

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

JULY 1, 2004 THROUGH JUNE 30, 2005

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on December 22, 2005

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	1
Organizational Chart	2
Comments Section	
Exit Conference	3
Summary of Comments	4 - 6
Comments and Recommendations	7 - 29
Financial Section	
Independent Accountant's Report	30 - 31
Schedule of Revenues, Expenditures, and Changes in Fund Balances	32
Notes to the Schedule	33 - 38
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	39 - 40
Statistical Section - (Unaudited)	41
Cornhusker State Industries Financial Schedules for the Fiscal Year Ended June 30, 2005	42 - 44
Federal Surplus Property Financial Schedules for the Fiscal Years Ended June 30, 2004 and 2005	45 - 47
Federal Surplus Property Misappropriated Funds and Revenue Deposits 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 Ended June 30, 2001 through 2005	48 49 - 57
Canteen Profits for the Fiscal Years Ended June 30, 2002 through 2005	58 - 59
Canteen Income Statement Summary for the Fiscal Year Ended June 30, 2005	60

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

BACKGROUND

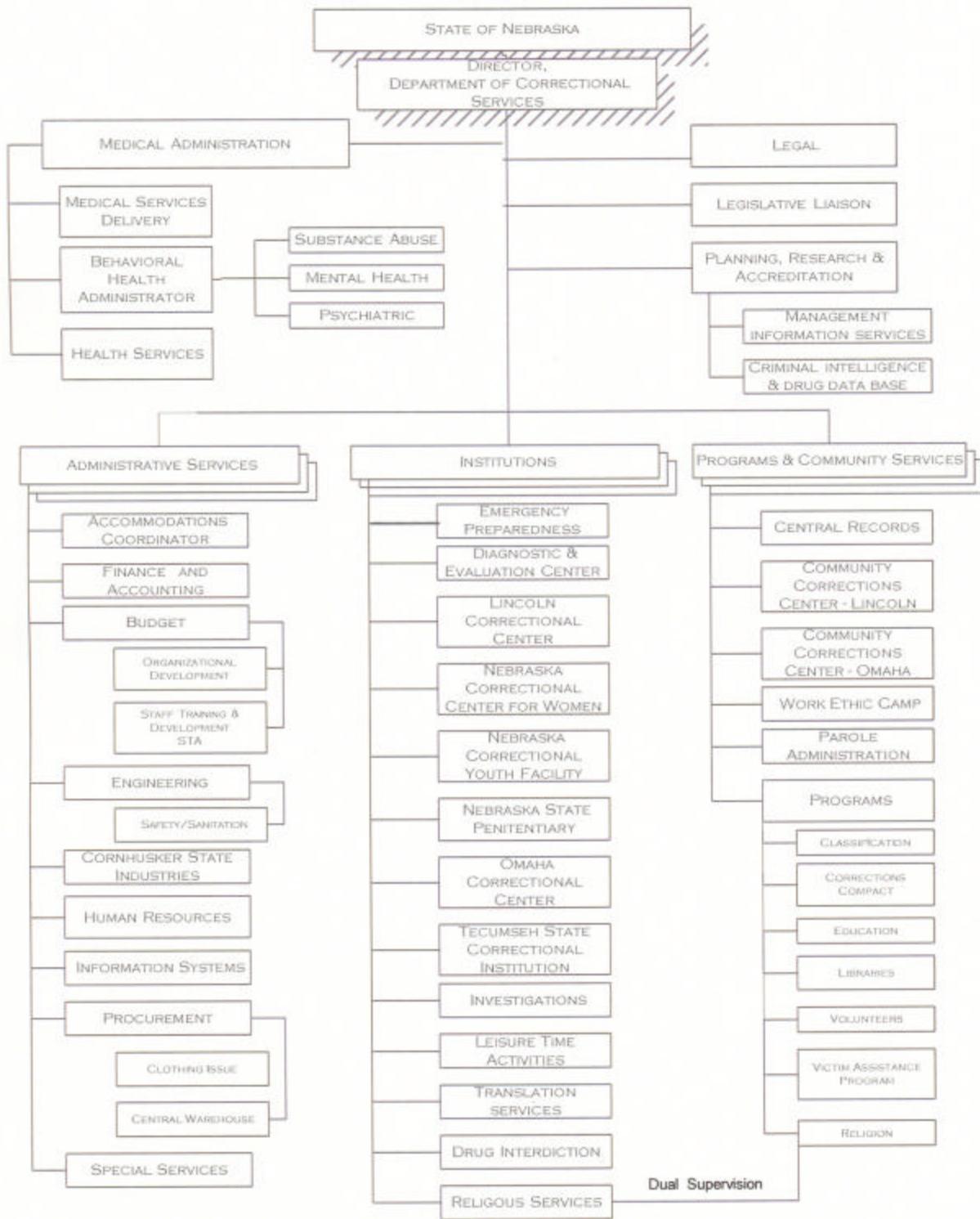
The Department of Correctional Services (Department) was established as a separate agency of State government in 1973. The Department has responsibility for custody, control, study, correctional treatment, training, and rehabilitation of persons committed to it so they may be prepared for lawful and 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 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 in Tecumseh. The Department also supervises adults on parole, administers parole services, and operates Cornhusker State Industries and Federal Surplus Property. The Hastings Correctional Center was operated until June 2005.

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

EXIT CONFERENCE

An exit conference was held November 23, 2005 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Correctional Services were:

NAME	TITLE
Bob Houston	Director
Inga Hookstra	Controller
Robin Spindler	Assistant Director
Frank Hopkins	Assistant Director
Jan Lehmkuhl	Material Administrator
Marian Layman	Human Resources Administrator
Larry Wayne	Assistant Director
John McGovern	Administrator-CSI

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

During our examination 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.

Disbursements

1. ***Documents Not Received:*** Documents requested by auditors were not received in a timely manner or were never received at all. One document and two miscellaneous receipts requested were not received.
2. ***NIS Batch Management:*** During review of NIS Batch Management, we noted two individuals with the ability to prepare, post, and approve their own documents during the fiscal year ended June 30, 2005. On May 17, 2005, auditors verified this had been corrected.
3. ***Medical Service Payments:*** The Department was not performing a review of the medical billing to ensure all services rendered were to persons who were incarcerated at the time of treatment, and that expenses were reasonable based on inmate medical history.
4. ***Travel Disbursements:*** Reimbursements for travel were not in compliance with requirements or were not reasonable.

Payroll

5. ***Segregation of Duties Over Payroll:*** The review of the final payroll register is not adequate to detect errors or irregularities.
6. ***Payroll Not Calculated Correctly:*** Two of thirty employees tested were not properly compensated for actual hours worked at the correct pay rate. One employee had a salary change during a pay period and payroll did not calculate correctly. Another employee was paid for 2.25 hours when the timesheet showed the employee was clocked in for 2 hours. There was no explanation as to why this occurred.
7. ***Timesheets Not Maintained:*** Two of thirty employees tested did not maintain timesheets or other documentation to record at least 40 hours of labor was worked each week.
8. ***Overtime Rate Calculation:*** Shift differential is not taken into consideration when the overtime rate is calculated.
9. ***Procedures for Termination:*** Eight of sixteen terminated employees tested were not paid correctly and four did not have adequate documentation.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

(Continued)

10. ***Leave Usage and Accruals:*** Four of thirty employees tested did not have adequate support for adjustments made to leave balances.

