

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF JUSTICE
JULY 1, 2002 THROUGH JANUARY 8, 2003
AND
JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA DEPARTMENT OF JUSTICE

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NEBRASKA DEPARTMENT OF JUSTICE

BACKGROUND

The Attorney General's office was created by a Legislative Act in 1919. This Act created the Department of Justice to be administered by the Attorney General. The Attorney General is the State's Chief Law Officer with duties from the State constitution, statutory enactments, and the common law. The Attorney General has been a constitutional officer since 1875.

The Attorney General provides opinions to State constitutional officers, agencies, boards, commissions, the Legislature, and county attorneys on criminal matters and public revenue matters.

The Department has general control and supervision of all actions and legal proceedings in which the State of Nebraska may be a party or may be interested, and shall have charge or control of all the legal business of all departments and bureaus of the State, or any office thereof, which requires the services of an attorney or counsel in order to protect the interests of the State.

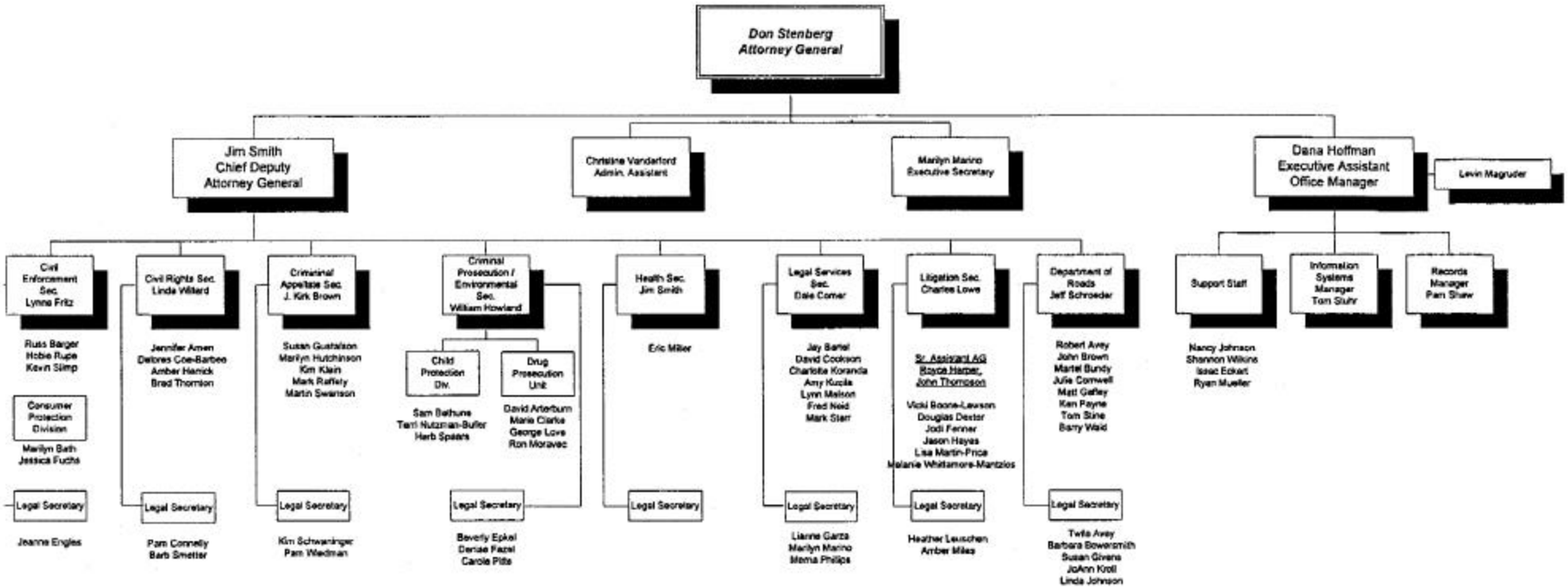
The Department is organized into eight sections. The Civil Division includes the Litigation Section, the Legal Services Section, and the Roads Section. The Criminal Division includes the Civil Rights Section, the Consumer Protection Division, the Criminal Appellate Section, the Criminal Prosecution Section, and the Health Section. The Criminal Prosecution Section includes the Child Protection Division and the Drug and Violent Crime Protection Unit.

MISSION STATEMENT

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

NEBRASKA DEPARTMENT OF JUSTICE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF JUSTICE

SUMMARY OF COMMENTS

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

1. **Employee Mileage Reimbursement:** One employee was reimbursed \$10,891 for fiscal year 2002 and \$6,773 for the period July 1, 2002 through January 8, 2003 for personal vehicle mileage. Had a State vehicle been permanently leased instead of reimbursing mileage the savings would have been \$8,246.
2. **Internal Control Over Trust Fund:** The Department did not maintain copies of all court ordered settlements on hand for review. In addition, the same individual performed all functions of the trust disbursement process with no independent review.
3. **Internal Controls:** There was a lack of segregation of duties over disbursements, receipts, payroll, and fixed assets. One individual was responsible for completing all phases of the above noted accounting functions.
4. **Internal Control Over Travel Expenses:** Internal controls over travel expense reimbursements were not adequate and weaknesses included a lack of compliance with the State's accountable plan, lodging expenses in excess of the federal per diem, inadequate documentation of expenses claimed, and an inadequate review of expense reimbursements submitted for payment.
5. **Salary Restriction:** A specific salary restriction pertaining to 2001 Neb. Laws LB 692A, Section 2 was exceeded for the fiscal year ended June 30, 2002.
6. **State Vehicle Usage:** Adequate procedures were not in place to review State vehicle usage.
7. **Budget Monitoring:** The Department did not adequately monitor its budget at a detailed level.
8. **Title Fee Receipts:** The Department did not obtain documentation of revenues received for title fees to ensure all monies due the Department had been received.

