

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF
CORRECTIONAL SERVICES**

JULY 1, 2000 THROUGH JUNE 30, 2001

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

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NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

BACKGROUND

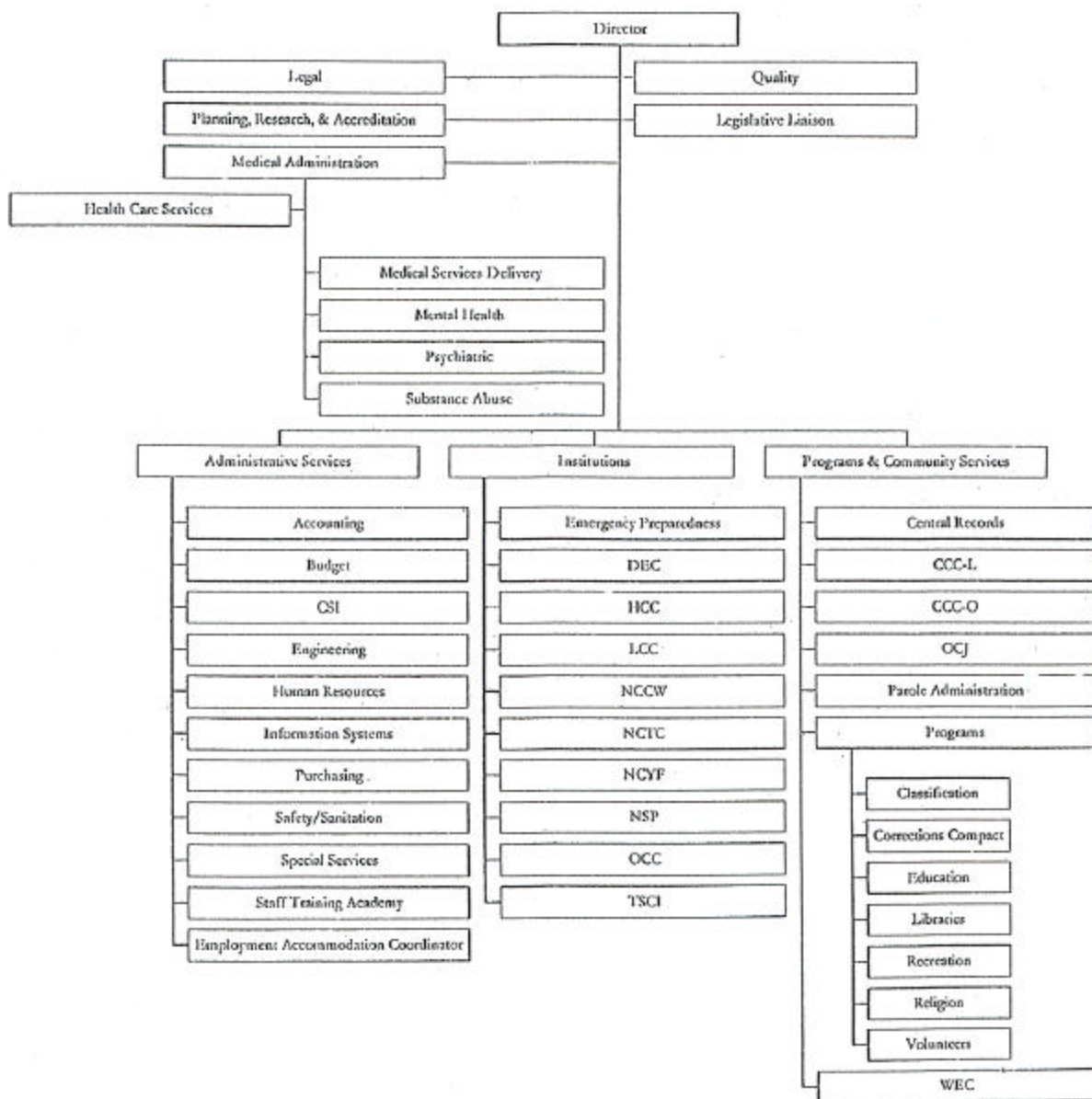
The Department of Correctional Services was established as a separate agency of State government in 1973. The Department has responsibility for custody, control, study, correctional treatment, training, and rehabilitation of persons committed to it so they may be prepared for lawful and productive community living. The Governor appoints the Department's Director. The Department's operating funds come from State general funds, supplemented by Federal funds and certain cash funds. The Department maintains and administers the Nebraska State Penitentiary, the Lincoln Correctional Center, The Diagnostic and Evaluation Center, and the Community Corrections Center, all located in Lincoln. The Department maintains and administers the following facilities outside of Lincoln: the Omaha Correctional Center, the Community Corrections Center in Omaha, the Hastings Correctional Center, the Nebraska Correctional Center for Women in York, the Nebraska Correctional Youth Facility in Omaha, the Work Ethic Camp in McCook, and the Tecumseh State Correctional Institution. The Department also supervises adults on parole, administers parole services, and operates Cornhusker State Industries and Federal Surplus Property.

MISSION STATEMENT

The mission of the Department of Correctional Services is to serve and protect the public by providing control, humane care and program opportunities for those individuals placed in its custody and supervision, thereby facilitating their return to society as responsible persons.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

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

A. PAYROLL PROCESS

1. ***Incorrect Pay Based on Time Records:*** We noted one of 20 employees tested were paid incorrectly based on time records.
2. ***Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld:*** We noted one of 20 employees tested had an incorrect Total Service Date in NEIS. The Total Service date determines when an employee vests in the State share of retirement benefits. Thus it is very important this date be accurate. We also noted the same employee had a short break in service, and when rehired by the Department, it was mandatory the he rejoin the retirement plan within 60 days of rehire. This did not occur.
3. ***Timesheet Not Signed By Supervisor, and Vacation Used Not Posted To Records:*** We noted the supervisor did not sign one of 20 timesheets reviewed. Furthermore, for the same employee tested, the timesheet listed two days (16 hours) of vacation leave used; however, only 8 hours was posted as used on the leave records.
4. ***Authorized Signature Cards:*** Nebraska Employees Information System (NEIS) and Nebraska Accounting System (NAS) authorization cards give employees access to NEIS and NAS systems. With this authorization, employees are able to perform a variety of duties including inquiring about, updating, and approving information in the systems. We noted ten NEIS Authorization Cards were on file at the Department of Administrative Services (DAS) for employees who had terminated as far back as 1998, and one NEIS Authorization Card was on file for an employee who transferred within the Department to a non-payroll related position. We also noted eight NAS Authorization Cards on file at DAS for terminated employees.
5. ***Payment of Vacation and Compensatory Leave Balances to Terminated Employees:*** We noted a terminated employee was erroneously paid his vacation balance twice upon terminating. The employee was overpaid \$446.26. We also noted a terminated employee was underpaid his ending balance for Compensatory Leave in the amount of \$108.30.
6. ***Payroll Documentation:*** During our review of Payroll for the Department of Correctional Services, we noted salaries and wages of employees who worked solely on a single Federal award were not supported by periodic certifications as required by the Office of Management and Budget Circular A-87.

SUMMARY OF COMMENTS

(Continued)

B. FIXED ASSETS

7. ***Procedures Over Fixed Assets:*** We noted the following in our review of fixed assets records and internal control procedures:
- A lack of segregation of duties
 - Items totaling \$31,363 erroneously coded to fixed asset account codes.
 - A lack of Departmental policy on depositing revenue from the sale of surplus property into the fund in which the property was originally purchased.
8. ***Timely Additions of Fixed Assets to the SWIS:*** We noted three of thirteen items tested were not added to the Statewide Inventory System (SWIS) in a timely manner. The items, which had purchase dates ranging from September 2000 through May 2001 at a cost of \$109,489, had not been added to the SWIS as of July 2001.
9. ***Controls Over Weapons:*** We noted from a sample of five weapons, two weapons were not at the locations noted in the Department's records.

C. DISBURSEMENTS

10. ***Pre-Audit Function:*** We noted several errors in our testing to indicate the pre-audit function could be improved. We recommended improvements such as developing a pre-audit checklist and documenting errors noted during the pre-audit review for further evaluation or monitoring.
11. ***Medical Payments:*** The Department spent in excess of \$5,575,479 in the payment of medical claims for inmates in the fiscal year ending June 30, 2001. In our test of medical claims we noted the Department's review of inmate medical claims could be improved by ensuring documents are properly approved, and by having someone with expertise and knowledge of medical charges review claims to ensure all amounts billed to the State are proper charges to the State.
12. ***Meal Policy:*** As of December 15, 2000 the State of Nebraska adopted an accountable plan for meal reimbursements. We noted the Department does not have a policy in place to reflect the new meal policy changes.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

(Continued)

C. DISBURSEMENTS (Concluded)

13. *Improper Transaction Coding:* Of the 68 disbursement documents tested we noted three documents were miscoded to the wrong account in the total amount of \$35,336.
14. *Electrical Allocation:* The Department did not have documentation to support the allocation of electrical costs charged to them by another State agency in the amount of \$269,649 for fiscal year ending June 30, 2001.

D. RECEIPTS

15. *Segregation of Duties Over Mail Opening:* During an observation of mail opening at the Lincoln Correctional Center, we noted that only one person was responsible for both opening the mail and receipting monies received in the mail.
16. *Central Accountability Over Pre-Numbered Receipts:* Central Office Accounting did not have accountability over the number of handwritten receipts at each facility.
17. *Service Charge Documentation:* We noted there was no documentation of the factors Federal Surplus Property considered in determining the charges for Service and Handling Charges. These factors would include property condition, desirability of property, and repair and rehabilitation.

E. MISCELLANEOUS AREAS

CANTEENS

18. *Canteen Subsidized by the General Fund:* During the fiscal year ending June 30, 1998 audit of the Department, we noted the canteen operations run for inmates were being subsidized by the General Fund, and there was no documentation to support why this was done or the level of the subsidy being provided. The Department continued to use general fund money to subsidize the canteen operations, and they had not developed documentation to support this subsidy.

INMATE TRUST

19. *Documentation of Maintenance Rates:* The Department did not have documentation to support the maintenance assessment fees it charged certain inmates. The maintenance fees charged have remained unchanged for approximately 10 years.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

(Concluded)

E. MISCELLANEOUS AREAS (Concluded)

FEDERAL SURPLUS PROPERTY

20. **Federal Surplus Property Financial Statements:** The Federal Surplus Property fund of the Department is an internal service fund. There are specific accounting standards this fund would be required to follow under Generally Accepted Accounting Principles (GAAP). The Department's records were not adequate to prepare these financial statements in accordance with these standards.
21. **Audit Delays:** The audit fieldwork for this audit was performed with great difficulty and delay because requested records and financial data were not received as agreed upon at the entrance conference. Although the auditor believes the Department made efforts to get the records and financial data to the auditor as agreed, the original time frames were in some cases exceeded by weeks, and in one case the financial data was never obtained.

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

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

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

A. **PAYROLL PROCESS**

1. **Incorrect Pay Based on Time Records**

Administrative Regulation 112.12 holds supervisors responsible for the accuracy of the time records of employees.

Good internal control requires a complete and consistent review of time records be prepared by employees in order to ensure the accuracy of the hours reflected on the time record.

In addition, bargaining unit members on duty and working fifty percent or more of a shift between the hours of 6:00 p.m. and 6:00 a.m. shall receive sixty cents, eighty cents, or one dollar per hour shift differential for all hours worked. The rate paid varies depending on the shift worked by the employee.

We noted one of 20 employees tested was paid incorrectly based on time records. This employee's shift differential hours were incorrectly calculated. The employee was paid for 119 hours of shift differential. The auditor recalculated that shift differential paid to the employee should have been for 113 hours according to employee's time records. This resulted in an overpayment of \$4.80. We noted similar problems in our fiscal year ending June 30, 1998 audit.

We also noted the timesheets of the Department did not have a column for shift differential hours. This makes it more difficult to identify and summarize these hours.

We recommend the Department implement procedures to ensure payroll is accurate and agrees to approved time records. Procedures should include consistent and detailed review of time records by supervisors and payroll processors. In addition, we recommend a column be added to the timesheets showing shift differential hours, so these hours can more accurately be summarized.

Department's Response: We agree that employees should be paid accurately. The time sheet is being reviewed for addition of a column for shift differential.