Receipts

11. ***Controls Over Receipts:*** Checks were not endorsed immediately, the same person opens the mail and receipts money, and the reconciliation of deposits to the General Ledger was not documented or performed on a regular basis.
12. ***Usage of Pre-Numbered Receipts:*** During testing of miscellaneous receipts and inmate trust receipts, we noted pre-numbered miscellaneous receipt books were used out of order or pre-numbered receipts were not being used at all.
13. ***Depositing of Receipts:*** Receipts were not timely deposited in accordance with Statute.
14. ***NIS Security - Accounts Receivable:*** During review of NIS Security Access for Accounts Receivable, we noted five individuals with AR Code 36. This code is only for agencies that are not able to segregate duties.
15. ***Accounts Receivable Review:*** During testing of Cornhusker State Industries (CSI) Accounts Receivable it was noted there are outstanding accounts dating back to 1994 and there are no documented procedures in place to review, collect, or write-off outstanding balances.
16. ***Petty Cash Fund:*** Petty Cash Fund Application from DAS State Accounting authorized a temporary increase from \$500 to \$6,000 from November 15, 1999 to January 15, 2000. The Department is not in compliance with the amount approved for this petty cash fund.

Fixed Assets and Inventories

17. ***Controls Over Fixed Assets:*** There was not an adequate segregation of duties over fixed assets and the Fixed Asset Listing was not accurate.
18. ***CSI Rate Documentation Not Received:*** Requested supporting documentation for the establishment of rates charged by CSI was not received.
19. ***CSI Inventory Counts:*** The inventory counted by our staff did not agree to CSI records for 9 of 16 items selected.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

SUMMARY OF COMMENTS

(Continued)

Inmate Trusts

20. **Documentation of Maintenance Rates:** There was no documentation to support the amount of the maintenance fees assessed to inmates.
21. **Counterfeit Checks:** Counterfeit checks totaling \$10,336 were discovered during the May 2001 Inmate Trust Fund bank reconciliation. These checks still remain as an adjustment on the Inmate Trust Fund reconciliation as of June 30, 2005.
22. **HDC Inmate Trust Fund:** Transactions in the Inmate Trust Fund for detainees from Hastings Detention Center were not entered into NIS in a timely manner.
23. **Timely Transfer of Canteen Profits:** The profits from fiscal year 2002 and 2003 were not transferred to the Inmate Welfare Fund until fiscal year 2005.

Nebraska Information System

24. **Reconciliation of Bank Records to the Nebraska Information System:** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

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

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. 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 examination.

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

COMMENTS AND RECOMMENDATIONS

DISBURSEMENTS

1. Documents Not Received

Neb. Rev. Stat. Section 84-304 R.S.Supp., 2004 states, "It shall be the duty of the Auditor of Public Accounts: . . . (3) To examine or cause to be examined, at such time as he or she shall determine, books, accounts, vouchers, records, and expenditures of all state officers, state bureaus, state boards, state commissioners, the state library, societies and associations supported by the state, state institutions . . ."

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states, "In accordance with general law, and with such rules and regulations as shall be promulgated by the administrator and the board as provided in section 84-1216, such head of any state agency, department, board, council, legislative or judicial branch, and political subdivision shall: Establish and maintain an active, continuing program for the efficient and economical management of the record-keeping activities of the agency."

Neb. Rev. Stat. Section 84-1207.01 R.R.S. 1999 states, "In addition to the duties enumerated in section 84-1207, each state agency head shall designate a records officer from the management or professional level who shall be responsible for the overall coordination of records management activities within the agency."

Good internal control requires an agency maintain a level of organization necessary to locate records.

Documents requested by auditors were not received in a timely manner or were never received at all. The auditor requested documents from the Department on June 2, 2005 and, as of October 21, 2005, had not received all documents requested. Additional documents requested during October 2005 were not received. One document and two miscellaneous receipts requested were not received.

When documents requested are not provided or are not able to be located, there is an increased risk of misappropriation of State assets.

We recommend the Department establish policies and procedures to ensure all documents are properly maintained. We also recommend implementing a system of organization that provides for the efficient location of necessary documentation.

Department's Response: We agree that it is important to maintain documents properly. We believe these documents to be misfiled and we have been simply unable to locate the documents. Based on the segregation of duties in Accounting, we do not believe that any misappropriation of State assets occurred.

COMMENTS AND RECOMMENDATIONS

(Continued)

DISBURSEMENTS

2. NIS Batch Management

Good internal control requires an adequate segregation of duties so no one person can prepare, post, and approve their own documents. The Nebraska Information System (NIS) is the official accounting system of the State.

During review of NIS Batch Management, we noted two individuals with the ability to prepare, post, and approve their own documents during the fiscal year ended June 30, 2005. On May 17, 2005, auditors verified this had been corrected on NIS and these individuals no longer had the ability to prepare, post, and approve their own documents.

Without an adequate segregation of duties there is an increased risk of possible misappropriation of State assets.

We recommend the Department maintain an adequate segregation of duties and implement policies to review NIS Batch Management to ensure no users are able to prepare, post, and approve their own documents.

Department's Response: We agree that adequate segregation of duties should occur. Accounting requires all staff approving documents to initial the document. With this documentation and tracking in NIS for determining the person who entered and posted a document we are able to identify all three people involved in a transaction. As noted by the auditors, this was corrected by the Department.

3. Medical Service Payments

Good internal control requires data reconciliation which includes comparison of separate sets of data to one another in order to ensure propriety and reasonableness.

During the fiscal year ended June 30, 2005, the Department expended \$4,452,083 for inmate medical treatment received outside of Department facilities. The Department contracted with an outside provider to process medical bills for the treatment of inmates. We noted the Department was not performing a review of the medical billing to ensure all services rendered were to persons who were incarcerated at the time of treatment, and that expenses were reasonable based on inmate medical history. Additionally, the Department did not have procedures in place to ensure fraudulent claims were not being made by medical providers. A similar comment was noted in the prior audit report.

COMMENTS AND RECOMMENDATIONS

(Continued)

DISBURSEMENTS

3. Medical Service Payments (Concluded)

Lack of review of medical service payments increases the risk of misappropriation of State funds.

We recommend the Department implement procedures to ensure medical payments are reasonable and proper. Due to the quantity of patients being treated, a sampling procedure could be implemented.

Department's Response: We have already implemented a process to do a monthly statistical sampling of transactions. Accounting selects the transactions and obtains the vendor information from the outside provider. The listing of transactions is then submitted to Medical Administration for verification the service was provided. Accounting reviews Medical Administration's response, seeks clarification or additional information as needed and maintains the documentation.

4. Travel Disbursements

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 regarding travel reimbursements states, "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved . . . the necessity and purpose of such travel shall be shown on such request . . . The statement of expenses shall be duly verified and supported by receipts . . . The approval to attend a function, conference, or hearing shall be obtained from the director of the department, agency, commission, council, committee, or board prior to an individual's attendance at such function, conference, or hearing."