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.

NEBRASKA DEPARTMENT OF JUSTICE

SUMMARY OF COMMENTS
(Concluded)

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. The Department declined to respond.

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

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

1. Employee Mileage Reimbursement

The Department's office procedure manual requires the use of the Department's two permanently assigned State vehicles or leasing of a State vehicle if a trip will exceed 75 miles or one day. Good internal control requires procedures be in place to ensure expense reimbursements are reasonable.

One employee in the Legal Services Section was reimbursed \$10,891 in personal vehicle mileage for 29,839 miles driven during fiscal year 2002 and \$6,773 for 18,581 miles driven for the period July 1, 2002 through January 8, 2003. On three expense documents tested, we noted eight trips exceeding 75 miles or for more than one day. Several of the trips were out of state. An analysis comparing the use of a State vehicle versus reimbursement of mileage was not completed. Had a State vehicle been permanently leased instead of reimbursing mileage the savings would have been \$8,246. The savings would have been substantially more had a State vehicle been checked out as needed rather than leasing an additional permanently assigned vehicle.

There is an increased risk that reimbursements will be unreasonable when established policy is not followed and procedures are not in place to ensure mileage reimbursements are reasonable.

We recommend the Department follow their established policy and require employees to utilize a State vehicle if a trip will exceed 75 miles or one day. Additionally, the Department should develop procedures to ensure mileage reimbursed is reasonable.

2. Internal Control Over Trust Fund

Good internal control requires a proper segregation of duties so no one individual is in a position to handle all phases of a transaction from beginning to end. An adequate segregation of duties should be maintained so that no one person is capable to both perpetrate and conceal errors or irregularities. Good internal control also requires maintaining documentation of how monies may be spent.

Documentation noting how court ordered settlement awarded funds may be spent was not on file. The fund balance of the Court Ordered Settlement Fund 6111 on June 30, 2002 was \$1,127,519 and \$1,079,455 on January 8, 2003. We further noted disbursements from the fund were both prepared and approved by the same individual with no outside review.

Without proper documentation of court ordered settlements, we were unable to determine if disbursements from the fund were in compliance with the Court order. Additionally, there is an increased risk of undetected errors and irregularities without a proper segregation of duties.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

2. **Internal Control Over Trust Fund** (Concluded)

We recommend the Department implement procedures to improve controls over the trust fund. Controls should be implemented to provide for an adequate segregation of duties. We further recommend the Department implement procedures to ensure documentation is on hand for court ordered settlements before making any payments out of the fund.

3. **Internal Controls**

Good internal control requires a proper segregation of duties so no one individual is in a position to handle all phases of a transaction from beginning to end. If a proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

We noted a lack of segregation of duties over the following functions:

- There was a lack of segregation of duties over the disbursement process because one individual was able to perform all functions of the disbursement process. The same individual prepared disbursement documents, approved disbursements, and also reconciled the payments to the Posted Transaction Report.
- The Department did not have an adequate segregation of duties over receipts. The same individual prepared the general documents for deposit, approved the documents, and reconciled the deposits to the Posted Transaction Report. Receipts written were not reconciled to deposits by another individual. This was also a comment in the fiscal year 2000 audit.
- The payroll process lacked an adequate segregation of duties because the same individual performed all functions of the payroll process. One person was responsible for inputting the payroll information, approving the payroll, and reconciling the input to output.
- An adequate segregation of duties did not exist in the capital asset process. One person was able to perform all phases of the capital asset process. The same individual was responsible for adding items to the list, deleting items from the list, and reviewing the history report and 4800 Expenditures Not On Inventory Report. There was no documented independent review of the history report or the 4800 Expenditures Not On Inventory Report. In addition, 16 items totaling \$133,570 were added more than 6 months after purchase. Items purchased as early as November of 2000 were not added until August 2001. This was also a comment in the fiscal year 2000 audit.

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

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

3. **Internal Controls** (Concluded)

We recommend the Department implement procedures which:

- Ensure there is an adequate segregation of duties over disbursements. An individual separate from the disbursement process should be responsible for completing a documented reconciliation of disbursement documents to the Posted Transaction Report.
- Ensure there are adequate controls over the receipt process. Controls should be implemented in the receipt process to include a documented reconciliation of receipts written to the Posted Transaction Report by an individual separate from the deposit function, to ensure all receipts received have been deposited.
- Ensure there are adequate controls over the payroll process. Proper procedures should be implemented in the payroll process to include a documented reconciliation of payroll input (hours worked, timesheets) to payroll output (final pay calculations) by an individual separate from the individual preparing and approving payroll.
- Ensure there are adequate controls over capital assets. Procedures should be implemented which include a documented review of the history report or 4800 Expenditures Not On Inventory Report by an individual separate from the capital asset process.

4. **Internal Control Over Travel Expenses**

During our review of travel expense reimbursements we noted the following:

Meal Expense Reimbursements

The Internal Revenue Service (IRS) requires employees to substantiate the costs of meals under an accountable plan. Adequate accounting requires the use of a meal log or actual receipts to document actual expenses. This is the guideline set forth by the Department of Administrative Services (DAS) as of December 15, 2000. Nebraska Accounting System (NAS) Manual CONC-005 requires reimbursements for one-day travel meals to be coded to account 4719 – Meals - One Day Travel,

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

4. **Internal Control Over Travel Expenses** (Continued)

as they are taxable income to the employee unless such reimbursements are deemed “occasional.” Sound accounting practices require a detailed review of meals claimed to ensure they do not exceed the federal meal per diem rate.