2. **Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld**

Neb. Rev. Stat. Section 84-1307(1) R.S.Supp., 2000 requires mandatory retirement contributions to begin if an employee is a permanent full-time State employee who has attained the age of 30 and has completed 24 months of continuous service with the State.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

A. **PAYROLL PROCESS** (Continued)

2. **Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld** (Continued)

Good internal control requires independent and documented review of information entered into the NEIS system; in this case, information entered into the Personnel Information Form (PIF). Information entered on the PIF includes the employee's name, social security number, total service date, birth date, and retirement date.

Neb. Rev. Stat. Section 84-1322(2)(a) states, "A member who ceases to be an employee before becoming eligible for retirement under section 84-1317 and again becomes a permanent full-time or permanent part-time state employee prior to having a five-year break in service shall be reenrolled in the retirement system and resume making contributions within sixty days under rules and regulations established by the board."

We noted one of 20 employees tested had an incorrect Total Service Date in NEIS. Per NEIS the Total Service Date was July 10, 1997. The Total Service Date should have been November 2, 1997. The NEIS service date was incorrect because temporary employment time was erroneously included when calculating the Total Service Date. According to the above-mentioned statutes, only service as a permanent employee is considered for purposes of retirement eligibility.

We also noted that the same employee had a short break in service, and when he was rehired by the Department mandatory retirement deductions should have resumed within 60 days of rehire. He was rehired on August 28, 2000; mandatory deductions should have begun by October 27, 2000. However, deductions for retirement did not begin until January 1, 2001, and at June 30, 2001 required make-up contributions had not been made for missed contributions for October 27, 2000 to December 31, 2000.

Not withholding mandatory retirement contributions results in non-compliance with the aforementioned statutes. Furthermore, the risk of error increases without an independent review of information entered into the NEIS system.

We recommend a documented review of information entered in the PIF be performed. The review should be performed by an individual other than the individual who actually inputs the information into the PIF. Since an employee's Total Service Date determines the employee's vesting date for Retirement benefits, it is important this date be correct. We further recommend the Department of Correctional Services work with the Nebraska Public Employees Retirement System to correct the individual's contributions.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

A. **PAYROLL PROCESS** (Continued)

2. **Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld** (Concluded)

Department's Response: We agree that it is important for NEIS to have accurate information. Procedures on entering Total Service Date and establishment of Retirement are being reviewed to ensure accuracy in the future.

3. **Timesheet Not Signed By Supervisor, and Vacation Used Not Posted to Records**

Administrative Regulation (A.R.) 112.12 holds supervisors responsible for the accuracy of the time records of employees. The A.R. further states supervisors are to ensure leave entries are supported by appropriate attached documentation. Supervisors are required to sign the appropriate space on timesheets.

We noted the supervisor did not sign one of 20 timesheets reviewed. Furthermore, for the same employee tested, the timesheet listed two days (16 hours) of vacation as being used; however, the Nebraska Employees Information System (NEIS) and the vacation approval slip both listed only 8 hours of vacation used.

Lack of approval of timesheets by supervisors increases the risk that employees may not be paid for correct hours actually worked, and may result in the misappropriation of state funds.

We recommend supervisors and payroll processors provide a more consistent and detailed review of the accuracy of information on timesheets. We further recommend the Department correct the individual's vacation leave balance to reflect the additional 8 hours used.

Department's Response: We agree that the supervisor's signature should be provided. This point has been reiterated to staff within the Department. Additionally, errors noted will be corrected.

4. **Authorized Signature Cards**

Good internal control requires Nebraska Employees Information System (NEIS) and Nebraska Accounting System (NAS) Authorization Cards to be updated for employment changes within the Department.

NEIS and NAS authorization cards give employees access to NEIS and NAS systems. With this authorization, employees are able to perform a variety of duties including inquiring about,

COMMENTS AND RECOMMENDATIONS

A. PAYROLL PROCESS (Continued)

4. Authorized Signature Cards (Concluded)

updating, and approving information in the systems. We noted that ten NEIS Authorization Cards were on file at the Department of Administrative Services (DAS) for employees who had terminated as far back as 1998. One NEIS Authorization Card was on file for an employee who transferred within the Department to a non-payroll related position. We also noted eight NAS Authorization Cards on file at DAS for terminated employees.

By not updating the NEIS and NAS Authorization Cards consistently, the risk of unauthorized employees having on-line access to payroll and accounting transactions without the Department's knowledge increases, and the risk unauthorized transactions will be processed also increases.

A similar comment was included in the Department's 1998 audit.

We recommend the Department implement procedures to ensure NEIS and NAS Authorization Cards are updated on a consistent basis. This would entail updating the cards whenever there are employment changes within the Department.

Department's Response: We agree that signature cards should be accurate. We will work with DAS Accounting to obtain listings of authorizations on file and make periodic reviews throughout the fiscal year to ensure that updates are occurring and inappropriate authorizations removed.

5. Payment of Vacation and Compensatory Leave Balances to Terminated Employees

Good internal control requires a detailed and documented review of the calculation of a terminated employee's final pay to verify that the employee is being paid the correct amount owed.

We noted a terminated employee was erroneously paid his vacation balance twice upon terminating. The terminated employee's vacation balance was originally paid on an Emergency Payroll Voucher for Pay Period Ending August 11, 2000. The vacation amount paid on the Emergency Voucher was \$446.26. This payment would have been payment for the employee's vacation balance, at the beginning of the final pay period and should have zeroed out the vacation balance, except any vacation that would have been earned during the final pay period. Another payment of the individual's vacation balance was made on the Regular Payroll for pay period ending August 13, 2000. This payment was for the vacation balance at the beginning of the final pay period as well as vacation earned during the final pay period. The vacation amount paid was

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

A. **PAYROLL PROCESS** (Continued)

5. **Payment of Vacation and Compensatory Leave Balances to Terminated Employees**
(Concluded)

\$452.93. Therefore, the individual's vacation balance at the beginning of the final pay period July 31, 2000 to August 13, 2000 was paid twice, first on the Emergency Payroll Voucher, and a second time on the Regular Payroll.

We also noted that a terminated employee with an ending balance for Compensatory Leave was not paid his ending compensatory leave balance upon terminating with the Department. The individual had an ending compensatory time balance of 9 hours upon terminating. The amount owed the employee was \$108.30.

We recommend the Department implement procedures to ensure a detailed and documented review of a terminated employee's final pay be performed by an individual other than the individual who calculated the final pay originally. This review will help ensure the final pay is accurate and agrees to payroll records. We further recommend the Department take steps to ensure the State is reimbursed for the overpayment of \$446.26 and the underpayment of \$108.30 be paid to the employee.

Department's Response: The process at termination will be reviewed to ensure that erroneous payments do not occur. Payment shortfalls will be completed and action will be taken to attempt collection of the overpayment.

6. **Payroll Documentation**

The Office of Management and Budget Circular A-87 (8/29/97), Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Section A (3)(a), states, "These principles will be applied by all Federal agencies in determining costs incurred by governmental units under Federal awards (including subawards)" Attachment B, Section (11)(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." Attachment B, Section (11)(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"

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

A. **PAYROLL PROCESS** (Concluded)

6. **Payroll Documentation** (Concluded)

During our review of Payroll for the Department of Correctional Services, we noted salaries and wages of employees who worked solely on a single Federal award were not supported by periodic certifications.

We recommend periodic certifications (at least semi-annually) be prepared for employees working solely on Federally funded programs.

Department's Response: A form will be developed for the A-87 certifications and they will be maintained in the grant files for the employees working solely on federally funded programs.

B. **FIXED ASSETS**

7. **Procedures Over Fixed Assets**

We noted the following in our review of fixed assets records and internal control procedures:

- Two employees performed most functions related to fixed assets for the Department. Although both individuals segregated duties between themselves and reviewed each other's work, a lack of segregation of duties still existed because both individuals had the ability to perform all transactions including adding, deleting, maintaining, and reviewing the 4800 exception list and the History Report. The 4800 exception list is a monthly report, which shows items coded to the Capital Outlay Account (4800s) but that were not added to the Statewide Inventory System (SWIS). The History Report is a report showing all transactions processed in SWIS during a designated timeframe.
- Items totaling \$31,363 were erroneously coded to the 4800 account codes. Since these items were under the capitalization policy, they should have been coded to Office Supplies Expense (Acct. #4311). Note: Effective January 2001, the Department's capitalization policy increased from \$300 to \$1,000.
- The Department did not have a policy on depositing revenue from the sale of surplus property into the fund from which the property was originally purchased.

Good internal control requires proper segregation of duties over fixed assets where no individual can handle all aspects of a transaction. Where there is a lack of segregation of duties, adequate compensating controls should be in place. In addition, good internal control requires proper coding of all purchases.

COMMENTS AND RECOMMENDATIONS

B. FIXED ASSETS (Continued)

7. Procedures Over Fixed Assets (Concluded)

Neb. Rev. Stat. Section 81-161.04(2) R.S.Supp., 2000 states that the proceeds of surplus property sales shall be credited to the General Fund unless the Department certifies that the property was purchased in part or in total from either Cash accounts or Federal funds.

Without the proper segregation of duties, and controls to ensure proper coding, there was more risk of misappropriation of fixed assets, and the accounting records of the Department may not reflect an accurate dollar amount of capital expenditures. In addition, when Neb. Rev. Stat. Section 81-161.04(2) R.S.Supp., 2000, was not complied with, the proceeds from the sale of surplus property may not have been credited to the proper fund.

We recommend an independent management review of the History Report by an individual who does not have the ability to perform all fixed assets transactions. This review should be documented. We further recommend the Department code items falling below the capitalization threshold amount to account 4311 (Supplies), which includes equipment purchases such as chairs, desks, and computers valued at less than \$1,000 (The Department's new capitalization threshold amount). In addition, we recommend compliance with Section 81-161.04(2).

Department's Response: We agree that proper segregation of duties should exist or other compensating controls should be in place. We will review our procedures and implement appropriate changes. We would also agree that coding for the appropriate capitalization level should occur; however, this change occurred during the fiscal year that was audited and we acknowledge that some errors occurred.

8. Timely Additions of Fixed Assets to the SWIS

We noted that items were not being added to Statewide Inventory System (SWIS) in a timely manner. The Purchasing and Accounting Offices are to assist the Fixed Asset office in ensuring all items are added to SWIS in a timely fashion. The Purchasing office was to send the Fixed Asset office a copy of the Receiving Document when an item is received at a facility. This document was filed by the Fixed Asset office and makes them aware that an inventory tag number may be needed from the facility for an item. However, in order for an item to be added to SWIS, it must be paid for by the Accounting office. When an item was paid for, the Accounting office was to send the Fixed Asset office a copy of the Disbursement Document showing the item was paid for, at that point. If a tag number had been received for that item, the Fixed Asset office would add the purchased item to the Statewide Inventory System. We noted

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

B. FIXED ASSETS (Continued)

8. Timely Additions of Fixed Assets to the SWIS (Concluded)

out of thirteen items tested, three items were not added to SWIS in a timely manner because Purchasing and Accounting had not sent the Fixed Asset office the relevant documentation showing the item had been received and paid for. As a result, the Fixed Assets office did not have the information needed to add the items in SWIS.

The items not added timely were a truck costing \$60,017, which was paid for on September 13, 2000, a Weapon Simulator costing \$22,937, which was paid for on December 14, 2000, and a tractor costing \$26,535, which was paid for on May 23, 2001. All three items had not been entered into SWIS as of July 3, 2001.

We also noted the Fixed Asset office did not follow up with the Purchasing and Accounting offices promptly when required documents from them were not received in a timely manner.

Good internal control requires Fixed Assets purchased be added to SWIS in a timely manner.

We recommend the Purchasing and Accounting offices forward the receiving and disbursements documents to the Fixed Asset office in a more timely manner to aid the Fixed Asset office in adding items to SWIS. We further recommend the Fixed Asset office follow up with the Purchasing and Accounting offices when required documents are not received by them. This could be accomplished by the Fixed Asset office reviewing in a timelier manner the 4800 Exceptions Not On Inventory Report (The 4800 Exception Report is a monthly report that shows items coded to the Capital Outlay Accounts (4800s) but that were not capitalized on SWIS).

Department's Response: We agree that Fixed Assets should be added to SWIS timely. We will ensure that the process for submitting documents is followed and complete follow up with the "exceptions" report more timely.