Per State Accounting Manual Section AM-005 "it is State Accounting policy that a person generally must be more than 60 miles from his or her workplace in order to be eligible for lodging." There may be reasons to pay for lodging for distances less than 60 miles; however, in those instances the reason must be clearly stated on the disbursement document.

Good internal control requires procedures to ensure all reimbursements are reasonable and necessary expenses and that adequate supporting documentation be maintained.

We tested 23 travel expense documents and noted the following:

- The Department paid \$352 for meals, conference fees, and lodging for eight non-State employees.

COMMENTS AND RECOMMENDATIONS

(Continued)

DISBURSEMENTS

4. Travel Disbursements (Continued)

- One employee had a mileage reimbursement which appeared excessive. The employee traveled round trip from Omaha to Wahoo and claimed 107 miles, map mileage is 80.
- One document included mileage reimbursement for travel to the same destinations, but mileage varied from day to day. There was no explanation included as a reason for the variances. Per Department staff, there is no detailed review for reasonableness of mileage.
- Three employees were reimbursed for meals provided by a conference. A total of \$56 was reimbursed.
- Three employees submitted expense reimbursement documents that were not complete. One employee did not include a starting location for their travel; a second employee included no locations; and the third employee did not state a purpose for travel.
- Two employees stayed in a hotel when their headquarter city was less than 60 miles from the conference. The disbursement document did not state the reason the lodging was necessary. The total amount of excess was \$92.
- One document exceeded Federal guidelines for lodging and there was no documentation to support the reason. The total amount of excess was \$24.
- Lodging of \$46 per person was paid for a conference held in Crete. However, two employees for which lodging was paid, did not stay in Crete, but were reimbursed mileage of \$234 to travel back and forth to Crete from Lincoln and Omaha for two days.

Noncompliance with State guidelines increases the risk of possible misuse of funds. A similar finding was noted in the prior audit.

We recommend the Department implement procedures to ensure disbursements are reasonable, necessary, and complete in accordance with State guidelines.

Department's Response: In each of the cases cited, we believe that the expenses approved were appropriate and that necessary approvals existed. The Department will review documentation procedures on expense reimbursements to assure that appropriate documentation is noted on or filed with the documents.

COMMENTS AND RECOMMENDATIONS

(Continued)

DISBURSEMENTS

4. Travel Disbursements (Concluded)

Department's Response, Concluded:

Additionally, the expenses paid by DCS for non-state employees related to individuals participating in our Vision Conference, which was approved by the Director. We believe this was an appropriate expense.

PAYROLL

5. Segregation of Duties Over Payroll

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 controls includes an adequate segregation of duties and review of payroll records to ensure the pre-payroll register agrees with the final payroll register.

The same two individuals (Central Office HR Personnel Managers) are responsible for reviewing the pre-payroll register, processing the final payroll report, notifying DAS payroll is ready to post, and comparing the final payroll register to the pre-payroll register. HR assistants at each facility enter time and process the pre-payroll. The comparison of the final payroll register with the pre-payroll register is reviewed by the Central Office HR Personnel Managers to ensure each employee has at least 80 hours of time recorded. This review is not adequate to detect errors or irregularities.

Without adequate segregation of duties, an individual has the opportunity to perpetrate and conceal fraud. There is an increased risk of loss or misuse of State funds.

We recommend the Department implement procedures to ensure a proper segregation of duties exists or develop controls to compensate for the lack of segregation of duties.

Department's Response: We agree that segregation of duties is important. The Human Resources and Accounting Sections are in the process of reviewing and improving the internal controls over payroll with the assistance of State Accounting. Any revised internal controls will be piloted in Central Office and then implemented on a Department wide basis. Complete implementation is anticipated no later than February 2006.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL

6. Payroll Not Calculated Correctly

Good internal control requires payroll be reviewed to ensure the amounts paid to employees are correctly calculated and for actual hours worked.

During our testing of payroll, we noted two of thirty employees tested were not properly compensated for actual hours worked at the correct pay rate. One employee had a salary change during a pay period, and payroll did not calculate correctly. The employee was overpaid \$33, and there was no adjustment made to the employee's wages to correct the error. Another employee was paid for 2.25 hours when the timesheet showed the employee was clocked in for 2 hours. KRONOS, the Department's timekeeping system, which calculates the hours worked, appeared to have rounded back the time the employee clocked in by an additional .25 hours. There was no explanation as to why this occurred.

Without adequate controls in place, there is an increased risk of loss or misuse of State funds. A similar finding was noted in the prior audit report.

We recommend the Department implement policies and procedures to ensure payroll is correctly calculated or wage adjustments are properly performed.

Department's Response: These specific situations have been reviewed by the Department and where appropriate corrective action will be taken. Included in our review of payroll internal controls is the addition of sampling of each biweekly payroll by individuals not involved in the processing of the payroll. Additionally, discussion regarding appropriate procedures for ensuring accuracy of payroll will be discussed at future Agency Human Resource Meetings.

7. Timesheets Not Maintained

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees . . . shall render not less than forty hours of labor each week . . ."

We noted two of thirty employees tested did not maintain timesheets or other documentation to record at least forty hours of labor was worked each week. Both employees are exempt employees and do not complete timesheets. Leave is recorded on leave slips and input by the HR assistants.

Without adequate documentation, there is an increased risk for noncompliance with statute.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL

7. Timesheets Not Maintained (Concluded)

We recommend policies be in place for all employees to maintain timesheets or documentation to record forty hours of labor was worked each week.

Department's Response: Exception reporting for leave is more appropriate for those managerial employees not eligible for overtime. Department policy continues to require leave be approved by the employee's supervisor. We feel that exception reporting does not place us in violation of the state statute. Generally, exempt employees often work in excess of 40 hours.

8. Overtime Rate Calculation

Fair Labor Standards Act, Section 7(g)(2) and (3), states "the amount paid . . . in the case of an employee performing two or more kinds of work for which different hourly rates or piece rates have been established, is computed at rates not less than one and one-half times such bona fide rates applicable to the same work when performed during non-overtime hours; or is computed at a rate no less than one and one-half times the rate established by such agreement or understanding as the basic rate to be used in computing overtime compensation thereunder . . ."

Employees who work second or third shifts receive \$.60 in shift differential for hours worked. If any other employees work fifty percent or more of a shift between the hours of 6:00 pm and 6:00 am, they receive \$.60 shift differential for all hours worked that shift. When a second or third shift employee works overtime, their overtime rate is the \$.60 shift differential plus one and one-half times their regular rate. Shift differential is not taken into consideration when the overtime rate is calculated.

Compensation for overtime hours is not in accordance with the Fair Labor Standards Act.

We recommend the Department develop policies and procedures for calculating overtime rates to ensure they are in compliance with the Fair Labor Standards Act.

Department's Response: The Department agrees with the recommendation. We will proceed with the necessary programming changes and once fully tested announce an implementation date to change the compensation overtime rate calculation.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL

9. Procedures for Termination

Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states, "Each employee, upon retirement, dismissal, or voluntary separation from state employment, shall be paid for unused accumulated vacation leave."