During our review of meal reimbursements we noted the following:

- On the nine documents tested we noted no meal receipts or meal logs were on file to support reimbursements claimed. The Department did not have a policy in place regarding the accountable plan and did not require the maintenance of receipts or completion of a meal log.
- One employee was reimbursed \$10 for meal expenses during one-day travel. This was inappropriately coded to account 4711 – Board and Lodging Expense rather than account 4719 – Meals – One Day Travel.
- The federal meal per diem amount was exceeded by two employees on three separate trips. Two of the three trips were to Atlanta, Georgia. The federal per diem amount for Atlanta was \$38 per day while the employee was reimbursed \$40 and \$43 exceeding the per diem by \$2 and \$5, respectively. The second employee traveled to Indianapolis, Indiana where the federal per diem for meals was \$46 per day. This employee exceeded the per diem amount by \$5.53 on one day and was provided lunch by the conference attended on the same day.
- One employee was reimbursed \$25 in meals with the only documentation being a hotel bill noting the charges.

Without a proper review of meal reimbursements to ensure amounts claimed are reasonable and correct, the risk the Department will pay unreasonable and unsubstantiated meal expenses increases.

We recommend the Department implement a policy regarding the accountable plan and require the use of either a meal log or require actual detailed receipts. If actual receipts are submitted they should contain adequate detail beyond the total dollar amount. All meal reimbursements for one-day travel should be coded to account 4719 – Meals – One-Day Travel. Expense reimbursements should be reviewed in detail to ensure employees are not claiming in excess of the federal meal per diem rate.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

4. **Internal Control Over Travel Expenses** (Continued)

Lodging Reimbursements

Good internal control requires policies and procedures to ensure lodging reimbursements are reasonable based on location. The federal lodging per diem rate should be used as an important guideline when choosing lodging accommodations. Good internal control further requires a review of all direct billed hotel bills to ensure sales and lodging tax are not paid for overnight stays in Nebraska. The State of Nebraska is exempt from Nebraska sales and lodging tax.

On one of eight expense documents tested we noted the federal lodging per diem rate was exceeded. The employee exceeded the per diem rate by \$78 over a three-night stay when in Atlanta, Georgia. We further noted one document in which sales and lodging tax was paid to a hotel in Nebraska.

Without proper use of the federal lodging per diem amounts, the risk the Department is paying excessively high lodging rates is increased.

We recommend the Department implement policies and procedures to ensure lodging is within the federal lodging per diem rates. If lodging is obtained at the location of a conference this should be documented. Whenever possible the federal lodging per diem rates should not be exceeded. We further recommend all hotel bills be reviewed to ensure sales and lodging tax is not paid for overnight stays in Nebraska.

Inadequate Documentation

Good internal control requires procedures to ensure amounts reimbursed to employees are substantiated by adequate documentation.

One document tested lacked adequate documentation to support a \$100 service charge paid to switch airline flights. The only documentation was an airline slip noting the \$100 fee. The employee was unable to substantiate why the fee was paid.

Without adequate procedures to ensure proper documentation for reimbursements, the risk the Department will pay unreasonable or unrelated business expenses increases.

We recommend the Department implement procedures to ensure adequate documentation is obtained for all travel related reimbursements.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

4. **Internal Control Over Travel Expenses** (Continued)

Expense Reimbursement Documents

Good internal control requires a detailed review of all expense reimbursement documents submitted for payment to ensure expenses claimed are reasonable and accurate. Expense reimbursements submitted for payment should be traced to all supporting documentation for verification of trips. Conference agendas should be reviewed with dates verified to the expense reimbursement document as well as noting if meals were provided by the conference attended. The Department's office procedure manual requires essential personal long distance calls to either be collect, charged to a third party, nonstate number, or a personal credit card.

We noted there was not an adequate review of expense reimbursement documents to ensure all expenses claimed were reasonable and necessary.

We noted the following exceptions when testing expense reimbursement documents:

- One employee was reimbursed \$18,759 in travel expenses for the fiscal year ended June 30, 2002 and \$11,022 for the period July 1, 2002 through January 8, 2003. Documentation to verify the reason for the employee's trips was not available nor were any of the individual trips verified by anyone at the Department. None of the employee's travel was reviewed in detail to ensure trips claimed were for State business only.
- Three expense reimbursement documents tested were not complete as to start and stop times and one also lacked the point of destination or city. In addition, the dates of the hotel invoice for one employee did not agree with the dates listed on the expense reimbursement document.
- Three of five expense reimbursement documents tested did not include conference agendas. We were unable to verify the trips were for actual State business, the dates of the conferences, or if the conferences attended provided meals.
- One employee tested was reimbursed \$17 for three personal phone calls made to home when out of town on State business. The Department does not allow reimbursement for personal phone calls to the employees home when out of town.

Without a proper review of expense reimbursement documents submitted, the risk of unreasonable and unnecessary expenses being paid increases.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

4. **Internal Control Over Travel Expenses** (Concluded)

We recommend the Department implement procedures to ensure an adequate review of all expense reimbursement documents submitted for payment. All expense documents submitted should contain adequate detail to support the purpose of the trip. Conference agendas should be verified to expense reimbursement documents to support hotel and meal expenses reimbursed. The documents submitted should be complete as to start and stop times as well as points of destination. As per the Department's policy, personal long distance phone calls should not be reimbursed.

5. **Salary Restriction**

2001 Neb. Laws LB 692A, Section 2, states, "total expenditures for permanent and temporary salaries and per diems from funds appropriated in this section shall not exceed \$54,000 for FY2001-02." The Nebraska Health Care Cash Fund – Fund 2264, a common fund with the Health and Human Services System received a \$75,000 appropriation for the purpose of one attorney's salary and expenses to enforce the Tobacco Master Settlement Agreement. As per the Legislative Bill the salary should not have exceeded the \$54,000 restriction.

The salary paid to the attorney during the fiscal year ended June 30, 2002, was \$59,868, exceeding the specific restriction by \$5,868.

We recommend the Department implement procedures to ensure specific legislative restrictions are followed.