9. Controls Over Weapons

We noted, from a sample of five weapons, two weapons were not at the location noted in their records. A Machine Gun (Tag #14601) Serial No. 62-352767 was reported in the Statewide Inventory System (SWIS) as being at Lincoln Correctional Center (LCC); however, the gun could not be located at LCC and was later discovered to be at the Nebraska State Penitentiary (NSP). There was no Equipment Transfer Form or other documentation on file to note the new

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

B. FIXED ASSETS (Concluded)

9. Controls Over Weapons (Concluded)

location of the gun. Furthermore, a Gas Gun (Tag #14771), Serial No. D18826, was identified in SWIS as located at LCC. This gun could not be located at LCC; however, a similar gun with Serial No. D15504 was on hand. Pursuant to further inquiry, it was determined the gas gun on hand (Tag #D15504) was actually owned by the Omaha Correctional Center (OCC) and LCC's gas gun (Tag #D18826) was at OCC. We were told the two guns had mistakenly been switched between the two facilities.

Operational Memorandum (OM) 203.1.3 V(A).2c states that "CERT/SORT leaders shall instruct all CERT/SORT members in equipment check out/in procedures and will personally supervise the distribution/return of CERT/SORT equipment."

Note: An Operational Memorandum (OM) is a memorandum internally created by a facility. An OM outlines internal procedures to control facilities operations.

Good internal controls require there be close and consistent monitoring of weapons being distributed and returned. Weapons are extremely sensitive property, and it is crucial that controls over the location of weaponry are effective.

We recommend the Department implement procedures to better control and monitor the movement and transfer of weaponry between the different Correctional facilities. Proper documentation should be maintained to support the transfer and location of all weapons, and the SWIS should be corrected to reflect the proper location of all weapons owned by the Department.

Department's Response: We agree that appropriate procedures need to be followed in the movement of weaponry. Appropriate staff has been contacted to review procedures.

C. DISBURSEMENTS

10. Pre-Audit Function

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include a checklist to ensure all aspects of the pre-audit function have been met as well as a documented method of evaluating and monitoring errors within the pre-audit function. Without proper internal controls there is an increased risk of loss or misuse of State funds. Also, the Department of Administrative Services Pre-Audit manual indicates pre-audit initials should be placed on the document.

COMMENTS AND RECOMMENDATIONS

C. DISBURSEMENTS (Continued)

10. Pre-Audit Function (Concluded)

The Department was granted pre-audit authority beginning July 1, 2000. During our review of the pre-audit function, we noted the Department did not have a manual to assist the pre-auditor and ensure all aspects of the pre-audit function had been met. The Department did not have a documented method of tracking errors for further evaluation and training.

We noted during our review of 68 disbursement documents that two documents were stamped pre-audit but did not include the pre-auditor's initials. We also noted several errors in Comment Number 13 that were directly associated with the pre-audit function.

We recommend the Department improve upon current pre-audit procedures by including items such as a pre-audit checklist to ensure the minimum set of criteria have been met as set by the DAS-Accounting Division pre-audit manual, and documenting errors noted during the pre-audit review for further evaluation or monitoring.

Department's Response: We will review our pre-audit procedures and look for ways to make improvements. A return document form was developed to document errors and we will consider placing a copy of these in a review file for additional follow up with staff.

11. Medical Payments

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A good system of internal control would include a process to review invoices of inmates receiving medical services for reasonable and necessary charges.

The Department's procedures in processing and reviewing medical claims were as follows: The Department's Medical Division received the invoice and determined if the inmate was incarcerated at the time of service, and in what institution the inmate was located. The invoice was then forwarded to the institution's registered nurse, who reviewed the invoice for reasonableness against the inmate's institutional medical chart. The review was documented with the nurse's initials, and sent back to Medical services for approval. Invoices over \$2,500 required the medical director's approval; the Administrative Assistant I approved invoices below \$2,500.

The acting medical director stated the Department did not have the necessary staff, time, or knowledge to determine if the charges were proper and necessary. His review of medical claims

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

C. **DISBURSEMENTS** (Continued)

11. **Medical Payments** (Concluded)

over \$2,500 was merely for the tracking of high-cost medical services, and not to determine if charges were proper and necessary. It was noted that during the fiscal year ending June 30, 2001 the Department spent in excess of \$5,575,479 for inmate medical claims.

In addition, five medical service payments were reviewed while testing 68 disbursement documents. We noted the following:

- One document included 17 inmate invoices for medical services received at a hospital. One of those invoices, in the amount of \$692.07, did not have the Medical Service Division's approval.
- One document included 33 inmate invoices for dental services. Six invoices, for a total of \$1,203, did not document the institution's approval for payment.
- One document included 27 inmate invoices for medical services received at a hospital. Two of those invoices, in the amount of \$732, did not document the Medical Service Division's approval.

Without a good system of internal control to determine if medical charges are reasonable and necessary there is an increased risk of loss or misuse of State funds.

We recommend the Department improve procedures to determine whether inmate medical claims were properly charged and reasonable. In addition, we recommend the Department maintain adequate supporting documentation to support its review of inmate medical claims.

Department's Response: The Department is reviewing the process for approval of medical payments. New employees to the Department (Medical Director and Health Care Administrator) will be involved in this analysis to develop the appropriate reviews and procedures for the future.

12. **Meal Policy**

As of December 15, 2000, the State of Nebraska adopted an accountable plan for meal reimbursements. Per the Nebraska Accounting System (NAS) Manual CONC-005, Travel Expense Policies, Section 5, "Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount and place (e.g. city) for **each** meal/food cost. A combination of receipts and detailed itemization is permitted."

COMMENTS AND RECOMMENDATIONS

C. DISBURSEMENTS (Continued)

12. Meal Policy (Concluded)

We noted the Department does not have a policy in place to reflect the new meal policy changes. During our review of ten travel expense reimbursements we noted five meal reimbursements after December 15, 2000 did not have an adequate documentation record. Unsubstantiated meals may be reimbursed if the Department does not institute and enforce the accountable meal policy plan.

We recommend the Department immediately develop and implement a meal reimbursement policy as outlined in the NAS Manual's Travel Expense Policies.

Department's Response: Administrative Regulation 113.14 will be revised to meet the reimbursement policy as outline in the NAS Manual.

13. Improper Transaction Coding

Sound accounting practice requires disbursements to be coded to the account that properly identifies the expenditure type.

During our review of 68 disbursement documents, we noted the following:

- One document was not properly coded to the correct division and program. The document paid water usage for Lincoln Correction Center (LCC), Community Corrections Center-Lincoln (CCC-L) and Nebraska State Penitentiary (NSP). LCC's water usage was charged to NSP in the amount of \$14,215.
- One document was not properly coded to the correct account code. The document reimbursed Butler County Community Coalition's Therapeutic Mentoring Program expenses. The \$14,500 expense reimbursement was paid from a grant with the Office of Criminal Justice. This expenditure was coded to Other Operating Expenses (4491), instead of Other Government Aid (4991).
- The Department purchased \$6622 worth of drug and disease testing kits. This purchase was coded to account 4311 (Office Supply Expense). The proper coding should have been to account code 4371 (Lab Supply Expense).

We recommend the Department improve their internal control procedures, including their pre-audit function, to ensure that documents reviewed and approved for payment are coded properly.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

C. **DISBURSEMENTS** (Continued)

13. **Improper Transaction Coding** (Concluded)

Department's Response: We agree that coding needs to be accurate. We will evaluate our methods of review and pre-audit to assist with eliminating these errors in the future.

14. **Electrical Allocation**

Good internal control would require the Department to document how costs are allocated from another State agency, and require a review of those allocated charges to ensure they were correctly calculated.

During our review of nine journal entries, it was noted that one journal entry was for electricity costs for the two Department of Corrections Administration buildings located at the Health and Human Services-Lincoln Regional Center and the Nebraska State Penitentiary (NSP). Electricity for the Administration buildings and NSP was supplied by Lincoln Electrical System through the Department of Energy-Western Area Power Administration (WAPA).

Electricity was not measured through a meter for these three buildings. Health and Human Services (HHS) originally received this billing during our audit period. They were responsible for allocating the electricity costs to the Department of Corrections through a journal entry. The Department of Corrections did not recalculate the amount from supporting invoices to determine if the HHS calculation was correct. It was noted during the prior audit period, as well as during this audit period, that the Department did not have on file any documentation as to why and for how long the electricity was to be supplied through WAPA. The total amount charged to the Department for electrical costs during the fiscal year ending June 30, 2001 was \$269,649.

Without good internal controls to verify that the allocated charges are correct, there is the increased risk of loss or misuse of State funds.

We recommend the Department document how electricity charges are determined for WAPA along with verifying that allocated electricity charges are proper and reasonable.

Department's Response: The Department is in the process of gathering the necessary information to provide better documentation regarding the accuracy of the charges.

D. RECEIPTS

15. Segregation of Duties Over Mail Opening

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets. A good system of control should include a segregation of duties so no one individual can handle all phases of a process from the beginning to the end.

During an observation of the mail opening at the Lincoln Correctional Center, we noted one person opened the mail. In addition, the same individual that opened the mail performed the receipting process of monies received in the mail. Inmates received money in the mail from family and friends.

Without good internal controls to ensure a segregation of duties exists, there is an increased risk of the loss or misuse of inmate funds.

We recommend the Department implement procedures to ensure more than one person is involved in opening the mail and receipting money received in the mail.

Department's Response: We do not believe that it is necessary to have more than one person opening the mail and receipting money received in the mail. We believe that other compensating controls protect the Department and that staffing is more valuable in other functions necessary to the Departments operation.

16. Central Accountability Over Pre-Numbered Receipts

Good internal control requires there be controls and procedures in place to account for all pre-numbered receipts. In addition, good internal control requires that a periodic physical count be performed and reconciled to the number of receipts issued.

We noted Central Office Accounting did not have accountability over the number of handwritten receipts at each facility. When requested by auditors, the Department was unable to provide beginning and ending balances of pre-numbered receipts and the number of receipts purchased during the fiscal year.

Without accountability over receipts at each institution, there is an increased risk that the Department is not receiving all of the funds it is due.

We recommend the Department account for and monitor all pre-numbered receipts used by the institutions. This should include recording beginning and ending balances and purchases during the fiscal year.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

D. **RECEIPTS** (Concluded)

16. **Central Accountability Over Pre-Numbered Receipts** (Concluded)

Department's Response: We will review this issue with Business Managers and develop a process for maintaining accountability of pre-numbered receipts.

17. **Service Charge Documentation**

We noted there was no documentation of the factors Federal Surplus Property considers in determining the service and handling charges for the property it distributes to eligible participants. These factors could include property condition, desirability of property, and repair and rehabilitation.

Sound business practice requires supporting documentation to exist to ensure charges to eligible participants are reasonable and are designed to cover all costs involved in acquiring and distributing property.

Without documentation to support charges, the program may not be covering the cost to provide the property and/or eligible participants may be paying unreasonable amounts for property.

We recommend Federal Surplus Property implement procedures to document the calculation of service and handling charges for all significant items, such as vehicles and other large equipment items with significant acquisition costs. Documentation might include a standard worksheet with key factors considered when setting a price for a particular item.

Department's Response: We will review our current process.

E. **MISCELLANEOUS AREAS**

CANTEEN

18. **Canteen Subsidized by the General Fund**

During the fiscal year ending June 30, 1998 audit of the Department, we noted the canteen operations run for inmates were being subsidized by the General Fund, and there was no documentation to support why this was done or the level of the subsidy being provided. The subsidy was primarily from salaries of employees who worked in the canteens. The Department continued to use general fund money to subsidize the canteen operations, and, the Department has not developed documentation to support this subsidy.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

E. **MISCELLANEOUS AREAS** (Continued)

CANTEEN (Concluded)

18. **Canteen Subsidized by the General Fund** (Concluded)

What fund the canteen expenses are paid from is important in several ways, but primarily in two very important respects. First, how expenses will be paid has the obvious effect of determining how many tax dollars are used to subsidize the canteen operation, and secondly, the level of subsidy will directly affect the amount of money transferred from the canteen operations to the inmate welfare fund. (Note: according to the Department's administrative regulations, all profits from the canteen fund are to be transferred annually to the inmate welfare fund. This money is then used for the general welfare of all inmates).

Although the Department had no documentation to support the level of subsidy, management of the Department indicated they wanted a certain level of funds (profits) to be available to transfer to the inmate welfare fund. The level they aimed for was approximately \$50,000 per year. (The actual transfers made for fiscal years ending June 30, 1999 and 2000 were approximately \$21,000 and \$60,000 respectively). They also indicated the primary factors considered in setting this level were:

- reasonably priced goods for inmates, and
- a reasonable profit (but a level of profit that is not overly subsidized by the general fund)

Good accounting procedures would require documentation to support the expense charged to any fund.