Neb. Rev. Stat. Section 81-1325 R.R.S. 1999 states, "Each employee . . . upon termination of employment with the state by reason of retirement or voluntary resignation in lieu of retirement, be entitled to a one-time payment of one-fourth of his or her accumulated unused sick leave, with the rate of payment based upon his or her regular pay at the time of termination or retirement."

Neb. Rev. Stat. Section 84-1307(2) R.S.Supp., 2004 states, "All permanent full-time employees who have twelve continuous months of service shall begin participation in the retirement system . . . An employee who exercises the option to begin participation in the retirement system pursuant to this section shall remain in the retirement system until his or her termination of employment or retirement." The State Accounting Manual also states, "if the employee is enrolled in a State retirement plan at the time of retirement, any payment made for unpaid wages, vacation pay, and accumulated sick leave is subject to retirement withholding."

Neb. Rev. Stat. Section 81-1320 R.R.S. 1999 provides a schedule of sick leave earnings and Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 provides a schedule of vacation leave earnings for permanent employees. Neb. Rev. Stat. Section 81-1320 R.S.Supp., 2004 states, "Permanent employees of the State of Nebraska shall be entitled to sick leave with full pay . . . provided, that employees who are regularly employed less than forty hours a week shall be entitled to sick leave proportionate to their regular workweek." Good internal control requires leave hours to be accrued based on actual hours worked and that no leave hours be accrued after termination.

During our testing of 16 terminations, we noted the following:

- Four terminated employees tested were not paid the correct amount of accrued vacation leave. One employee was underpaid by 7.7 hours or \$148, and one employee was underpaid 2 hours or \$24. Another employee had a negative sick leave balance of 3.7 hours, which should have been deducted from the payoff amount, but was added to vacation leave balance in error. The employee was overpaid 7.4 hours of vacation leave or \$89. The fourth employee had a negative comp balance of 1.62 hours which should have been deducted from the payoff amount and was not. The employee was overpaid 1.62 hours or \$32.
- One terminated employees tested was not correctly paid one-fourth of their sick leave accrued. An additional 15.62 hours or \$301 was overpaid to the employee. This employee was also underpaid 7.7 hours of vacation leave as noted above.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL

9. Procedures for Termination (Concluded)

- Three terminated employees tested did not have retirement properly withheld from their final pay. Employee withholdings were short \$63, \$48, and \$174.
- Two terminated employees tested did not have their leave earnings adjusted on NIS to reflect correct earnings based on hours worked in their final work period. One employee's sick and vacation leave were both overstated by 1.85 hours. Another employee's sick leave was overstated by 5.54 hours and vacation leave was overstated by 4.93 hours. These two employees were also noted above.
- Three terminated employees with vacation balances tested did not have their final vacation paid properly. One employee was not paid their accrued vacation balance upon termination of 12.51 hours; the employee was underpaid \$151. One employee had a comp balance of negative 8 hours which was to be deducted from the vacation payoff amount; however, only 4.45 hours were deducted from the final payoff. The employee still has a negative 3.35 hours of comp time; and the employee was overpaid \$46. One employee was overpaid for 23.61 hours of vacation for a total of \$354.
- Four terminated employees with vacation balances tested did not have documentation to determine whether the balances were correct and should have been paid or whether the balances were incorrect and NIS should be adjusted.

With a lack of internal controls, there is an increased risk of loss or misuse of State funds. Without adequate procedures over terminations, there is a risk that retirement is not properly withheld and the State share is not correctly matched. There is also a risk that vacation and sick leave payoff amounts are not properly paid to employees and without final earnings being adjusted, there is a risk the improper balance on NIS will be available to the employee if they return to employment with the State. A similar finding was noted in the prior audit report.

We recommend the Department implement procedures to ensure leave balances are correctly stated on NIS and correct amounts are paid. We further recommend final payments made to employees be reviewed to verify retirement was properly withheld from all wages paid.

Department's Response: The Department has reviewed our procedures for terminated employees. A new checklist has been created for agency wide use and will be implemented no later than February 2006.

COMMENTS AND RECOMMENDATIONS

(Continued)

PAYROLL

10. Leave Usage and Accruals

Title 273 NAC 11-002 requires each agency maintain certain personnel records including individual vacation and sick leave records. The Nebraska Information System (NIS) is the official accounting system for the State of Nebraska and records employee leave usage and accrual. Good internal control requires records of leave usage, accruals, and balances to be accurately maintained in the accounting system and support for adjustments to leave balances be documented in the personnel file.

We noted four of thirty employees tested did not have adequate support for adjustments made to leave balances. One employee had an additional 7.6 hours of sick leave added to their beginning 2004 NIS balance. One employee had an additional 9.25 hours of sick leave added to their beginning 2004 NIS balance. One employee had an additional 2 hours of sick leave added to their beginning 2003 NIS balance. One employee had an adjustment to their beginning 2003 balance. The ending NEIS sick leave balance was reduced by 16.55 hours when it was transferred into NIS.

Without adequate documentation to support adjustments made to leave balances, there is a risk the leave balances are not correctly stated on NIS, there is also an increased risk of improper payments to employees.

We recommend all Department employee leave earnings, usage, and balances be maintained on NIS for efficient, accurate, and complete reporting of leave transactions. We further recommend documentation of adjustments made to leave balances be supported in personnel files.

Department's Response: We agree that NIS is the official record for all leave earnings, usage, and balances. Documentation procedures for leave balance adjustments (ongoing and year-end) will be reviewed and discussed at an Agency Human Resource meeting.

RECEIPTS

11. Controls Over Receipts

Good internal control requires a segregation of duties to safeguard assets including a reconciliation of deposits be performed on a regular basis and properly documented for review. Good internal control also requires all checks and money orders be endorsed for deposit only to the State Treasury upon opening.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

11. Controls Over Receipts (Continued)

We noted the following:

- During observations of mailroom procedures at facilities, we noted checks and money orders were not being endorsed upon opening. At Tecumseh State Correctional Institute (TSCI) and Omaha Correctional Center (OCC) it was observed that checks and money orders were being set aside first thing in the morning and not endorsed until they were entered into the Correctional Inmate Tracking (CIT) System later that afternoon.
- The Department has only one person opening mail and receipting monies in facilities. Facilities have two people assigned to the mailroom but due to scheduling and leave time, there are days when only one person is working. Inmates receive funds through the mail. These funds are to be checks or money orders, but occasionally cash is sent. If cash is sent, it is to be returned, but if there is only one person opening mail and receipting money, there is an increased risk of funds not being returned.
- The Department indicated that deposit documents for cash receipts are reconciled to the General Ledger; however, this reconciliation was not documented or performed on a regular basis.

A similar finding was noted in the prior audit report.

Without adequate segregation of duties there is an increased possibility of loss or misappropriation of inmate funds.

We recommend two people be on hand at all times when mail is opened and monies are receipted. We recommend the Department implement procedures to ensure checks and money orders are endorsed immediately upon opening. We further recommend the Department implement policies to ensure deposits are reconciled to the General Ledger on a regular basis and that this reconciliation is properly documented.

