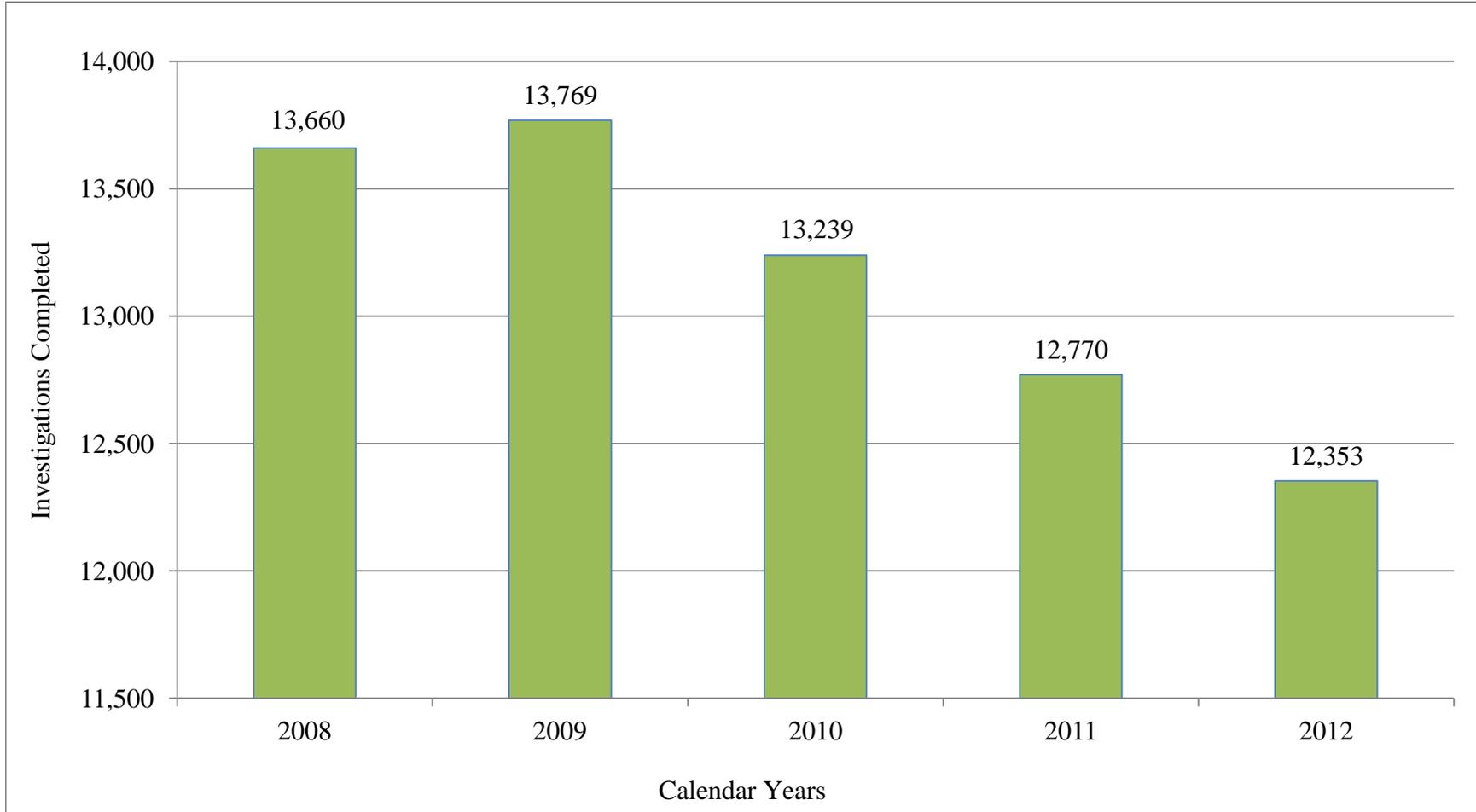
Source: Annual Caseload Reports for all Nebraska Courts

NEBRASKA SUPREME COURT
TOTAL OFFENDERS AND CASES SUPERVISED - PROBATION
Calendar Years 2008 Through 2012



Source: Office of Probation Administration

NEBRASKA SUPREME COURT
INVESTIGATIONS COMPLETED - PROBATION
Calendar Years 2008 Through 2012



Source: Office of Probation Administration