6. **State Vehicle Usage**

Good internal control requires procedures to ensure miles driven in State vehicles are for official State business only and are reasonable and necessary.

The Department leased two "pool" cars on an annual basis from the State's motor pool. A receptionist at one of the Department's locations signed the monthly vehicle logs but did not review the logs in detail to ensure the miles driven were accurate and complete. A monthly review was performed by the Office Manager to ensure the amount billed agreed in total with the logs. An individual sampling of trips was not performed at any time to ensure employees were only traveling on State business. The two leased cars were traveling in excess of 1,000 miles per month.

Without a proper documented review of mileage logs the risk of improper usage of State vehicles is increased.

NEBRASKA DEPARTMENT OF JUSTICE

COMMENTS AND RECOMMENDATIONS

6. **State Vehicle Usage** (Concluded)

We recommend the Department implement procedures to ensure miles driven in State vehicles are only for official State business. A documented supervisory review of monthly vehicle logs should be completed.

7. **Budget Monitoring**

Good fiscal policy requires agencies to monitor their budgets at a level prescribed by the Legislature to include fund type, within a program, and within the agency. Additionally, the Department of Administrative Services (DAS) – Budget Division encourages all State agencies to use the Budget Status Report to monitor their budgets.

We noted the Department monitored its budget for one program in total. The total appropriations for the program were compared to the total disbursements. This was a report comment in audits for fiscal years 2000, 1998, and 1997.

Without a detailed review of budget amounts, significant deviations from the budget at the fund or object of expenditure level may not be easily determined. Additionally, DAS Budget Division cannot review the Department's disbursements compared with the budget.

We recommend the Department implement procedures to monitor its budget on a more detailed level. The budget should be tracked at the program, fund, and object of expenditure levels.

8. **Title Fee Receipts**

Good internal control requires procedures to ensure all revenues due to the Department are received.

We noted the Department did not have procedures in place to ensure the amount of title fees received from the Department of Motor Vehicles (DMV) were accurate and complete. The Department is to receive \$.20 for each title issued. A total of \$120,289 was received for fiscal year 2002 and \$52,502 was received for the period July 1, 2002 through January 8, 2003. This was a comment in the audit for fiscal year 2000.

We recommend the Department implement procedures which ensure all revenues due to the Department are received. The number of motor vehicle titles issued should be compared to monies received.

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NEBRASKA DEPARTMENT OF JUSTICE

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Justice (Department), as of January 8, 2003, and for the period July 1, 2002 through January 8, 2003, and as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 our audit provides a reasonable basis for our opinions.

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

Also, as discussed in Note 1, the financial statements of the Nebraska Department of Justice, are intended to present the cash balances and changes in cash balances of only that portion of the governmental activities, each major fund, and the

aggregate remaining fund information of the State that is attributable to the transactions of the Nebraska Department of Justice. They do not purport to, and do not, present fairly the cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Nebraska as of January 8, 2003 and June 30, 2002, and its changes in cash balances for the period July 1, 2002 through January 8, 2003 and the fiscal year ended June 30, 2002 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities, each major fund, and the aggregate remaining fund information of the Nebraska Department of Justice, as of January 8, 2003 and June 30, 2002, and the respective changes in cash balances thereof for the period July 1, 2002 through January 8, 2003 and the fiscal year ended June 30, 2002 in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2003, on our consideration of the Nebraska Department of Justice's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor fund financial statements, schedule, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule, Management's Discussion and Analysis, and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Assistant Deputy Auditor

January 16, 2003

NEBRASKA DEPARTMENT OF JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Department of Justice's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Department of Justice for the fiscal year ended June 30, 2002. Please read it in conjunction with the Department's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Department of Justice's basic financial statements. The Department's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Department's overall financial status. Over time, increases or decreases in the Department's net assets are one indicator of whether its financial health is improving or deteriorating. The Department's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Department. Nonfinancial factors also need to be considered to assess the overall health of the Department. Agency-wide financial statements divide the Department into three kinds of activities:

Governmental activities – The Department's basic services are included here. These activities are generally financed through taxes, charges for services, and Federal grants.

Business-type activities – Activities financed by fees charged to external parties for goods or services would be included here. The Department had no business-type activities for fiscal year ended June 30, 2002.

Component units – No component units for the Department were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Department, reporting the Department's operations in more detail than the agency-wide statements by providing information about the Department's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Department currently has no proprietary funds.

NEBRASKA DEPARTMENT OF JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiduciary fund statements provide information about financial relationships in which the Department acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as a schedule of disbursements. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Department of Justice's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Department (current assets resulting from cash basis transactions) increased 15% percent.

NEBRASKA DEPARTMENT OF JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

	Governmental Activities		% Change
	2002	2001	
Restricted	\$ 49,464	\$ 72,291	-32%
Unrestricted	74,647	35,802	108%
Total Net Assets	\$ 124,111	\$ 108,093	15%

Governmental Activities

Receipts for the Department's governmental activities increased 4% percent, while expenses increased 6% percent.