Department's Response: Appropriate procedures for endorsing financial instruments have been discussed with all Business Managers and will be discussed at the next Business Managers meeting as well.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

11. Controls Over Receipts (Concluded)

Department's Response, Concluded:

While it may be appropriate for two staff to always be present when opening mail, we do not have sufficient staff to see that this occurs on a routine basis. We believe that there are other compensating controls in place to address this issue.

We will develop a process to reconcile the deposits to the General Ledger that will be completed on a regular basis. The Department will complete this for all deposits in the current fiscal year and then complete this task on a regular basis going forward.

12. Usage of Pre-Numbered Receipts

Good internal control requires pre-numbered receipt books be used in the proper order.

During testing of miscellaneous receipts and inmate trust receipts we noted pre-numbered miscellaneous receipt books used out of order or pre-numbered receipts not being used at all. We noted Central Office Accounting (COA) miscellaneous receipt book with receipt numbers 21401 through 21600 was sent to Federal Surplus Property (FSP) to be used as the FSP facility miscellaneous receipt book, with the first receipt issued on June 10, 2004. We also noted miscellaneous receipt book with receipt numbers 23401 through 23600 was sent to the Nebraska Correctional Youth Facility (NCYF) to be used as a receipt book for the Inmate Trust Fund at that facility, with the first receipt issued on January 18, 2005.

Lincoln Correctional Center (LCC) was unable to locate the receipt book with receipt numbers 4401 to 4600. Inmate trust receipts were also used out of order. Receipt numbers 24792-24812 were used in September 2004 and receipt numbers 132237-132260 were used in January 2005.

Hastings Detention Center (HDC) did not utilize pre-numbered receipts during the period they were a Federal detainee center.

Community Corrections Center-Lincoln (CCCL) used miscellaneous receipt books for inmate trust receipts and did not use Inmate Trust receipt books in order.

Community Correctional Center-Omaha (CCCO) used inmate trust receipts out of order. Beginning receipt number was 81812 and ending receipt number was 86351. Receipt numbers 85401-85800 were skipped and were not used. Receipt numbers 84810-85400 were skipped and used out of order in April 2005.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

12. Usage of Pre-Numbered Receipts (Concluded)

Nebraska Correctional Youth Facility (NCYF) used inmate trust receipts out of order. The facility used receipt numbers 4852-5400, skipped book 5401-5600, used 23401-23600, and then used 5601-5926. Receipt numbers 8283-8286 and 8320-8322 and 8325 were used out of order in December 2004.

When pre-numbered receipts are not used properly, there is an increased risk of misappropriation of State assets.

We recommend the Department implement procedures to ensure miscellaneous receipt books are used in the proper order.

Department's Response: We agree that usage of pre-numbered receipts in sequence is important. We have reviewed this issue with the Business Managers, but will do so again at a future Business Managers meeting.

13. Depositing of Receipts

Neb. Rev. Stat. Section 84-710 R.R.S. 1999 states "It shall be unlawful for any executive department, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars."

Meal ticket receipts at Nebraska Correctional Center for Women (NCCW) and hobby sales receipts at Lincoln Correctional Center (LCC) and Tecumseh State Correctional Institute (TSCI) were not deposited timely in compliance with State Statute. Federal Surplus Property (FSP) receipts were not deposited in compliance with State Statute. Meal ticket receipts at the Work Ethic Camp (WEC) were deposited; however, were not recorded on NIS in a timely manner.

We noted the following:

- NCCW receipt dated August 17, 2004, for 270 meal tickets. The previous receipt for meal tickets was dated July 26, 2004, 22 days earlier.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

13. Depositing of Receipts (Concluded)

- LCC receipt dated January 28, 2005, was a Hobby Association Sales Weekly Report dated December 27, 2004. This receipt was deposited on February 1, 2005.
- TSCI receipt dated January 4, 2005, were Hobby Sales Receipts numbered 1485, 1486, 1506, 1510, 1511, 1512, 1513, and 1514, from November 27, 2004 to December 24, 2004. These receipts were deposited on January 4, 2005.
- WEC receipt dated December 23, 2004, for meal tickets sold on December 20, 2004 and December 21, 2004. Attached was a deposit ticket for the State Treasurer's account at Wells Fargo Bank in McCook dated December 23, 2004. NIS deposit document for this transaction was dated December 29, 2004.
- FSP receipt was dated January 20, 2005; however, the money was not deposited into NIS until February 24, 2005.

When funds are not deposited in compliance with statute there is an increased risk of possible misappropriation of State assets.

We recommend the Department implement procedures to ensure timely deposits in accordance with Neb. Rev. Stat. Section 84-710.

Department's Response: We agree that timely deposits and preparation of the documents is important. We have discussed these issues with the Business Managers and will at a future Business Managers Meeting as well. Department policy requires inmate receipts to be submitted daily and other funds to be submitted at least twice per week. Timeliness of preparing the documents will be addressed with Accounting staff.

14. NIS Security - Accounts Receivable

Good internal control requires an adequate segregation of duties.

During review of NIS Security Access for Accounts Receivable, we noted five individuals with AR Code 36. This code is only for agencies which are not able to segregate duties. Central Accounting Office has sufficient staffing to ensure a proper segregation of duties on NIS and should not utilize AR Code 36.

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

14. NIS Security - Accounts Receivable (Concluded)

When there is not an adequate segregation of duties there is an increased risk of possible misappropriation of State assets.

We recommend user access codes in NIS be updated to ensure an appropriate segregation of duties and AR Code 36 is no longer utilized.

Department's Response: We agree that adequate segregation of duties is important. We will review the structure we have established and make the changes we deem appropriate.

15. Accounts Receivable Review

Good internal control requires documented procedures to review, collect, and write-off outstanding balances.

During testing of Cornhusker State Industries (CSI) accounts receivable, it was noted there are outstanding accounts dating back to 1994 and there are no documented procedures in place to review, to collect, or to write-off outstanding balances. Review of CSI Accounts Receivable Aging Report as of June 30, 2005 indicated \$180,969 over 120 days overdue.

Without established documented procedures regarding the review of accounts receivable, there is an increased likelihood that past due accounts will go uncollected. A similar comment was noted in our prior CSI audit report.

We recommend the Department establish, document, and implement procedures to review, collect, and write-off accounts receivable.

Department's Response: A plan has been developed to address the issue of CSI's Accounts Receivable. The Assistant Controller presented this plan to the CSI Administrator, CSI Business Manager and the Controller. The plan is in the process of being implemented. We will have meetings to review our progress every two months. Based on our schedule we believe that significant improvement will be reflected on the June 30, 2006 financial statements.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

RECEIPTS

16. Petty Cash Fund

Neb. Rev. Stat. Section 83-914 R.R.S. 1999 authorizes “An Emergency Revolving Fund, not to exceed six thousand dollars for any one institution or the central office of the Department of Correctional Services . . .”

Petty Cash Fund Application from DAS State Accounting authorized a temporary increase from \$500 to \$6,000 from November 15, 1999 to January 15, 2000.

Total disbursements from this fund for fiscal year 2005 were \$3,838, with a monthly average of \$320. The Department is not in compliance with the amount approved for this petty cash fund.