We recommend the Department develop written policies stating the subsidized level of expenses to be paid out of the General Fund with supporting documentation to support that level of expenses. This policy and supporting documentation should be reviewed and approved by management.

Department's Response: Canteen positions that are paid from the General Fund are authorized in accordance with the Department's budget. We do not believe that any further documentation is necessary.

INMATE TRUST

19. **Documentation of Maintenance Rates**

Inmates who were on work release or educational release were assessed a maintenance fee of \$10.00 per day. Inmates who worked in a Private Venture setting were assessed a maintenance

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

E. **MISCELLANEOUS AREAS** (Continued)

INMATE TRUST (Concluded)

19. **Documentation of Maintenance Rates** (Concluded)

fee of \$1.50 per work hour. These fees have remained the same for approximately 10 years. There was no documentation of policy or procedures to support these maintenance assessments. This issue was also noted in our fiscal year ending June 30, 1998 audit of the Department.

Sound accounting practice requires documentation to support any fees charged.

Without documentation to support the maintenance fee assessed inmates, it cannot be known whether the fee is too high or too low. If the fee is set too low, there is a chance of loss of State funds.

We recommend the Department conduct the necessary research to determine a fair and adequate amount for the assessment fee. Once research has been completed, a written policy should be prepared and approved by management. The policy should be reviewed on a periodic basis.

Department's Response: The Department will review existing policy in Administrative Regulation 113.2 and determine appropriate language to specify the philosophy of the rates. By adding this language to an administrative regulation it will be reviewed annually.

FEDERAL SURPLUS PROPERTY

20. **Federal Surplus Property Financial Statements**

The Federal Surplus Property fund of the Department of Corrections is an internal service fund. As such, under Generally Accepted Accounting Principles (GAAP), this fund would be accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund would be included on the balance sheet. GAAP requires using the accrual basis of accounting for this fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

At our entrance conference held in June 2001, the Department agreed to prepare the Federal Surplus Property Financial Statements in accordance with GAAP. At the time the fieldwork of the audit was completed in October 2001, a complete set of GAAP financial statements had not been prepared, as the records were not adequate to prepare these statements.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

E. MISCELLANEOUS AREAS (Concluded)

FEDERAL SURPLUS PROPERTY (Concluded)

20. Federal Surplus Property Financial Statements (Concluded)

Appropriate records should be kept to prepare financial statements in accordance with the appropriate standards.

The effect is the Department had been unable to prepare financial statements in accordance with GAAP for the Federal Surplus Property Fund, and thus does not know the financial position as of June 30, 2001 or the net income of the fund for the fiscal year ending June 30, 2001 in accordance with GAAP.

We recommend the Department maintain records in order to prepare financial statements in accordance with GAAP.

Department's Response: We agree that the Department needs to maintain records to prepare GAAP financial statements. This responsibility will be completed in the future and on a timely basis.

21. Audit Delays

Neb. Rev. Stat. Section 84-304 R.S. Supp., 2000 establishes the powers and duties of the Auditor of Public Accounts. These duties included . . . "(9) To conduct all audits and examinations in a timely manner and in accordance with the standards for audits of governmental organizations, programs, activities, and functions published by the Comptroller General of the United States."

The audit fieldwork for this audit was performed with great difficulty and delay because requested records and financial data were not received as agreed upon at the entrance conference. Although the auditor believes the Department made efforts to get the records and financial data to the auditor as agreed, the original time frames were in some cases exceeded by weeks, and in one case the financial data was never obtained.

Auditors requested records and financial data such as Cornhusker State Industries financial statements, Federal Surplus Property financial statements, and financial data for buildings and land the Department owns. The financial statements of the Federal Surplus Property operations were never finalized. When the audit fieldwork was nearly completed the Department indicated the statements could not be completed because the Department's records were inadequate. (See comment number 20)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

E. **MISCELLANEOUS AREAS** (Concluded)

FEDERAL SURPLUS PROPERTY (Concluded)

21. **Audit Delays** (Concluded)

We noted similar problems with the agency in the recent past. In our audit of the Cornhusker State Industries for the fiscal year ending June 30, 2000 we had a similar comment in that report. The Department response to that comment was, *"We agree that information needs to be provided timely and we will make every effort to see that it is accomplished. Staffing issues during this particular audit period presented unforeseen situations and limited the Department's ability to complete all essential tasks on a timely basis."*

With such delays, an efficient and timely audit cannot be completed. Additional time to complete the audit was necessary.

If this problem persists during the next scheduled audit the Auditor of Public Accounts may stop the audit, and report the Department cannot be audited in an efficient and timely manner.

We recommend the Department make available to the Auditor of Public Accounts the necessary staff and records so audits can be completed in an efficient manner.

Department's Response: We agree that information needs to be provided timely and we will make every effort to see that it is accomplished. As we have stated previously, staffing issues during the audit period presented unforeseen situations and limited the Department's ability to complete all essential tasks on a timely basis. The Department is taking action to avoid this situation in the future.

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NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

We have audited the financial statements of the Nebraska Department of Correctional Services as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Correctional Services, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Correctional Services as of June 30, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2001, on our consideration of the Nebraska Department of Correctional Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements ,except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

October 3, 2001

 c p A
Manager

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**COMBINED STATEMENT OF ASSETS AND OTHER DEBITS AND FUND BALANCES AND
OTHER CREDITS ARISING FROM CASH TRANSACTIONS-
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**
June 30, 2001

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	Totals
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Internal Service</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
<u>Assets and Other Debits</u>							
Cash in State Treasury	\$ -	\$ 1,857,659	\$ 82	\$ 2,919,780	\$ 1,928,551	\$ -	\$ 6,706,072
Deposits	-	-	-	-	40,000	-	40,000
Deposit with Vendors	6,938	-	-	650	-	-	7,588
Petty Cash	13,125	-	-	6,000	1,300	-	20,425
Other Debits:							
Property, Plant, and Equipment	-	-	-	-	-	165,569,785	165,569,785
Total Assets and Other Debits	<u>\$ 20,063</u>	<u>\$ 1,857,659</u>	<u>\$ 82</u>	<u>\$ 2,926,430</u>	<u>\$ 1,969,851</u>	<u>\$ 165,569,785</u>	<u>\$ 172,343,870</u>
<u>Fund Balances and Other Credits</u>							
Other Credits:							
Investment in Fixed Assets	-	-	-	-	-	165,569,785	165,569,785
Fund Balances:							
Reserved for Postage	6,938	-	-	650	-	-	7,588
Unreserved, Undesignated	13,125	1,857,659	82	2,925,780	1,969,851	-	6,766,497
Total Fund Balances and Other Credits	<u>\$ 20,063</u>	<u>\$ 1,857,659</u>	<u>\$ 82</u>	<u>\$ 2,926,430</u>	<u>\$ 1,969,851</u>	<u>\$ 165,569,785</u>	<u>\$ 172,343,870</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINED STATEMENT OF RECEIPTS AND DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL FUND TYPES
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service Funds	Expendable Trust	
RECEIPTS:						
Appropriations	\$ 97,230,543	\$ -	\$ 23,471,935	\$ -	\$ -	\$ 120,702,478
Intergovernmental	-	895,417	-	17,778	-	913,195
Sales and Charges	272	3,060,916	-	7,371,347	3,229,643	13,662,178
Miscellaneous	21,990	606,539	1,602	594,666	8,118,744	9,343,541
TOTAL RECEIPTS	<u>97,252,805</u>	<u>4,562,872</u>	<u>23,473,537</u>	<u>7,983,791</u>	<u>11,348,387</u>	<u>144,621,392</u>
DISBURSEMENTS:						
Personal Services	62,490,411	785,696	15,973	2,398,025	447,515	66,137,620
Operating	25,935,230	4,384,683	492,993	5,652,063	10,342,283	46,807,252
Travel	529,435	57,050	1,472	93,534	-	681,491
Capital Outlay	3,533,878	481,767	22,965,860	873,006	25,672	27,880,183
Other Government Aid	4,741,589	-	-	-	-	4,741,589
TOTAL DISBURSEMENTS	<u>97,230,543</u>	<u>5,709,196</u>	<u>23,476,298</u>	<u>9,016,628</u>	<u>10,815,470</u>	<u>146,248,135</u>
Excess of Receipts Over (Under) Disbursements	<u>22,262</u>	<u>(1,146,324)</u>	<u>(2,761)</u>	<u>(1,032,837)</u>	<u>532,917</u>	<u>(1,626,743)</u>
OTHER FINANCING SOURCES (USES):						
Sales of Assets	16,430	-	-	2,523	-	18,953
Operating Transfers In	-	18,715	-	(200)	292,668	311,183
Operating Transfers Out	-	-	(18,715)	-	(292,668)	(311,383)
Net Distributive Activity	-	120	-	-	(148)	(28)
Deposits To State General Fund	(51,692)	-	-	-	-	(51,692)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(35,262)</u>	<u>18,835</u>	<u>(18,715)</u>	<u>2,323</u>	<u>(148)</u>	<u>(32,967)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	<u>(13,000)</u>	<u>(1,127,489)</u>	<u>(21,476)</u>	<u>(1,030,514)</u>	<u>532,769</u>	<u>(1,659,710)</u>
FUND BALANCE, JULY 1, 2000	33,063	2,985,148	21,558	3,956,944	1,437,082	8,433,795
FUND BALANCE, JUNE 30, 2001	<u>\$ 20,063</u>	<u>\$ 1,857,659</u>	<u>\$ 82</u>	<u>\$ 2,926,430</u>	<u>\$ 1,969,851</u>	<u>\$ 6,774,085</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
General, Cash, Federal, Construction and Revolving Funds
For the Year Ended June 30, 2001

	<u>GENERAL FUND</u>			<u>CASH FUND</u>		
		ACTUAL	VARIANCE		ACTUAL	VARIANCE
		(BUDGETARY	FAVORABLE		(BUDGETARY	FAVORABLE
	BUDGET	BASIS)	(UNFAVORABLE)	BUDGET	BASIS)	(UNFAVORABLE)
RECEIPTS:						
Appropriations	\$	97,230,543		\$	-	
Intergovernmental		-			106,508	
Sales and Charges		272			189,297	
Miscellaneous		21,990			530,871	
TOTAL RECEIPTS		<u>97,252,805</u>			<u>826,676</u>	
DISBURSEMENTS:						
Personal Services		62,490,411			110,898	
Operating		25,935,230			692,540	
Travel		529,435			53,003	
Capital Outlay		3,533,878			882	
Other Government Aid		4,741,589			-	
Total Budgeted	97,503,107	97,230,543	272,564	547,561	857,323	(309,762)
Under (Over) Budgeted (Note 1.D.)	11,169,136	-	11,169,136	318,336	-	318,336
TOTAL DISBURSEMENTS	<u>108,672,243</u>	<u>97,230,543</u>	<u>11,441,700</u>	<u>865,897</u>	<u>857,323</u>	<u>8,574</u>
Excess of Receipts Over (Under) Disbursements		<u>22,262</u>			<u>(30,647)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		16,430			-	
Operating Transfers Out		-			18,715	
Deposit to State General Fund		(51,692)			-	
Net Distributive Activity		-			120	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(35,262)</u>			<u>18,835</u>	
Excess of Receipts and Other Financing Sources						
Over (Under) Disbursements and Other						
Financing (Uses)		(13,000)			(11,812)	
FUND BALANCES, JULY 1, 2000		<u>33,063</u>			<u>1,384,415</u>	
FUND BALANCES, JUNE 30, 2001	\$	<u>20,063</u>		\$	<u>1,372,603</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
General, Cash, Federal, Construction and Revolving Funds
For the Year Ended June 30, 2001

	<u>FEDERAL FUND</u>			<u>CONSTRUCTION FUNDS</u>		
	<u>BUDGET</u>	<u>ACTUAL (BUDGETARY BASIS)</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL (BUDGETARY BASIS)</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
RECEIPTS:						
Appropriations		\$ -			\$ 23,471,935	
Intergovernmental		788,909			-	
Sales and Charges		-			-	
Miscellaneous		68,589			1,602	
TOTAL RECEIPTS		<u>857,498</u>			<u>23,473,537</u>	
DISBURSEMENTS:						
Personal Services		674,798			15,973	
Operating		674,988			492,993	
Travel		4,047			1,472	
Capital Outlay		480,525			22,965,860	
Other Government Aid		-			-	
Total Budgeted	217,875	1,834,358	(1,616,483)	8,461,366	23,476,298	(15,014,932)
Under (Over) Budgeted (Note 1.D.)	<u>2,367,895</u>	<u>-</u>	<u>2,367,895</u>	<u>22,367,722</u>	<u>-</u>	<u>22,367,722</u>
TOTAL DISBURSEMENTS	<u>2,585,770</u>	<u>1,834,358</u>	<u>751,412</u>	<u>30,829,088</u>	<u>23,476,298</u>	<u>7,352,790</u>
Excess of Receipts Over (Under) Disbursements		<u>(976,860)</u>			<u>(2,761)</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			-	
Operating Transfers Out		-			(18,715)	
Deposit to State General Fund		-			-	
Net Distributive Activity		<u>-</u>			<u>-</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>(18,715)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)		(976,860)			(21,476)	
FUND BALANCES, JULY 1, 2000		<u>1,405,963</u>			<u>21,558</u>	
FUND BALANCES, JUNE 30, 2001		<u>\$ 429,103</u>			<u>\$ 82</u>	

See Notes to Financial Statements.