ENTITIES CHANGES IN NET ASSETS

	Governmental Activities		% Change
	2002	2001	
RECEIPTS:			
Program Receipts:			
Charges for Services	\$ 644,384	\$ 541,690	19%
Operating Grants & Contributions	248,000	246,584	1%
General Receipts:			
Appropriations	3,797,664	3,701,707	3%
Investment Interest	4,650	6,168	-25%
Total Receipts	4,694,698	4,496,149	4%
DISBURSEMENTS:			
General Government	4,676,123	4,500,817	4%
Health and Social Services	75,000	-	100%
Total Disbursements	4,751,123	4,500,817	6%
Excess (Deficiency) before Other Financing Sources and Uses			
	(56,425)	(4,668)	-1,109%
OTHER FINANCING SOURCES & USES			
	72,443	1,038	6,879%
Increase (Decrease) in Net Assets	16,018	(3,630)	541%
Beginning Net Assets July 1	108,093	111,723	-3%
Ending Net Assets June 30	\$ 124,111	\$ 108,093	15%

NEBRASKA DEPARTMENT OF JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Disbursements under the Health and Social Services function increased due to Neb. Rev. Stat. Section 71-7611.07 R.S.Supp., 2002. This statute appropriated \$75,000 for fiscal year 2002 for the salary of one attorney to enforce the Tobacco Master Settlement Agreement.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the Nebraska Department of Justice uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

Justice Federal Fund 4111

Beginning Fund Balance July 1, 2001	Ending Fund Balance June 30, 2002	\$ Change	% Change
\$42,517	\$18,365	\$ (24,152)	132%

The fund balance for the Justice Federal Fund decreased during the fiscal year by \$24,152. This was largely due to an increase in personal services expense of \$48,239.

Justice Revolving Fund 5111

Beginning Fund Balance July 1, 2001	Ending Fund Balance June 30, 2002	\$ Change	% Change
\$19,652	\$57,735	\$38,083	66%

The Justice Revolving Fund balance increased during fiscal year 2002. The increase was due to an increase in the Program revenue, Charges for Services. Charges for Services revenue increased \$91,690 while disbursements only increased by \$35,230.

GENERAL FUND BUDGETARY HIGHLIGHTS

No significant differences were noted between the original and final budget amounts, or between final budget amounts and actual budget results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Department of Justice.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 January 8, 2003

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 193,696
Petty Cash	300
Deposit with Vendors	<u>1,305</u>
Total Assets	<u><u>\$ 195,301</u></u>
Net Assets	
Restricted for:	
Investigation and Prosecution of Odometer and Motor Vehicle Fraud and Motor Vehicle Licensing Violations	\$ 19,342
Drug and Major Crime Prosecution Unit Grant	28,432
Salaries and Related Expenses to Provide Specific Legal Services	94,868
Enforcement of Tobacco Sales Statutes	35,414
Unrestricted	<u>17,245</u>
Total Net Assets	<u><u>\$ 195,301</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF NET ASSETS ARISING FROM CASH TRANSACTIONS
 June 30, 2002

	GOVERNMENTAL ACTIVITIES TOTAL (Memorandum Only)
Assets	
Cash in State Treasury	\$ 122,506
Petty Cash	300
Deposit with Vendors	1,305
Total Assets	\$ 124,111
Net Assets	
Restricted for:	
Investigation and Prosecution of Odometer and Motor Vehicle Fraud and Motor Vehicle Licensing Violations	\$ 31,099
Drug and Major Crime Prosecution Unit Grant	18,365
Enforcement of Tobacco Sales Statutes	57,735
Unrestricted	16,912
Total Net Assets	\$ 124,111

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF ACTIVITIES - CASH BASIS
For the Period July 1, 2002 through January 8, 2003

	Governmental Activities TOTAL (Memorandum Only)	<u>FUNCTION</u>	
		<u>General Government</u>	<u>Health and Social Services</u>
Disbursements:			
Personal Services	\$ 1,973,332	\$ 1,933,746	\$ 39,586
Operating	328,762	328,762	-
Travel	45,307	45,307	-
Capital Asset Purchases	1,536	1,536	-
Total Disbursements	<u>2,348,937</u>	<u>2,309,351</u>	<u>39,586</u>
Program Receipts:			
Charges for Services	338,623	338,623	-
Operating Grants & Contributions	56,000	56,000	-
Net Program Receipts (Disbursements)	<u>(1,954,314)</u>	<u>(1,914,728)</u>	<u>(39,586)</u>
General Receipts and Other Financing Sources & Uses:			
Appropriations	1,949,238		
Unrestricted Investment Interest	2,368		
Other Financing Sources & Uses	73,898		
Total General Receipts and Other Financing Sources & Uses	<u>2,025,504</u>		
Change in Net Assets	71,190		
Net Assets July 1, 2002	<u>124,111</u>		
Net Assets January 8, 2003	<u><u>\$ 195,301</u></u>		

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	Governmental Activities TOTAL (Memorandum Only)	FUNCTION	
		General Government	Health and Social Services
Disbursements:			
Personal Services	\$ 3,943,482	\$ 3,871,351	\$ 72,131
Operating	707,145	705,262	1,883
Travel	81,237	80,251	986
Capital Asset Purchases	19,259	19,259	-
Total Disbursements	4,751,123	4,676,123	75,000
 Program Receipts:			
Charges for Services	644,384	644,384	-
Operating Grants & Contributions	248,000	248,000	-
Net Program Receipts (Disbursements)	(3,858,739)	(3,783,739)	(75,000)
 General Receipts and Other Financing Sources & Uses:			
Appropriations	3,797,664		
Unrestricted Investment Interest	4,650		
Other Financing Sources & Uses	72,443		
Total General Receipts and Other Financing Sources & Uses	3,874,757		
Change in Net Assets	16,018		
Net Assets July 1, 2001	108,093		
Net Assets June 30, 2002	\$ 124,111		

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
January 8, 2003

	Major Funds					Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Odometer Fraud Fund 2111	Nebraska Health Care Fund 2264	Justice Federal Fund 4111	Justice Revolving Fund 5111	Report and Opinions Fund 2112	
Assets							
Cash in State Treasury	\$ -	\$ 19,323	\$ 35,414	\$ 28,432	\$ 94,868	\$ 15,659	\$ 193,696
Petty Cash	300	-	-	-	-	-	300
Deposit with Vendors	1,286	19	-	-	-	-	1,305
Total Assets	\$ 1,586	\$ 19,342	\$ 35,414	\$ 28,432	\$ 94,868	\$ 15,659	\$ 195,301
Fund Balances							
Reserved for:							
Postage	\$ 1,286	\$ 19	\$ -	\$ -	\$ -	\$ -	\$ 1,305
Unreserved	300	19,323	35,414	28,432	94,868	15,659	193,996
Total Fund Balances	\$ 1,586	\$ 19,342	\$ 35,414	\$ 28,432	\$ 94,868	\$ 15,659	\$ 195,301