We recommend the Department reduce their petty cash fund to \$500 or obtain approval to keep the amount at \$6,000.

Department's Response: We agree that this should be decreased. We will determine an appropriate level and submit a request, it should be noted this fund is used to serve all Lincoln facilities. DCS does have specific statutory authority that allows us to have emergency cash at the \$6,000 level per institution.

FIXED ASSETS AND INVENTORIES

17. Controls Over Fixed Assets

Good internal control should include a proper segregation of duties where no one person can handle all aspects of a transaction. Good internal control also requires the Department maintain an accurate listing of all fixed assets and that all assets be assigned costs in order to properly depreciate and track the asset. Neb. Rev. Stat. Section 81-1118.02 R.R.S. 1999 requires each State agency to annually make an inventory of all property and that all property shall be tagged or marked “Property of State of Nebraska.”

- a. We noted two individuals who processed all fixed asset transactions for the Department. Both individuals have the ability to perform all transactions including adding, deleting, maintaining, and reviewing the exception lists and history reports. One of the individuals reviews the other's work when there is a discrepancy on a report; however, there was no documentation of this review. A similar finding was noted in the prior audit report.

COMMENTS AND RECOMMENDATIONS

(Continued)

FIXED ASSETS AND INVENTORIES

17. Controls Over Fixed Assets (Concluded)

- b. We tested 50 assets and noted the following:
- Four of the items tested could not be located including three computers and a narcotic instrument.
 - Five items had the wrong location description.
 - Two items were assigned fixed asset numbers but had not been received from the vendor.
 - Two items were missing the fixed asset tag.
 - One item had the wrong VIN number recorded on the listing.
 - One item had the wrong item description.
- c. We also noted a dryer acquired June 1979 and a Ford Excursion acquired October 2004 had not been assigned costs as of June 30, 2005.

There is the possibility of loss or misuse of State assets and funds when there is a lack of adequate controls.

We recommend controls over fixed assets be improved by having an independent management review of the History Report. The History Report shows all transactions processed on NIS during a designated timeframe. This review should be documented. We also recommend the Department implement procedures in order to keep an accurate Fixed Asset Listing.

Department's Response: Procedures are being amended so that when discrepancies exist on a report, the review will be documented. Additionally, the Department is working to make the necessary corrections as noted on the various fixed asset items. Management review of the reports will be completed by the Materiel Administrator or designee.

18. CSI Rate Documentation Not Received

Neb. Rev. Stat. Section 84-304 R.S.Supp., 2004 states, "It shall be the duty of the Auditor of Public Accounts: . . . (3) To examine or cause to be examined, at such time as he or she shall determine, books, accounts, vouchers, records, and expenditures of all state officers, state bureaus, state boards, state commissioners, the state library, societies and associations supported by the state, state institutions, state colleges, and the University of Nebraska . . ."

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

FIXED ASSETS AND INVENTORIES

18. CSI Rate Documentation Not Received (Continued)

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states, "In accordance with general law, and with such rules and regulations as shall be promulgated by the administrator and the board as provided in section 84-1216, such head of any state agency, department, board, council, legislative or judicial branch, and political subdivision shall: establish and maintain an active, continuing program for the efficient and economical management of the record-keeping activities of the agency."

Good internal control requires an agency maintain documentation supporting the establishment of rates for goods or services billed by the agency.

Requested supporting documentation for the establishment of rates charged by CSI was not received for the following items:

Description	Unit Cost	Unit Price	Mark Up/(Down)
MOTORCYCLE HANDICAP 2002	\$ 0.7257	\$ 55.0000	\$ 54.2743
TUF GRANDE WO/ ARM CHARCL	\$ 43.3370	\$ 400.0000	\$ 356.6630
COMF HIBK LOOP ARM ASHES	\$ 45.4397	\$ 277.0000	\$ 231.5603
SHELF 48X24X72 5 SHELF	\$ 301.8900	\$ 78.4800	\$ (223.4100)
UNL GYM PAD 72X248X2	\$ 11.7878	\$ 118.4500	\$ 106.6622
GYM PADS 72X84X2	\$ 644.6143	\$ 124.0000	\$ (520.6143)
LAPEL BDG 1"X3" WHT/RED	\$ 13.7863	\$ 4.0000	\$ (9.7863)
CURVED PNL W/RACE 86 FAB	\$ 34.5956	\$ 353.8000	\$ 319.2044
ELEC/COM VERT RCWY PANEL	\$ 1,303.0092	\$ 280.0000	\$ (1,023.0092)
4-9/16 6-8 LAUN OAK JAMB	\$ 84.2151	\$ 10.5000	\$ 73.7151)
RED CEDAR 2" X 12" x 10'	\$ 35.5600	\$ 10.0000	\$ (25.5600)

Rates for products and services provided by CSI may not be set at reasonable and appropriate levels.

We recommend policies and procedures be established to ensure supporting documentation for the setting of rates charged by CSI be retained and reviewed on a periodic basis to ensure rates charged by CSI are reasonable and appropriate.

Department's Response: We have two specific initiatives that will assist CSI in implementing policies and procedures as recommended. First, CSI will be implementing the Sales and Manufacturing modules of JDEdwards. The consultants have been hired and we anticipate

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

FIXED ASSETS AND INVENTORIES

18. CSI Rate Documentation Not Received (Concluded)

Department's Response, Concluded:

scheduling implementation within the next 8 to 10 months. It should be noted that CSI currently has over 8,000 items on the CSI Item Master. All of these items will be reviewed prior to conversion to the new system for accuracy and necessity of conversion as active items. The second initiative is accreditation by the American Correctional Association. Industries standards are performance-based standards. CSI plans to be ready for an initial audit in approximately 18 months.

19. CSI Inventory Counts

Good internal control requires procedures to ensure inventory records are accurate and inventory items are adequately safeguarded.

The inventory counted by our staff did not agree to CSI records for 9 of 16 items selected.

<u>Item Description</u>	<u>Per Count</u>	<u>Per Records</u>	<u>Variance</u>
2005 Passenger License Plates	-	107,476	(107,476)
Cotton Batting	16,937	17,353	(416) pounds
Tec/cide disinfect 4-1 gl	94	111	(17) cases
Trigger/Sprayer	9,343	9,339	4
8/4 Oak Hardwood	1,525.4	1,391.5	133.9 board ft
1 X 12 Pine	610	931	(321) board ft
Indiana Chair Casters	1,013	958	55
Sodium Metasilicate	1,519	1,482	37 pounds
4/4 Oak Hardwood	935	862.5	72.5 board ft

Inaccurate inventory records could increase the risk of loss or misuse of inventory items. A similar comment was noted in our prior CSI audit report.

We recommend the Department implement procedures to ensure counts per the inventory system agree to the amounts on hand.

Department's Response: CSI works to continuously improve its inventory processes. The implementation of the Sales and Manufacturing modules will move the inventory into NIS. This should eliminate some of the errors that occur with the present system and will afford access to information to develop spot checks and cycle counts of inventory. The issue with the license plates was a duplication of paper and has been corrected.