(Continued)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS)
General, Cash, Federal, Construction and Revolving Funds
For the Year Ended June 30, 2001

	REVOLVING FUNDS			TOTALS		
	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)		ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	
	BUDGET			BUDGET		
RECEIPTS:						
Appropriations	\$ -			\$ 120,702,478		
Intergovernmental	17,778			913,195		
Sales and Charges	10,242,966			10,432,535		
Miscellaneous	601,745			1,224,797		
TOTAL RECEIPTS	10,862,489			133,273,005		
DISBURSEMENTS:						
Personal Services	2,398,025			69,738,404	65,690,105	4,048,299
Operating	8,669,218			29,949,189	36,464,969	(6,515,780)
Travel	93,534			674,540	681,491	(6,951)
Capital Outlay	873,366			10,836,528	27,854,511	(17,017,983)
Other Government Aid	-			7,075,000	4,741,589	2,333,411
Total Budgeted	11,543,752	12,034,143	(490,391)	118,273,661	135,432,665	(17,159,004)
Under (Over) Budgeted (Note 1.D.)	4,005,412	-	4,005,412	40,228,501	-	40,228,501
TOTAL DISBURSEMENTS	15,549,164	12,034,143	3,515,021	158,502,162	135,432,665	23,069,497
Excess of Receipts Over (Under) Disbursements		(1,171,654)			(2,159,660)	
OTHER FINANCING SOURCES (USES):						
Sale of Assets	2,523			18,953		
Operating Transfers Out	-			-		
Deposit to State General Fund	-			(51,692)		
Net Distributive Activity	(200)			(80)		
TOTAL OTHER FINANCING SOURCES (USES)	2,323			(32,819)		
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)		(1,169,331)			(2,192,479)	
FUND BALANCES, JULY 1, 2000	4,151,714			6,996,713		
FUND BALANCES, JUNE 30, 2001	\$ 2,982,383			\$ 4,804,234		

See Notes to Financial Statements.

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

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

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

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

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds and expendable trust funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e.,

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental and expendable trust fund types and the accrual basis for proprietary fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred.

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

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

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

Capital Projects Funds. Reflect transactions related to resources received and used for the acquisition, construction, or improvement of permanent facilities.

Internal Service Funds. Reflect transactions used to account for centrally operated services which are provided to other state departments and agencies and other governmental units of the State. The services and commodities are charged to recipient agencies on a cost-reimbursement basis.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

General Fixed Assets Account Group. Used to account for general fixed assets of the Department exclusive of assets held by the internal service funds.

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

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

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

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

3000 - Construction Funds - account for the receipts and disbursements associated with the acquisition or construction of capital facilities.

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

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

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

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust funds. The requests are submitted on forms that show estimated funding

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

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

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

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium. During fiscal year 2001, the Legislature passed a deficit appropriation bill which increased the allowable disbursement level in several of the programs.

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

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2001, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

The Statement of Receipts, Disbursements, and Changes in Fund Balances, Budget and Actual on page 27 through 29 notes the department did not budget all of their appropriations on the Budget Status Report (The State of Nebraska Budgetary Report) by \$40,228,501.

Correctional Services receives a lump sum appropriation in Program 200 for its operating budget. Additionally, the Department's unexpended balance is reappropriated at the end of all fiscal years for the General Fund. As a result of this practice appropriation amounts may be held in program 200 until late in the fiscal year. Corresponding adjustments to the Budget Status budgeted amounts are not processed, due to the lateness in the fiscal year. Additionally, some programs have not had budgeted amounts entered such as construction funds because these projects are managed through other means, including the Allotment Status reporting.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

A reconciliation of the budgetary versus the financial statements funds as of June 30, 2001 follows:

	BUDGETARY FUND EQUITIES	FINANCIAL STATEMENT FUND EQUITIES				
		PRIMARY GOVERNMENT				
	Total	General	Special Revenue	Capital Projects	Internal Service	Trust and Agency
PERSPECTIVE DIFFERENCES:						
Classifications of budgetary fund equities into Financial Statement fund structure:						
General	\$ 20,063	\$ 20,063	\$ -	\$ -	\$ -	\$ -
Cash	1,372,603	-	1,372,603	-	-	-
Construction	82	-	-	82	-	-
Federal	429,103	-	429,103	-	-	-
Revolving	2,982,383	-	55,953	-	2,926,430	-
Budgetary fund equities classified into Financial Statement fund structure	<u>\$ 4,804,234</u>	20,063	1,857,659	82	2,926,430	-
ENTITY DIFFERENCES:						
Record funds that are not Budgeted		-	-	-	-	1,969,851
Financial Statement Fund equities, June 30, 2001		<u>\$ 20,063</u>	<u>\$1,857,659</u>	<u>\$ 82</u>	<u>\$2,926,430</u>	<u>\$1,969,851</u>

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2001 have been recorded at cost or estimated cost by the Department. For the period July 1, 2000 through December 31, 2000, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalization. For the period January 1, 2001 through June 30, 2001, equipment which has a cost in excess of \$1,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. For buildings, the capitalization policy is to include all direct costs related to the actual acquisition or construction. This would include site preparation for the buildings, architectural and engineering services, travel expenses, fees, accessing utilities, and items attached to the building. Movable items would not be capitalized.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. Generally, all of the funds of the Department were designated for investment during fiscal year 2001.
- G. Deposits/Petty Cash.** The June 30, 2001 carrying amount of total deposits in checking accounts was \$60,425. The bank balances was \$101,697. All funds were entirely covered by federal depository insurance.
- H. Bonds and Certificate of Deposits Held for Inmates.** At June 30, 2001 the Department physically held bonds and certificates of deposit for inmates in the amount of \$139,463 at historical cost. This amount is not reported in the Department's Trust fund, as control over these assets are with the inmate.
- I. Net Distributive Activity.** Net Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.
- J. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- K. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds and amounts related to

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

proprietary funds and non-expendable trust funds would be reflected separately in those funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

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

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

Intergovernmental. Receipts from other governments in the form of grants, which for the Department are primarily Federal grants.

Sales and Charges. Income derived from sales of merchandise and commodities, and compensation for services rendered. For the special revenue funds, this was primarily charges to other funds of the Department from the central warehouse (See footnote 1. D. for further information). For the internal service funds, this was the sale of merchandise and services rendered in the Cornhusker State Industries and the Federal Surplus property operations. For the expendable trust funds, the sales and charges relate to sales of commodities to inmates and others through the stores, and the welfare and club fund.

Miscellaneous. Receipts from sources not covered by other major categories. This category for the Department includes numerous types of receipts, but the majority of the receipts in this category were:

Special Revenue funds - The majority of the miscellaneous receipts are recorded in the Department's Correctional Facility Cash Fund 2469. Miscellaneous receipts in this fund come primarily from housing and dorm rentals.

Internal Service funds - The majority of the miscellaneous receipts are recorded in the Department's Cornhusker State Industries fund 5251. Miscellaneous receipts in this fund come primarily from private venture receipts.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Expendable Trust funds - The majority of the miscellaneous receipts are recorded in the Department's Inmate Trust fund 6461. Miscellaneous receipts in this fund come from numerous sources, but the majority come from Other Private Sources, Inmate Payroll, and Work Release Payroll.

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

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

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

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

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

Government Aid. Payment of State money to governmental subdivisions. These payments are paid out of the General Fund. These payments represent payments to counties, reimbursing them for keeping State prisoners.

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

O. Interfund Transactions. Quasi-external transactions are accounted for as receipts and disbursements.

The Department operates a central warehouse in Lincoln distributing food, clothing, and other supplies to correctional facilities. The Department accounts for the operations of this warehouse in a separate fund (Central Warehouse Fund - Fund number 5461). The purchase of the goods and the sale of the items to the other facilities are recorded as receipts and disbursements in the fund. The

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

disbursement is also recorded into the fund receiving the goods (the State General Fund). Thus, the receipts and disbursements for the Department overall are overstated by the amount of purchases and sale of goods to facilities within the Department recorded in the Central Warehouse Fund. The amount of receipts and disbursements recorded in the Central Warehouse Fund for fiscal year ending June 30, 2001 was \$2,871,619, and \$3,017,155 respectively.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. All other interfund transfers are reported as operating transfers.

2. **Totals**

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

3. **Contingencies and Commitments**

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

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

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

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

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

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

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

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

For the Fiscal Year Ended June 30, 2001, employees contributed \$1,715,970 and the Department contributed \$2,676,912.

5. **Net Distributive Activity**

The Department's net distributive activity for the audit period consists primarily of the collection and payment of sales taxes. The total received and disbursed through these accounts for the fiscal year ending June 30, 2001 was \$107,067 and \$94,296 respectively.

6. **Fixed Assets**

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

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Land	\$ 1,495,229	\$ 554,000	\$ -	\$ 2,049,229
Buildings	80,488,242	6,154,000	-	86,642,242
Equipment	9,795,152	1,280,467	(366,189)	10,709,430
Construction in Progress	44,608,215	21,560,669	-	66,168,884
Totals	<u>\$ 136,386,838</u>	<u>\$ 29,549,136</u>	<u>\$ (366,189)</u>	<u>\$ 165,569,785</u>

The additions of \$29,549,136 noted above is different than the amount of Capital Outlay reported on the Combined Statement of Receipts and Disbursements and Changes in Fund Balances all Governmental Fund Types and Expendable Trust Funds of \$27,007,177. The difference is due to the following items related to Equipment and Construction in Progress.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **Fixed Assets (Concluded)**

Equipment

The following items were reported as Capital Outlay but were not recorded on the Statewide Inventory System:

- Computer software, recorded as a capital outlay but not recorded on the Department's fixed asset records, in the amount of \$167,000.
- Purchases of library material, recorded as a capital outlay but not recorded on the Department's fixed asset records, in the amount of \$94,000.
- Vehicles purchased for the Transportation Services Bureau of the Department of Administrative Services (a separate State agency), recorded as a capital outlay but not recorded on the Department's fixed asset records, in the amount of \$238,000.

Construction In Progress

- \$2,541,959 was included in additions but was not reported in the capital outlay amount due to timing differences between when the construction work was completed and when the work is paid for.

The total amount of fixed assets in the internal service fund at June 30, 2001 was \$2,247,251. Since the Department reports on a cash basis, these amounts are not reflected in the financial statements and they have not been reduced by accumulated depreciation.

7. **Full Accountability of General Funds**

Only the cash transactions are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Actual column) for these funds. They do not show appropriations. To show the full accountability over these funds, the following schedules reflect appropriations. Appropriations do not represent cash transactions.