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF ASSETS AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2002

	Major Funds					Total Governmental Funds (Memorandum Only)
	General Fund 1000	Odometer Fraud Fund 2111	Report and Opinions Fund 2112	Justice Federal Fund 4111	Justice Revolving Fund 5111	
Assets						
Cash in State Treasury	\$ -	\$ 31,080	\$ 15,326	\$ 18,365	\$ 57,735	\$ 122,506
Petty Cash	300	-	-	-	-	300
Deposit with Vendors	1,286	19	-	-	-	1,305
Total Assets	\$ 1,586	\$ 31,099	\$ 15,326	\$ 18,365	\$ 57,735	\$ 124,111
Fund Balances						
Reserved for:						
Postage	\$ 1,286	\$ 19	\$ -	\$ -	\$ -	\$ 1,305
Unreserved	300	31,080	15,326	18,365	57,735	122,806
Total Fund Balances	\$ 1,586	\$ 31,099	\$ 15,326	\$ 18,365	\$ 57,735	\$ 124,111

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Period July 1, 2002 through January 8, 2003

	Major Funds					Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Odometer Fraud Fund 2111	Nebraska Health Care Fund 2264	Justice Federal Fund 4111	Justice Revolving Fund 5111	Report and Opinions Fund 2112	
RECEIPTS:							
Appropriations	\$ 1,949,238	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,949,238
Federal Grants & Contracts	-	-	-	56,000	-	-	56,000
Sales & Charges	1,102	65,019	-	-	272,502	-	338,623
Miscellaneous:							
Investment Interest	-	632	-	-	1,403	333	2,368
TOTAL RECEIPTS	<u>1,950,340</u>	<u>65,651</u>	<u>-</u>	<u>56,000</u>	<u>273,905</u>	<u>333</u>	<u>2,346,229</u>
DISBURSEMENTS BY FUNCTION:							
General Government	1,949,238	77,408	-	45,933	236,772	-	2,309,351
Health and Social Services	-	-	39,586	-	-	-	39,586
TOTAL DISBURSEMENTS	<u>1,949,238</u>	<u>77,408</u>	<u>39,586</u>	<u>45,933</u>	<u>236,772</u>	<u>-</u>	<u>2,348,937</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>1,102</u>	<u>(11,757)</u>	<u>(39,586)</u>	<u>10,067</u>	<u>37,133</u>	<u>333</u>	<u>(2,708)</u>
OTHER FINANCING SOURCES (USES):							
Sales of Assets	139	-	-	-	-	-	139
Deposits to General Fund	(1,241)	-	-	-	-	-	(1,241)
Operating Transfers In	-	-	75,000	-	-	-	75,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,102)</u>	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,898</u>
Net Change in Fund Balances	-	(11,757)	35,414	10,067	37,133	333	71,190
FUND BALANCES, JULY 1, 2002	<u>1,586</u>	<u>31,099</u>	<u>-</u>	<u>18,365</u>	<u>57,735</u>	<u>15,326</u>	<u>124,111</u>
FUND BALANCES, JANUARY 8, 2003	<u>\$ 1,586</u>	<u>\$ 19,342</u>	<u>\$ 35,414</u>	<u>\$ 28,432</u>	<u>\$ 94,868</u>	<u>\$ 15,659</u>	<u>\$ 195,301</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2002

	Major Funds					Other Funds	Total Governmental Funds (Memorandum Only)
	General Fund 1000	Odometer Fraud Fund 2111	Report and Opinions Fund 2112	Justice Federal Fund 4111	Justice Revolving Fund 5111	Nebraska Health Care Fund 2264	
RECEIPTS:							
Appropriations	\$ 3,797,664	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,797,664
Federal Grants & Contracts	-	-	-	248,000	-	-	248,000
Sales & Charges	2,611	120,289	-	-	521,538	-	644,438
Miscellaneous:							
Investment Interest	-	1,356	762	-	2,532	-	4,650
Other Miscellaneous	(54)	-	-	-	-	-	(54)
TOTAL RECEIPTS	<u>3,800,221</u>	<u>121,645</u>	<u>762</u>	<u>248,000</u>	<u>524,070</u>	<u>-</u>	<u>4,694,698</u>
DISBURSEMENTS BY FUNCTION:							
General Government	3,797,664	120,320	-	272,152	485,987	-	4,676,123
Health and Social Services	-	-	-	-	-	75,000	75,000
TOTAL DISBURSEMENTS	<u>3,797,664</u>	<u>120,320</u>	<u>-</u>	<u>272,152</u>	<u>485,987</u>	<u>75,000</u>	<u>4,751,123</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>2,557</u>	<u>1,325</u>	<u>762</u>	<u>(24,152)</u>	<u>38,083</u>	<u>(75,000)</u>	<u>(56,425)</u>
OTHER FINANCING SOURCES (USES):							
Sales of Assets	1,870	-	-	-	-	-	1,870
Deposits to General Fund	(4,427)	-	-	-	-	-	(4,427)
Operating Transfers In	-	-	-	-	-	75,000	75,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,557)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>72,443</u>
Net Change in Fund Balances	-	1,325	762	(24,152)	38,083	-	16,018
FUND BALANCES, JULY 1, 2001	<u>1,586</u>	<u>29,774</u>	<u>14,564</u>	<u>42,517</u>	<u>19,652</u>	<u>-</u>	<u>108,093</u>
FUND BALANCES, JUNE 30, 2002	<u>\$ 1,586</u>	<u>\$ 31,099</u>	<u>\$ 15,326</u>	<u>\$ 18,365</u>	<u>\$ 57,735</u>	<u>\$ -</u>	<u>\$ 124,111</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUND

January 8, 2003

	<u>Agency Fund Court Ordered Settlements Fund 6111</u>
Assets	
Cash in State Treasury	\$ 1,079,455
Total Assets	<u>1,079,455</u>
Liabilities	
	<u>-</u>
Net Assets	
Held in trust for:	
Consumer Court Ordered Settlements and Anti-trust Funds	<u>1,079,455</u>
Total Net Assets	<u><u>\$ 1,079,455</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE
STATEMENT OF FIDUCIARY NET ASSETS
ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUND

June 30, 2002

	<u>Agency Fund Court Ordered Settlements Fund 6111</u>
Assets	
Cash in State Treasury	\$ 1,127,519
Total Assets	<u>1,127,519</u>
Liabilities	<u>-</u>
Net Assets	
Held in trust for:	
Consumer Court Ordered Settlements and Anti-trust Funds	<u>1,127,519</u>
Total Net Assets	<u><u>\$ 1,127,519</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

For the Period July 1, 2002 Through January 8, 2003

and

For the Fiscal Year Ended June 30, 2002

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Nebraska Department of Justice (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 is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

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

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Department, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Department, except for fiduciary activities. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Department reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Department reported the following general receipts: Appropriations, which are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including its fiduciary fund. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Department uses only governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

General Fund. This is the Department's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Odometer Fraud Cash Fund 2111. This fund is used to account for a twenty-cent fee collected on each certificate of title issued and subsequently remitted to the State Treasurer. The funds are credited to the Attorney General Odometer Fraud Cash Fund for the purpose of the investigation and prosecution of odometer and motor vehicle fraud and motor vehicle licensing violations.

Report and Opinions Cash Fund 2112. This fund is used to accumulate payments received for copies of the Report of the Attorney General and Opinions of the Attorney General. Money in the fund may be used for expenses incurred in publishing the Report of the Attorney General and Opinions. The Report and Opinions Cash Fund was only a major fund in fiscal year 2002.

Justice Federal Fund 4111. This fund is used to accumulate all federal funds made available by the federal government for programs relating to the prosecution of drug offenders in cooperative efforts with law enforcement personnel throughout the State.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Justice Revolving Fund 5111. The fund is used to administer funds received from other governmental agencies for the provision of legal services. Money in the fund shall be used to pay the salaries and expenses of Department staff.

Nebraska Health Care Fund 2264. This is a common fund with the Department of Health and Human Services System. An appropriation is made each year to fund the salary of one attorney to enforce the Tobacco Master Settlement Agreement.

The Department reports the following fiduciary fund:

Agency Fund – Court Ordered Settlements Fund 6111. This fund consists of court ordered settlements held in a trustee capacity.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Department are maintained and the Agency-wide financial statements were reported 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 Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide and fiduciary fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department, except the Justice Federal Fund 4111 were designated for investment during fiscal year 2002.

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

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

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. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide and fiduciary fund financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then the unrestricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

E. 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.

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 because 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 JUSTICE

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 Justice's 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. Prior to April 18, 2002, membership in the Plan was 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 employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

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 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%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$122,999 and the Department contributed \$191,878.

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

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

General Fund	
Beginning (Reappropriated) Balance July 1, 2001	\$ 52,319
New Appropriations	3,933,645
Total Appropriations	<u>3,985,964</u>
Disbursements	<u>(3,797,664)</u>
Ending (Appropriations) Balance June 30, 2002	<u>\$ 188,300</u>

6. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. **GASB 34 (Concluded)**

The Department implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Department's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Department were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Department.

7. **Agency Fund Activity**

Receipts and Disbursements for the Agency fund – Court Ordered Settlements – Fund 6111 were:

	July 1, 2002 to January 3, 2003	Fiscal Year 2002
Receipts	\$ 212,793	\$ 69,511
Disbursements	\$ 260,857	\$ 548,716

NEBRASKA DEPARTMENT OF JUSTICE
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended June 30, 2002

	<u>BUDGETED AMOUNTS</u>		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
11-Salary Attorney General	\$ 85,606	\$ 85,606	\$ 83,203	\$ 2,403
507-Interp & Application of Law	3,894,445	3,817,601	3,670,164	147,437
575- Byrne Grants	82,757	82,757	44,297	38,460
TOTAL DISBURSEMENTS	<u>\$ 4,062,808</u>	<u>\$ 3,985,964</u>	<u>\$ 3,797,664</u>	<u>\$ 188,300</u>

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF JUSTICE
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2002

Justice Revolving Fund 5111

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
	PROGRAM:			
507-Interp & Appl of Law	\$ 486,140	\$ 486,140	\$ 485,987	\$ 153
TOTAL DISBURSEMENTS	<u>\$ 486,140</u>	<u>\$ 486,140</u>	<u>\$ 485,987</u>	<u>\$ 153</u>

Justice Federal Fund 4111

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	
	PROGRAM:			
575-Byrne Grants	\$ 304,825	\$ 304,825	\$ 272,152	\$ 32,673
TOTAL DISBURSEMENTS	<u>\$ 304,825</u>	<u>\$ 304,825</u>	<u>\$ 272,152</u>	<u>\$ 32,673</u>

See Notes to Supplementary Information

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULES

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Department's legally adopted annual budget amount. The Department's budgetary comparison schedules include the general fund, the Justice Federal Fund 4111, and the Justice Revolving Fund 5111. A budgetary comparison could not be shown for the Odometer Fraud Fund 2111 and the Reports and Opinions Fund 2112 because the Legislature does not make appropriations at this level, nor do the records of the State provide this information.