COMMENTS AND RECOMMENDATIONS

(Continued)

INMATE TRUSTS

20. Documentation of Maintenance Rates

Neb. Rev. Stat. Section 83-184(3) R.R.S. 1999 states, "A person authorized to work at paid employment in the community under the provisions of this section may be required to pay . . . such costs incident to the person's confinement as the Director of Correctional Services deems appropriate and reasonable." Good accounting practice requires documentation to support any fees charged.

Inmates who were on work release or educational release were charged a maintenance fee of \$10.00 per day. This maintenance fee is to pay for transportation costs to and from work and a portion of room and board expenses and has remained the same for approximately 15 years. The total work release pay for fiscal year 2005 was \$1,915,068, and maintenance collected from inmates on work or educational release was \$519,719 for the fiscal year. Inmates who worked in a private venture setting were assessed a maintenance fee of \$1.50 per work hour. These fees are used to pay CSI for their costs of maintaining the program. The total private venture pay was \$566,668 for fiscal year 2005 and maintenance collected from inmates on private venture pay was \$178,227. There was no documentation of policy or procedures to support these maintenance assessments. This was also noted in our reports for fiscal years ended June 30, 1998 and 2001.

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

We recommend the Department implement policies and procedures to ensure the maintenance fees assessed to inmates is a fair and adequate amount. The policy should be reviewed on a periodic basis.

Department's Response: The Department does specify in our administrative regulation the rate the inmates are to be charged for maintenance. These administrative regulations are reviewed annually which does provide for a review of these rates. We believe this is sufficient documentation in our policies.

21. Counterfeit Checks

Counterfeit checks totaling \$10,336 were discovered during the May 2001 Inmate Trust Fund bank reconciliation. These checks still remain as an adjustment on the Inmate Trust Fund reconciliation

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

COMMENTS AND RECOMMENDATIONS

(Continued)

INMATE TRUSTS

21. Counterfeit Checks (Concluded)

as of June 30, 2005. These funds have not been recovered or replaced. The individual responsible for the counterfeit checks has been prosecuted and is currently serving time.

Good internal control requires policies and procedures be in place to monitor and to recover bank variances, including counterfeit checks. The Department is responsible for all monies held in trust and should reimburse the trust fund for money that is lost or stolen.

We recommend the Department implement policies and procedures to follow up on reconciling items and restore the trust fund for counterfeit checks.

Department's Response: We are working with the bank to resolve this issue. We recognize that the trust fund must be made whole should the funds not be recouped from the bank.

22. HDC Inmate Trust Fund

Good internal control requires all transactions be recorded on NIS in a timely manner.

Transactions in the Inmate Trust Fund for detainees from the Hastings Detention Center (HDC) were not entered into NIS in a timely manner. Transactions for Federal detainees held at HDC for services provided, detainee payroll, and State prisoners transferred to HDC were not recorded on NIS until the facility closed in June 2005. All transactions were recorded on the Corrections Information and Tracking (CIT) computer system used to maintain inmate and detainee accounts. Services provided to detainees at HDC not recorded on NIS totaled \$90,313. Detainee payroll not recorded on NIS totaled \$33,504. Inmates transferred from other State correctional facilities did not have CIT balances of \$3,475 adjusted on NIS.

Activity and balances of the Inmate Trust Fund as recorded on NIS were not accurate.

We recommend the Department develop and implement policies and procedures to ensure all activity and balances on CIT be updated, at a minimum, monthly on NIS.

Department's Response: We agree that the transactions related to HDC were not recorded timely. This facility was closed in June 2005, and this is no longer an issue.

COMMENTS AND RECOMMENDATIONS

(Continued)

INMATE TRUSTS

23. Timely Transfer of Canteen Profits

Per Neb. Rev. Stat. Section 83-915.01 R.S.Supp., 2004 the Inmate Welfare and Club Accounts fund shall include profit from departmental canteens. Good internal control requires the Department to transfer canteen profits for the fiscal year to the Inmate Welfare Fund in a timely manner.

The profits from fiscal year 2002 and 2003 were not transferred to the Inmate Welfare Fund until fiscal year 2005. There is the possibility of fraud and misstatement of funds if the profits are not transferred in a timely manner.

We recommend the Department transfer canteen profits into the Inmate Welfare Fund in a timely manner.

Department's Response: We agree that timely transfer is appropriate. Due to significant changes implemented during FY2003 delays occurred with these transactions.

NEBRASKA INFORMATION SYSTEM

24. Reconciliation of Bank Records to the Nebraska Information System

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

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

COMMENTS AND RECOMMENDATIONS

(Continued)

NEBRASKA INFORMATION SYSTEM

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

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

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

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

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

Department's Response: This is not a DCS responsibility.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Department of Correctional Services
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Correctional Services (Department) for the fiscal year ended June 30, 2005. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Correctional Services for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

Pat Reding, CPA

Assistant Deputy Auditor

November 23, 2005

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Parole Program Fund 24610	Correctional Facility Cash Fund 24690	State Building Fund 33000	Capital Construction Fund 38000	Federal Fund 40000
REVENUES:						
Appropriations	\$ 127,249,110	\$ -	\$ -	\$ 884,194	\$ 39	\$ -
Intergovernmental	-	-	14,800	-	-	153,692
Sales & Charges	232	136,782	1,054,140	-	-	-
Miscellaneous	33,184	4,669	854,996	5,612	-	-
TOTAL REVENUES	127,282,526	141,451	1,923,936	889,806	39	153,692
EXPENDITURES:						
Personal Services	88,596,666	-	30,064	-	-	-
Operating	32,332,375	-	55,466	154,165	-	153,692
Travel	579,748	-	1,591	-	-	-
Capital Outlay	2,238,916	-	-	730,029	-	-
Government Aid	3,501,405	-	-	-	39	-
TOTAL EXPENDITURES	127,249,110	-	87,121	884,194	39	153,692
Excess (Deficiency) of Revenues Over (Under) Expenditures	33,416	141,451	1,836,815	5,612	-	-
OTHER FINANCING SOURCES (USES):						
Sales of Assets	30,762	-	-	-	-	-
Adjustment to Fund Balance	142	-	-	-	-	-
Deposit to General Fund	(64,320)	-	-	(5,612)	-	-
Operating Transfers In	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(33,416)	-	-	(5,612)	-	-
Net Change in Fund Balances	-	141,451	1,836,815	-	-	-
FUND BALANCES, JULY 1, 2004	-	62,899	2,125,874	-	-	-
FUND BALANCES, JUNE 30, 2005	<u>\$ -</u>	<u>\$ 204,350</u>	<u>\$ 3,962,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES CONSIST OF:						
General Cash	\$ -	\$ 215,565	\$ 3,835,152	\$ -	\$ -	\$ -
Petty Cash	-	-	-	-	-	-
NSF Items	-	-	4,190	-	-	-
Deposits with Vendors	-	-	-	-	-	-
Accounts Receivable Invoiced	-	-	228,197	-	-	-
Due From Other Funds	-	-	217,000	-	-	-
Due From Other Government	-	-	50	-	-	-
Loans Receivable	-	-	1,638	-	-	-
Due to Vendors	-	-	(832)	-	-	-
Tax Refunds Payable	-	-	(19)	-	-	-
Deposits	-	(11,215)	(123,537)	-	-	-
Due to Fund	-	-	(4,775)	-	-	-
Due to Government	-	-	(194,375)	-	-	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 204,350</u>	<u>\$ 3,962,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the schedule.