General Fund	
Beginning (Reappropriated) Balance July 1, 2000	\$ 18,056,656
New Appropriations	90,615,587
Total Appropriations	<u>108,672,243</u>
Disbursements	<u>(97,230,543)</u>
Ending (Appropriations) Balance June 30, 2001	<u>\$ 11,441,700</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Full Accountability of General Funds (Concluded)**

State Building General Fund	
Beginning (Reappropriated) Balance July 1, 2000	\$ 8,448,034
New Appropriations	22,366,291
Total Appropriations	<u>30,814,325</u>
Disbursements	(23,471,935)
Ending (Appropriations) Balance June 30, 2001	<u>\$ 7,342,390</u>

8. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the State for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State revenue and expenditure recognition and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 2001

	Correctional Facility Cash Fund 2469	Community Based Services Fund 4813	Central Warehouse Fund 5461	Totals
<hr/> Assets <hr/>				
Cash in State Treasury	\$ 1,372,603	\$ 429,103	\$ 55,953	\$ 1,857,659
Total Assets	<u>\$ 1,372,603</u>	<u>\$ 429,103</u>	<u>\$ 55,953</u>	<u>\$ 1,857,659</u>
 <hr/> Fund Balances <hr/>				
Fund Balances:				
Unreserved, Undesignated	\$ 1,372,603	\$ 429,103	\$ 55,953	\$ 1,857,659
Total Fund Balances	<u>\$ 1,372,603</u>	<u>\$ 429,103</u>	<u>\$ 55,953</u>	<u>\$ 1,857,659</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2001

	Correctional Facility Cash Fund 2469	Federal Aid Fund 4000	Community Based Services Fund 4813	Central Warehouse Fund 5461	Totals
RECEIPTS:					
Intergovernmental	\$ 106,508	\$ 18,570	\$ 770,339	\$ -	\$ 895,417
Sales and Charges	189,297	-	-	2,871,619	3,060,916
Miscellaneous	530,871	-	68,589	7,079	606,539
TOTAL RECEIPTS	826,676	18,570	838,928	2,878,698	4,562,872
DISBURSEMENTS:					
Personal Services	110,898	-	674,798	-	785,696
Operating	692,540	18,570	656,418	3,017,155	4,384,683
Travel	53,003	-	4,047	-	57,050
Capital Outlay	882	-	480,525	360	481,767
TOTAL DISBURSEMENTS	857,323	18,570	1,815,788	3,017,515	5,709,196
Excess of Receipts Over (Under) Disbursements	(30,647)	-	(976,860)	(138,817)	(1,146,324)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	18,715	-	-	-	18,715
Net Distributive Activity	120	-	-	-	120
TOTAL OTHER FINANCING SOURCES (USES)	18,835	-	-	-	18,835
Excess of Receipts and Other Financing Sources (Under) Disbursements and Other Financing Uses	(11,812)	-	(976,860)	(138,817)	(1,127,489)
Fund Balance, July 1, 2000	1,384,415	-	1,405,963	194,770	2,985,148
Fund Balance, June 30, 2001	\$ 1,372,603	\$ -	\$ 429,103	\$ 55,953	\$ 1,857,659

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL CAPITAL PROJECT FUNDS
June 30, 2001

	Secure Youth Confinement Facility Fund 3246	State Building Fund 3300	Totals
<hr/> Assets <hr/>			
Cash in State Treasury	\$ 82	\$ -	\$ 82
Total Assets	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 82</u>
 <hr/> Fund Balances <hr/>			
Fund Balances:			
Unreserved, Undesignated	\$ 82	\$ -	\$ 82
Total Fund Balances	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 82</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL CAPITAL PROJECT FUNDS
For the Fiscal Year Ended June 30, 2001

	Secure Youth Confinement Facility Fund 3246	State Building Fund Fund 3300	Totals
RECEIPTS:			
Appropriations	\$ -	\$ 23,471,935	\$ 23,471,935
Miscellaneous	<u>1,602</u>	<u>-</u>	<u>1,602</u>
TOTAL RECEIPTS	<u>1,602</u>	<u>23,471,935</u>	<u>23,473,537</u>
DISBURSEMENTS:			
Personal Services	-	15,973	15,973
Operating	485	492,508	492,993
Travel	-	1,472	1,472
Capital Outlay	<u>3,878</u>	<u>22,961,982</u>	<u>22,965,860</u>
TOTAL DISBURSEMENTS	<u>4,363</u>	<u>23,471,935</u>	<u>23,476,298</u>
Excess of Receipts Over (Under) Disbursements	<u>(2,761)</u>	<u>-</u>	<u>(2,761)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers Out	<u>(18,715)</u>	<u>-</u>	<u>(18,715)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(18,715)</u>	<u>-</u>	<u>(18,715)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(21,476)	-	(21,476)
Fund Balance, July 1, 2000	<u>21,558</u>	<u>-</u>	<u>21,558</u>
Fund Balance, June 30, 2001	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 82</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL INTERNAL SERVICE FUNDS

June 30, 2001

	Correctional Industries Fund 5251	Federal Surplus Property Fund 5270	Totals
<hr/> Assets <hr/>			
Cash in State Treasury	\$ 2,845,771	\$ 74,009	\$ 2,919,780
Deposit with Vendors	275	375	650
Petty Cash	<u>6,000</u>	<u>-</u>	<u>6,000</u>
 Total Assets	 <u><u>\$ 2,852,046</u></u>	 <u><u>\$ 74,384</u></u>	 <u><u>\$ 2,926,430</u></u>
 <hr/> Fund Balance <hr/>			
Fund Balance:			
Reserved for Postage	\$ 275	\$ 375	\$ 650
Unreserved, Undesignated	<u>2,851,771</u>	<u>74,009</u>	<u>2,925,780</u>
 Total Fund Balances	 <u><u>\$ 2,852,046</u></u>	 <u><u>\$ 74,384</u></u>	 <u><u>\$ 2,926,430</u></u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINING STATEMENT OF RECEIPT AND DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL INTERNAL SERVICE FUNDS
For the Fiscal Year Ended June 30, 2001

	Correctional Industries Fund 5251	Federal Surplus Property Fund 5270	Total
RECEIPTS:			
Intergovernmental	\$ -	\$ 17,778	\$ 17,778
Sales and Charges	7,055,287	316,060	7,371,347
Miscellaneous	<u>590,660</u>	<u>4,006</u>	<u>594,666</u>
TOTAL REVENUE	<u>7,645,947</u>	<u>337,844</u>	<u>7,983,791</u>
DISBURSEMENTS:			
Personal Services	2,258,241	139,784	2,398,025
Operating	5,484,670	167,393	5,652,063
Travel	86,205	7,329	93,534
Capital Outlay	<u>861,431</u>	<u>11,575</u>	<u>873,006</u>
TOTAL DISBURSEMENTS	<u>8,690,547</u>	<u>326,081</u>	<u>9,016,628</u>
Excess of Receipts Over (Under) Disbursements	<u>(1,044,600)</u>	<u>11,763</u>	<u>(1,032,837)</u>
OTHER FINANCING SOURCES (USES)			
Sale of Fixed Assets	2,523	-	2,523
Net Distributive Activity	<u>(200)</u>	<u>-</u>	<u>(200)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,323</u>	<u>-</u>	<u>2,323</u>
Excess of Receipt and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(1,042,277)	11,763	(1,030,514)
FUND BALANCE, JUNE 30, 2000	<u>3,894,323</u>	<u>62,621</u>	<u>3,956,944</u>
FUND BALANCE, JUNE 30, 2001	<u>\$ 2,852,046</u>	<u>\$ 74,384</u>	<u>\$ 2,926,430</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL EXPENDABLE TRUST FUNDS
June 30, 2001

	Inmate Trust Fund 6461	Store/Canteen Fund 6464	Welfare and Club Accounts Fund 6465	Totals
<u>Assets</u>				
Cash in State Treasury	\$ 1,130,864	\$ 278,080	\$ 519,607	\$ 1,928,551
Deposits	40,000	-	-	40,000
Petty Cash	-	1,300	-	1,300
Total Assets	<u>\$ 1,170,864</u>	<u>\$ 279,380</u>	<u>\$ 519,607</u>	<u>\$ 1,969,851</u>
<u>Fund Balances</u>				
Fund Balances:				
Unreserved, Undesignated	<u>\$ 1,170,864</u>	<u>\$ 279,380</u>	<u>\$ 519,607</u>	<u>\$ 1,969,851</u>
Total Fund Balances	<u>\$ 1,170,864</u>	<u>\$ 279,380</u>	<u>\$ 519,607</u>	<u>\$ 1,969,851</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES**
ALL EXPENDABLE TRUST FUNDS
For the Fiscal Year Ended June 30, 2001

	Inmate Trust Fund 6461	Community Based Services Fund 6464	Welfare and Club Accounts Fund 6465	Totals
RECEIPTS:				
Sales and Charges	\$ -	\$ 2,762,685	\$ 466,958	\$ 3,229,643
Miscellaneous	<u>8,073,238</u>	<u>20,734</u>	<u>24,772</u>	<u>8,118,744</u>
TOTAL RECEIPTS	<u>8,073,238</u>	<u>2,783,419</u>	<u>491,730</u>	<u>11,348,387</u>
DISBURSEMENTS:				
Personal Services	-	447,515	-	447,515
Operating	7,617,096	2,324,791	400,396	10,342,283
Capital Outlay	<u>-</u>	<u>1,325</u>	<u>24,347</u>	<u>25,672</u>
TOTAL DISBURSEMENTS	<u>7,617,096</u>	<u>2,773,631</u>	<u>424,743</u>	<u>10,815,470</u>
Excess of Receipts Over (Under) Disbursements	<u>456,142</u>	<u>9,788</u>	<u>66,987</u>	<u>532,917</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	122,218	170,450	292,668
Operating Transfers Out	(46,332)	(203,099)	(43,237)	(292,668)
Net Distributive Activity:	<u>-</u>	<u>213</u>	<u>(361)</u>	<u>(148)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(46,332)</u>	<u>(80,668)</u>	<u>126,852</u>	<u>(148)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	409,810	(70,880)	193,839	532,769
Fund Balance, July 1, 2000	<u>761,054</u>	<u>350,260</u>	<u>325,768</u>	<u>1,437,082</u>
Fund Balance, June 30, 2001	<u>\$ 1,170,864</u>	<u>\$ 279,380</u>	<u>\$ 519,607</u>	<u>\$ 1,969,851</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**
For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Nebraska Correctional Youth Facility (Program 260)*					
Fiscal Year	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Personal Service	N/A	\$ 492,992	\$ 2,348,040	\$ 2,614,797	\$ 2,718,909
Operations		166,241	318,891	453,597	470,237
Travel		11,883	22,895	37,300	32,849
Capital Outlay		213,051	455,236	228,258	23,744
Medical		-	135,998	154,775	210,607
Education		-	28,484	32,123	32,582
Administration		243,276	345,425	447,369	477,078
Total		<u>\$ 1,127,443</u>	<u>\$ 3,654,969</u>	<u>\$ 3,968,219</u>	<u>\$ 3,966,006</u>
Average Cost per Year		N/A	\$ 59,780	\$ 63,188	\$ 62,037
Average Cost per Day		N/A	\$ 163.78	\$ 173.12	\$ 169.96
Average Population		N/A	61	63	64

*Facility under construction, no inmates in Fiscal Year 1998.

Tecumseh State Correctional Institution (Program 300)*					
Fiscal Year	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Personal Service	N/A	N/A	N/A	\$ 326,849	\$ 980,114
Operations				512	124,887
Travel				3,377	8,204
Capital Outlay				-	149,662
Medical				-	-
Education				-	-
Administration				114,920	171,322
Total				<u>\$ 445,658</u>	<u>\$ 1,434,189</u>
Average Cost per Year				N/A	N/A
Average Cost per Day				N/A	N/A
Average Population				N/A	N/A

*Facility under construction, no inmates in Fiscal Years 2000 and 2001.