GAAP also requires the budgetary comparison schedules to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

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. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the 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 approved appropriations 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. As a result, the budgetary comparison schedules only report total disbursements *by program*.

NEBRASKA DEPARTMENT OF JUSTICE

NOTES TO SUPPLEMENTARY INFORMATION

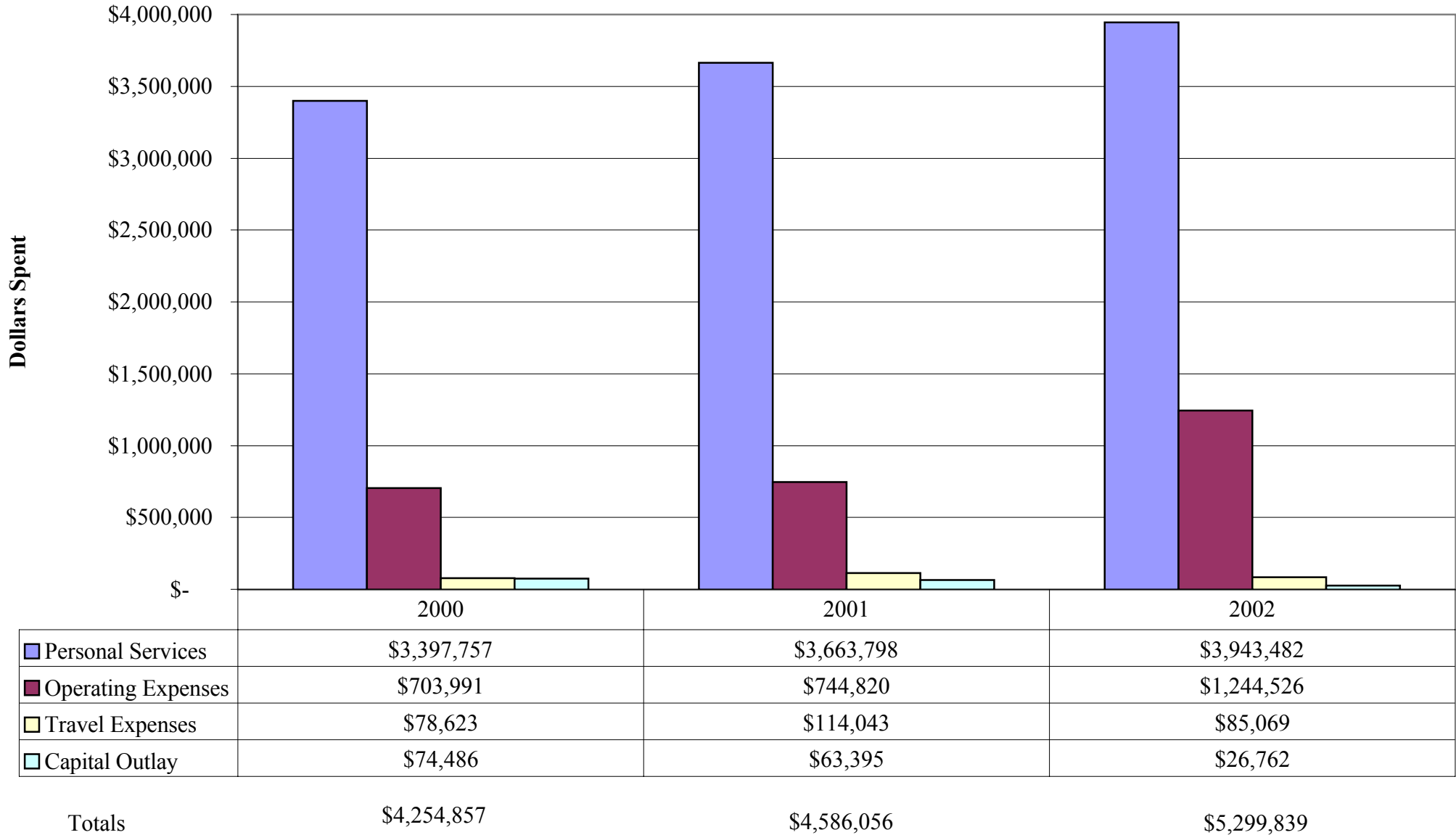
(Continued)

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

All State budgetary disbursements for the general fund, the Department's Justice Federal Fund and Justice Revolving Fund 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 objects 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 appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from the Department's Justice Federal Fund may be increased to the extent receipts of the fund exceed the original budget estimate.

Receipts are not budgeted. Therefore, here are no budgeted amounts shown on the Budgetary Comparison Schedule.

NEBRASKA DEPARTMENT OF JUSTICE
SCHEDULE OF DISBURSEMENTS BY FISCAL YEAR
 For the Fiscal Years Ended June 30, 2000 through June 30, 2002
 UNAUDITED



STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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

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We have audited the financial statements of the Nebraska Department of Justice as of January 8, 2003, and for the period July 1, 2002 through January 8, 2003, and as of and for the year ended June 30, 2002, and have issued our report thereon dated January 16, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Justice. We conducted our audit in accordance with 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 Justice's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Justice in the Comments Section of this report as Comment Number 4 (Internal Control Over Travel Expenses) and Comment Number 5 (Salary Restriction).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Justice's internal control over financial reporting in order to determine our auditing

procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Justice's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Comments Section of the report as Comment Number 2 (Internal Control Over Trust Fund), Comment Number 3 (Internal Controls), and Comment Number 8 (Title Fee Receipts).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comment Number 2 (Internal Control Over Trust Fund) and Comment Number 3 (Internal Controls) to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Justice in the Comments Section of the report as Comment Number 4 (Internal Control Over Travel Expenses), Comment Number 6 (State Vehicle Usage), Comment Number 7 (Budget Monitoring), and Comment Number 8 (Title Fee 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.

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

Assistant Deputy Auditor

January 16, 2003