Office of Community Justice (Program 367)*					
Fiscal Year	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Personal Service	N/A	\$ 45,043	\$ 153,617	\$ 199,243	\$ 214,952
Operations		8,007	53,371	411,993	366,353
Travel		2,733	8,670	10,742	14,955
Capital Outlay		17,636	6,942	5,532	2,507
Medical		-	-	-	-
Education		-	-	-	-
Administration		49,321	37,690	43,639	57,565
Total		<u>\$ 122,740</u>	<u>\$ 260,290</u>	<u>\$ 671,149</u>	<u>\$ 656,332</u>
Average Cost per Year		N/A	N/A	N/A	N/A
Average Cost per Day		N/A	N/A	N/A	N/A
Average Population		N/A	N/A	N/A	N/A

*Started in Fiscal Year 1998. No inmates.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**

For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Community Corrections Center - Lincoln (Program 368)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 1,526,511	\$ 1,552,836	\$ 1,652,668	\$ 1,629,162	\$ 1,757,871
Operations	576,874	656,681	679,864	610,864	692,828
Travel	35,279	41,935	41,784	42,320	44,628
Capital Outlay	13,521	38,559	33,668	35,948	38,044
Medical	499,620	564,638	522,884	633,369	852,013
Education	100,973	96,314	109,515	131,453	131,810
Administration	339,744	347,273	392,252	498,767	491,585
Total	<u>\$ 3,092,522</u>	<u>\$ 3,298,236</u>	<u>\$ 3,432,635</u>	<u>\$ 3,581,883</u>	<u>\$ 4,008,779</u>
Average Cost per Year	\$ 12,030	\$ 12,324	\$ 14,603	\$ 13,938	\$ 15,500
Average Cost per Day	\$ 32.96	\$ 33.76	\$ 40.01	\$ 38.19	\$ 42.47
Average Population	257	268	235	257	259

Community Corrections Center - Omaha (Program 369)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 601,498	\$ 626,821	\$ 712,846	\$ 732,629	\$ 794,304
Operations	248,530	285,868	293,442	286,688	265,474
Travel	25,347	25,296	24,778	24,907	24,606
Capital Outlay	16,887	12,715	71,068	40,757	81,741
Medical	255,252	287,457	284,409	319,408	420,423
Education	51,586	49,033	59,568	66,292	65,041
Administration	153,086	156,423	189,149	233,263	222,639
Total	<u>\$ 1,352,186</u>	<u>\$ 1,443,613</u>	<u>\$ 1,635,260</u>	<u>\$ 1,703,944</u>	<u>\$ 1,874,228</u>
Average Cost per Year	\$ 10,296	\$ 10,595	\$ 12,789	\$ 13,148	\$ 14,686
Average Cost per Day	\$ 28.21	\$ 29.03	\$ 35.04	\$ 36.02	\$ 40.24
Average Population	131	136	128	130	128

Nebraska State Penitentiary (Program 372)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 12,233,420	\$ 13,246,345	\$ 14,615,900	\$ 15,093,123	\$ 15,472,427
Operations	2,837,203	3,407,570	3,691,731	3,582,663	4,111,978
Travel	19,106	24,437	22,072	25,795	33,029
Capital Outlay	277,274	431,012	490,505	427,478	764,102
Medical	1,795,821	2,062,978	2,530,184	2,935,273	3,930,140
Education	362,935	351,895	529,934	609,205	608,005
Administration	2,079,749	2,258,567	2,719,922	3,462,338	3,371,518
Total	<u>\$ 19,605,508</u>	<u>\$ 21,782,804</u>	<u>\$ 24,600,248</u>	<u>\$ 26,135,875</u>	<u>\$ 28,291,199</u>
Average Cost per Year	\$ 21,219	\$ 22,277	\$ 21,627	\$ 21,945	\$ 23,714
Average Cost per Day	\$ 58.13	\$ 61.03	\$ 59.25	\$ 60.12	\$ 64.97
Average Population	924	978	1,137	1,191	1,193

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**

For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Nebraska Center for Women (Program 373)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 2,484,582	\$ 2,731,337	\$ 3,033,856	\$ 3,094,328	\$ 3,302,858
Operations	652,127	547,189	663,513	684,541	698,570
Travel	14,726	15,743	20,411	20,851	20,117
Capital Outlay	328,910	294,422	91,823	459,489	311,973
Medical	310,022	355,222	466,051	473,837	740,961
Education	62,655	60,593	97,612	98,343	114,629
Administration	409,463	421,328	511,936	635,637	682,551
Total	<u>\$ 4,262,485</u>	<u>\$ 4,425,834</u>	<u>\$ 4,885,202</u>	<u>\$ 5,467,026</u>	<u>\$ 5,871,659</u>

Average Cost per Year	\$ 26,722	\$ 26,286	\$ 23,316	\$ 28,436	\$ 26,106
Average Cost per Day	\$ 73.21	\$ 72.02	\$ 63.88	\$ 77.91	\$ 71.52
Average Population	160	168	210	192	225

Diagnostic and Evaluation Center (Program 375)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 4,245,428	\$ 4,423,768	\$ 4,660,816	\$ 5,000,349	\$ 5,172,977
Operations	909,629	989,430	876,003	899,460	1,052,904
Travel	7,055	4,769	4,309	12,286	12,098
Capital Outlay	100,341	57,943	145,663	88,800	128,329
Medical	693,629	683,798	654,033	679,283	1,292,301
Education	140,182	116,640	136,984	140,983	199,924
Administration	709,801	721,576	799,938	1,002,755	1,079,301
Total	<u>\$ 6,806,065</u>	<u>\$ 6,997,924</u>	<u>\$ 7,277,746</u>	<u>\$ 7,823,916</u>	<u>\$ 8,937,834</u>

Average Cost per Year	\$ 19,071	\$ 21,591	\$ 24,752	\$ 28,387	\$ 22,784
Average Cost per Day	\$ 52.25	\$ 59.15	\$ 67.81	\$ 77.77	\$ 62.42
Average Population	357	324	294	276	392

Lincoln Correctional Center (Program 376)

Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 6,961,244	\$ 6,952,679	\$ 7,519,834	\$ 7,850,298	\$ 8,262,367
Operations	1,598,830	1,712,531	1,697,861	1,679,952	1,883,125
Travel	15,332	21,055	22,508	12,104	18,905
Capital Outlay	460,249	183,841	511,557	405,812	484,884
Medical	985,051	1,082,398	1,149,469	1,250,175	1,720,532
Education	199,078	184,632	240,750	259,470	266,172
Administration	1,157,772	1,147,175	1,355,094	1,709,442	1,690,381
Total	<u>\$ 11,377,556</u>	<u>\$ 11,284,311</u>	<u>\$ 12,497,073</u>	<u>\$ 13,167,253</u>	<u>\$ 14,326,366</u>

Average Cost per Year	\$ 22,449	\$ 21,995	\$ 24,184	\$ 25,958	\$ 27,431
Average Cost per Day	\$ 61.50	\$ 60.26	\$ 66.26	\$ 71.12	\$ 75.15
Average Population	507	513	517	507	522

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**

For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Omaha Correctional Center (Program 377)					
Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 5,372,915	\$ 5,439,507	\$ 5,897,369	\$ 6,156,731	\$ 6,410,997
Operations	1,836,131	2,064,798	2,026,538	2,112,317	2,186,056
Travel	22,351	30,307	31,071	35,835	40,091
Capital Outlay	69,812	131,411	84,839	423,099	104,321
Medical	1,246,931	1,458,359	1,557,686	1,672,183	2,294,734
Education	252,004	248,762	326,249	347,056	355,004
Administration	1,063,022	1,081,975	1,275,542	1,573,595	1,585,362
Total	<u>\$ 9,863,166</u>	<u>\$ 10,455,119</u>	<u>\$ 11,199,294</u>	<u>\$ 12,320,816</u>	<u>\$ 12,976,565</u>
Average Cost per Year	\$ 15,374	\$ 15,125	\$ 15,993	\$ 18,159	\$ 18,629
Average Cost per Day	\$ 42.12	\$ 41.44	\$ 43.82	\$ 49.75	\$ 51.04
Average Population	642	691	700	678	697

Hastings Correctional Center (Program 378)					
Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 1,669,418	\$ 1,779,447	\$ 2,081,184	\$ 2,209,298	\$ 2,376,777
Operations	521,551	608,284	636,906	639,729	701,639
Travel	30,554	36,939	47,895	49,239	51,625
Capital Outlay	53,213	84,930	62,932	157,974	78,977
Medical	334,745	380,476	400,543	443,129	595,517
Education	67,652	64,900	83,892	91,970	92,129
Administration	327,015	337,579	404,987	509,134	535,417
Total	<u>\$ 3,004,148</u>	<u>\$ 3,292,555</u>	<u>\$ 3,718,339</u>	<u>\$ 4,100,473</u>	<u>\$ 4,432,081</u>
Average Cost per Year	\$ 17,443	\$ 18,257	\$ 20,649	\$ 22,806	\$ 24,518
Average Cost per Day	\$ 47.79	\$ 50.02	\$ 56.57	\$ 62.48	\$ 67.17
Average Population	172	180	180	180	181

Nebraska Correctional Treatment Center (Program 383)					
Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 1,528,364	\$ 1,745,874	\$ 2,017,119	\$ 2,245,043	\$ 2,511,457
Operations	652,807	613,654	543,616	407,574	466,050
Travel	12,796	12,817	12,195	16,446	15,117
Capital Outlay	121,593	51,966	77,255	140,977	28,072
Medical	169,442	187,559	195,968	214,269	290,890
Education	34,244	31,993	41,044	44,471	45,002
Administration	265,885	297,802	361,176	462,879	459,992
Total	<u>\$ 2,785,131</u>	<u>\$ 2,941,665</u>	<u>\$ 3,248,373</u>	<u>\$ 3,531,659</u>	<u>\$ 3,816,580</u>
Average Cost per Year	\$ 31,947	\$ 33,090	\$ 36,871	\$ 40,622	\$ 43,223
Average Cost per Day	\$ 87.53	\$ 90.66	\$ 101.02	\$ 111.29	\$ 118.42
Average Population	87	89	88	87	88

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**
For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Work Ethic Camp (Program 386)*					
Fiscal Year	1997	1998	1999	2000	2001
Personal Service	N/A	N/A	N/A	\$ 111,541	\$ 1,143,462
Operations				45,908	457,053
Travel				16,161	53,665
Capital Outlay				43,938	198,280
Medical				-	57,684
Education				-	8,924
Administration				73,524	261,670
Total				<u>\$ 291,072</u>	<u>\$ 2,180,738</u>
Average Cost per Year				N/A	N/A
Average Cost per Day				N/A	N/A
Average Population				N/A	N/A

*Facility under construction during Fiscal Years 2000 and 2001. Opened April 30, 2001.

Adult Parole Administration (Program 389)*					
Fiscal Year	1997	1998	1999	2000	2001
Personal Service	\$ 998,819	\$ 1,023,565	\$ 1,098,179	\$ 1,116,374	\$ 1,148,085
Operations	114,616	107,661	119,725	163,762	157,772
Travel	73,560	74,870	72,220	68,194	67,038
Capital Outlay	13,301	5,962	8,805	12,577	6,695
Medical	-	-	-	-	-
Education	-	-	-	-	-
Administration	139,853	132,565	146,160	192,216	186,248
Total	<u>\$ 1,340,149</u>	<u>\$ 1,344,623</u>	<u>\$ 1,445,089</u>	<u>\$ 1,553,123</u>	<u>\$ 1,565,838</u>
Average Cost per Year	\$ 2,164	\$ 2,223	\$ 2,367	\$ 2,743	\$ 3,103
Average Cost per Day	\$ 5.93	\$ 6.09	\$ 6.49	\$ 7.52	\$ 8.50
Average Population	619	605	610	566	505

*Corrections is not responsible for Parole medical and educational expenses.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY, AND RELATED CHARTS**

For the Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, 1997

Fiscal Year	Total Adult Services*				
	1997	1998	1999	2000	2001
Personal Services ¹	\$ 37,622,199	\$ 40,060,214	\$ 45,791,428	\$ 48,379,765	\$ 52,267,557
Operations ²	9,948,298	11,167,914	11,601,461	11,979,560	13,634,926
Travel ³	256,106	302,784	330,808	375,557	436,927
Capital Outlay ⁴	1,455,101	1,523,448	2,040,293	2,470,639	2,401,331
Medical ⁵	6,290,513	7,062,885	7,897,225	8,775,701	12,405,802
Education ⁶	1,271,309	1,204,762	1,654,032	1,821,366	1,919,222
Administration ⁷	6,645,390	7,194,860	8,539,271	10,959,478	11,272,629
TOTAL	\$ 63,488,916	\$ 68,516,867	\$ 77,854,518	\$ 84,762,066	\$ 94,338,394
Average Cost per Year	\$ 16,465	\$ 17,335	\$ 18,712	\$ 20,538	\$ 22,091
Average Cost per Day	\$ 45.11	\$ 47.49	\$ 51.27	\$ 56.27	\$ 60.52
Average Total Population	3,856	3,952	4,161	4,127	4,270
Total Unallocated Expenditures**	\$ 8,595,974	\$ 19,552,454	\$ 15,485,609	\$ 53,467,603	\$ 41,094,272
Department Total Expenditures***	\$ 72,084,890	\$ 88,069,321	\$ 93,340,127	\$ 138,229,669	\$ 135,432,666

*Youth Services was transferred to the Nebraska Department of Health and Human Services (HSS) in January 1997. The 1997 amounts do not include Youth Services costs.

**Total Unallocated Expenditures include: Federal Surplus Property, Central Warehouse, State Prisoner Reimbursement, Cornhusker State Industries, and Construction.

***Inmate Trust Fund expenditures are not included in the annual cost allocation report.

NOTE: This Service Efforts and Accomplishments Schedule was prepared on the cash basis of accounting.

¹ Data provided by Nebraska Accounting System.

² Data provided by Nebraska Accounting System.

³ Data provided by Nebraska Accounting System.

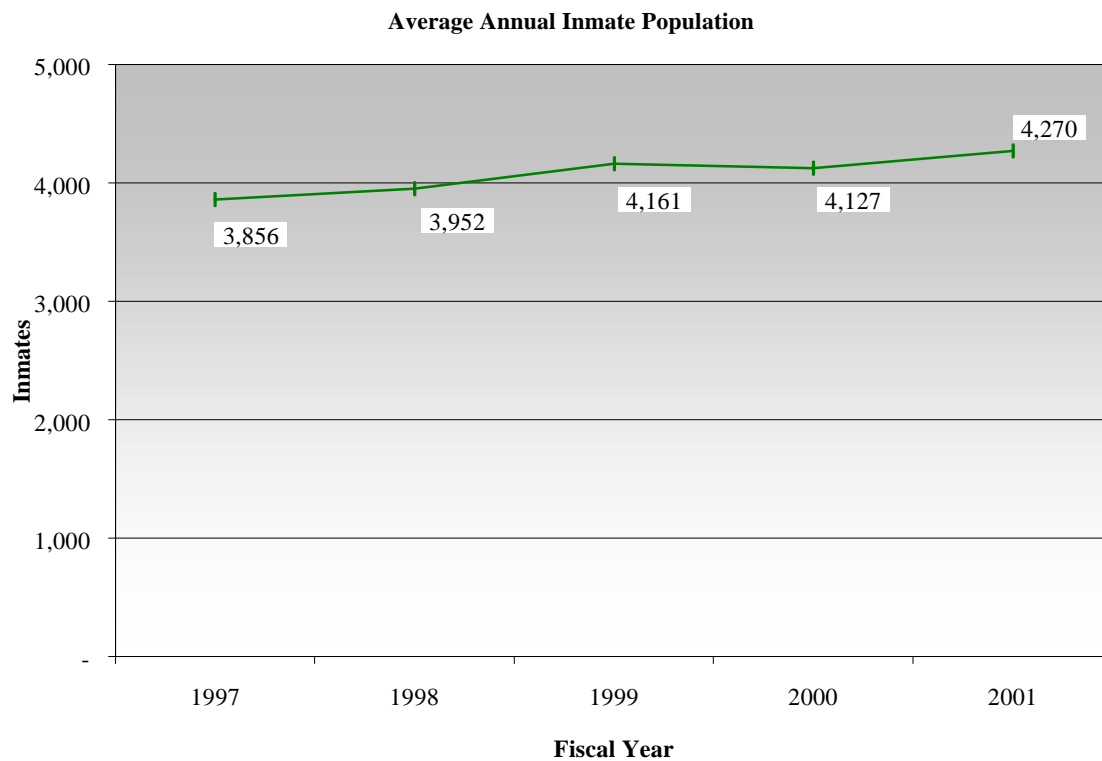
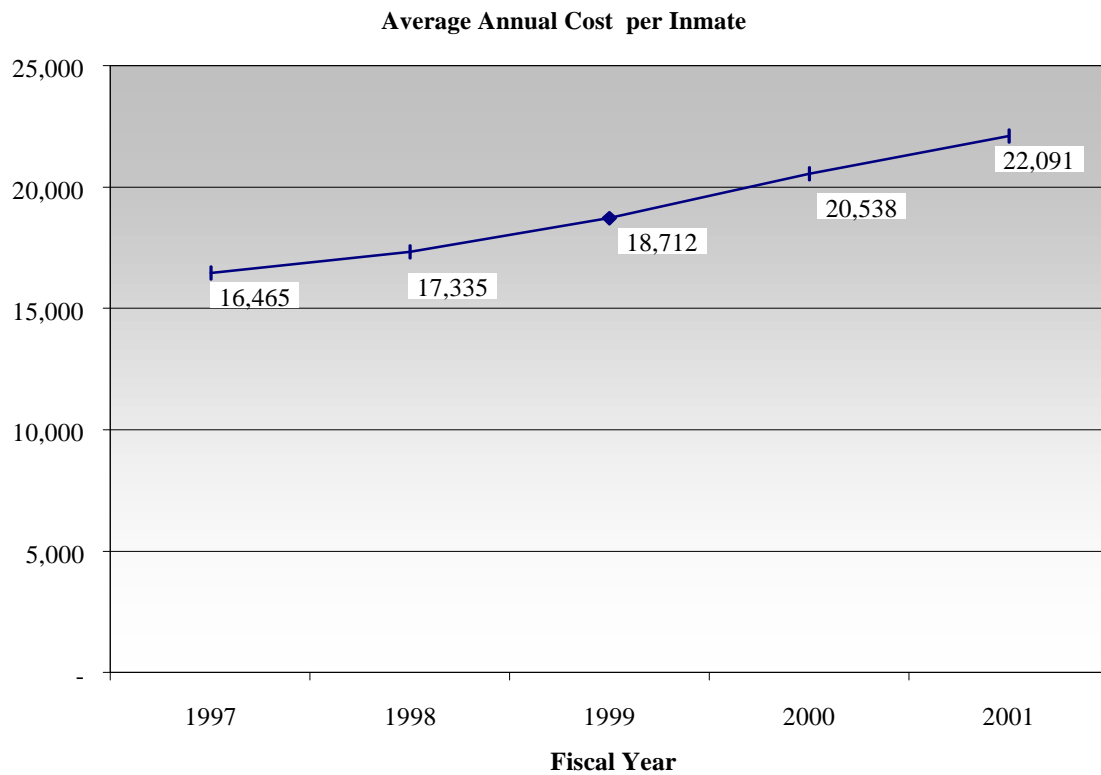
⁴ Data provided by Nebraska Accounting System. Direct capital expense for each respective program is derived from program 370 (Central Administration) subprogram 81 (equipment fund) and through the use of identifier numbers for each respective program. All program 370 capital expenses are allocated to each respective program based on the percentage of the program's budget vs. the total budget. Total budget includes: NCYF, TSCI, CCCL, CCCO, NSP, NCCW, DEC, LCC, OCC, HCC, NCTC WEC, and Adult Parole Administration.

⁵ Data provided by Nebraska Accounting System. Allocation is based on inmate population.

⁶ Data provided by Nebraska Accounting System. Allocation is based on inmate population.

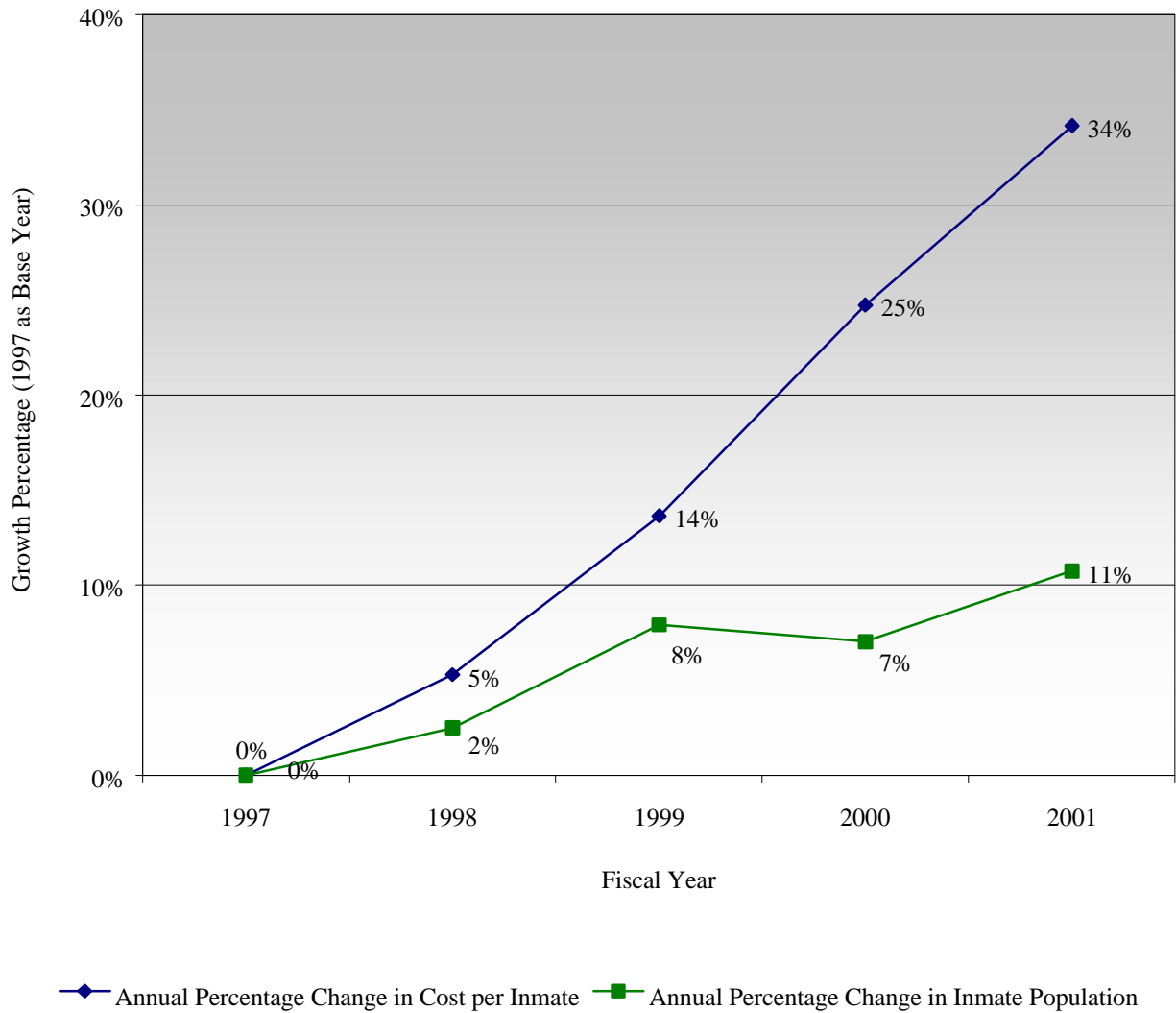
⁷ Data provided by Nebraska Accounting System. Data includes all other expenses from program 370 subprograms and program 575 (drug grants). Allocation is based on the program's budget.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
AVERAGE ANNUAL COST PER INMATE AND AVERAGE ANNUAL INMATE POPULATION
For Fiscal Years Ending June 30, 2001, 2000, 1999, 1998, and 1997



Source data from page 60.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**SCHEDULE OF ANNUAL PERCENTAGE CHANGE IN COST PER INMATE VS. ANNUAL PERCENTAGE
CHANGE IN INMATE POPULATION - BASE YEAR: FISCAL YEAR ENDING JUNE 30, 1997**
For Fiscal Year Ending June 30, 2001, 2000, 1999, 1998, and 1997



Source data from page 60.

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

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We have audited the financial statements of the Nebraska Department of Correctional Services as of and for the year ended June 30, 2001, and have issued our report thereon dated October 3, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Correctional Services. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Correctional Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Correctional Services in the Comments Section of this report as Comment Number 1 (Incorrect Pay Based On Time Records), Comment Number 2 (Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld), Comment Number 3 (Timesheet Not Signed By Supervisor, and

Vacation Used Not Posted To Records), Comment Number 6 (Payroll Documentation), Comment Number 7 (Procedures Over Fixed Assets-Relating to Depositing Revenue From the Sale of Surplus Property), and Comment Number 12 (Meal Policy).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Correctional Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Department of Correctional Services in the Comments Section of this report as Comment Number 1 (Incorrect Pay Based on Time Records), Comment Number 2 (Incorrect Total Service Date in NEIS, and Mandatory Retirement Contributions Not Withheld), Comment Number 3 (Timesheet Not Signed By Supervisor, and Vacation Used Not Posted To Records), Comment Number 4 (Authorized Signature Cards), Comment Number 5 (Payment of Vacation and Compensatory Leave Balances to Terminated Employees), Comment Number 7 (Procedures Over Fixed Assets-Relating to Segregation of Duties and Coding Errors), Comment Number 8 (Timely Additions of Fixed Assets to the SWIS), Comment Number 9 (Controls Over Weapons), Comment Number 10 (Pre-Audit Function), Comment Number 11 (Medical Payments), Comment Number 12 (Meal Policy), Comment Number 13 (Improper Transaction Coding), Comment Number 14 (Electrical Allocation), and Comment Number 16 (Central Accountability Over Pre-Number Receipts).

This report is intended solely for the information and use of the Department, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

October 3, 2001



Manager