Community- Based Services Fund 48130	Correctional Industries Fund 52510	Federal Surplus Property Fund 52700	Central Warehouse Fund 54610	Inmate Trust Fund 64610	Store/Canteen Fund 64640	Welfare & Club Accounts Fund 64650	Total (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,133,343
5,582,776	-	57,053	-	-	-	3,391	5,811,712
90,632	13,040,982	192,060	2,436,816	-	2,964,181	473,250	20,389,075
(31,260)	248,057	4,312	15,193	8,034,571	22,947	47,180	9,239,461
<u>5,642,148</u>	<u>13,289,039</u>	<u>253,425</u>	<u>2,452,009</u>	<u>8,034,571</u>	<u>2,987,128</u>	<u>523,821</u>	<u>163,573,591</u>
3,844,816	3,131,612	-	-	-	541,355	-	96,144,513
1,320,174	7,035,847	241,441	2,632,955	7,947,470	2,241,234	445,111	54,559,930
62,716	92,513	1,534	-	-	-	-	738,102
1,848,729	434,022	-	-	-	1,056	15,995	5,268,747
-	-	-	-	-	-	-	3,501,444
<u>7,076,435</u>	<u>10,693,994</u>	<u>242,975</u>	<u>2,632,955</u>	<u>7,947,470</u>	<u>2,783,645</u>	<u>461,106</u>	<u>160,212,736</u>
(1,434,287)	2,595,045	10,450	(180,946)	87,101	203,483	62,715	3,360,855
-	46	-	-	-	-	-	30,808
-	118	-	-	-	264	-	524
-	-	-	-	-	-	-	(69,932)
-	-	-	-	55,610	179,856	398,403	633,869
-	-	-	-	(112,459)	(516,048)	(5,362)	(633,869)
-	164	-	-	(56,849)	(335,928)	393,041	(38,600)
(1,434,287)	2,595,209	10,450	(180,946)	30,252	(132,445)	455,756	3,322,255
<u>1,384,899</u>	<u>5,940,388</u>	<u>104,725</u>	<u>87,631</u>	<u>1,510,625</u>	<u>521,840</u>	<u>918,091</u>	<u>12,656,972</u>
<u>\$ (49,388)</u>	<u>\$ 8,535,597</u>	<u>\$ 115,175</u>	<u>\$ (93,315)</u>	<u>\$ 1,540,877</u>	<u>\$ 389,395</u>	<u>\$ 1,373,847</u>	<u>\$ 15,979,227</u>
\$ 189,106	\$ 8,189,824	\$ 111,648	\$ 5,388	\$ 1,503,557	\$ 468,898	\$ 1,401,760	\$ 15,920,898
-	500	-	-	40,000	1,300	-	41,800
-	-	-	-	-	-	-	4,190
-	275	375	-	-	-	-	650
43,790	815,509	7,405	-	-	-	-	1,094,901
377,747	-	-	-	-	500	1,600	596,847
-	-	-	-	-	-	110	160
-	-	-	-	-	(424)	-	1,214
(68,331)	(470,179)	(4,253)	(98,703)	(2,680)	(42,611)	(31,957)	(719,546)
-	-	-	-	-	-	-	(19)
-	-	-	-	-	-	-	(134,752)
(591,700)	8	-	-	-	(38,268)	2,334	(632,401)
-	(340)	-	-	-	-	-	(194,715)
<u>\$ (49,388)</u>	<u>\$ 8,535,597</u>	<u>\$ 115,175</u>	<u>\$ (93,315)</u>	<u>\$ 1,540,877</u>	<u>\$ 389,395</u>	<u>\$ 1,373,847</u>	<u>\$ 15,979,227</u>

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

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

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

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

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

The Department had accounts receivable not included in the Schedule of \$256,268 from Cornhusker State Industries (CSI) and \$125,675 from Federal Surplus Property. CSI only records accounts receivable due from other State agencies on NIS, other receivables are maintained on a separate system. DAS did not require the Department to record their receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The NIS system does not include liabilities for accrued payroll and compensated absences.

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

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

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

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

30000 – Construction Funds – account for the revenues and expenditures associated with the acquisition or construction of capital facilities.

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

50000 – Revolving Funds – account for the operation of State agencies which provide goods and services to other departments or agencies within State government.

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

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

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

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

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered. Sales and charges included charges to other funds of the Department from the Central Warehouse; sales of merchandise and services rendered in Cornhusker State Industries and Federal Surplus Property operations; sales of commodities to inmates through the Canteen and Welfare & Club Funds.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income. The Correctional Facility Cash Fund and Cornhusker State Industries Fund also include miscellaneous receipts from maintenance charged inmates in work release and private venture. Miscellaneous receipts recorded in the Inmate Trust Fund include private sources, inmate payroll, and work release payroll.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

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

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

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

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

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

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs. These payments are reimbursements to counties for holding State prisoners.

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

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

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Department's funds at June 30, 2005 included Tax Refund Payable, Deposits, Due to Fund, and Due to Government. The activity of these accounts are not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as they are not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers, adjustments to fund balance, and proceeds of fixed asset dispositions. Operating transfers consist of transferring canteen profits to the inmate welfare fund. Adjustments to Fund Balance transactions are those recorded directly to a fund's asset account or equity account rather than through a revenue or expenditure account.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

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 schedule includes all funds of the Department.

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

3. Totals

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

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Department's values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Substantially all initial building costs, land and land improvements costing in excess of \$1,000 are capitalized. Building improvements and renovations in excess of \$1,000 are capitalized if a substantial portion of the life of the asset has expired and if the useful life of the asset has been extended as a result of the renovation or improvement. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Buildings and Equipment are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	20 years

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

(Continued)

4. Capital Assets (Concluded)

Capital asset activity of the Department for the fiscal year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets				
Land	\$ 2,094,158	\$ 25,124	\$ -	\$ 2,119,282
Buildings	163,114,598	115,954	10,083	163,220,469
Equipment	14,517,234	1,091,927	1,125,444	14,483,717
Construction in Progress	10,731,789	3,644,208	-	14,375,997
Total	<u>\$190,457,779</u>	<u>\$ 4,877,213</u>	<u>\$ 1,135,527</u>	<u>194,199,465</u>
Less accumulated depreciation for:				
Buildings				51,055,562
Equipment				9,697,394
Total				<u>60,752,956</u>
Total capital assets, net of depreciation				<u>\$133,446,509</u>

Construction in Progress was substantially completed by June 30, 2005, but had not yet been added to the Fixed Asset Listing.

5. Bonds and Certificate of Deposits Held for Inmates

At June 30, 2005 the Department physically held bonds and certificates of deposit for inmates in the amount of \$26,288 at historical cost. This amount is not reported in the Department's Trust fund, as control over these assets are with the inmate.

6. Federal Surplus Property Fund

The Department became aware of irregularities in the Federal Surplus Property Fund in April 2004. An investigation determined a total loss of \$415,718 due to an employee misappropriating funds over the period from October 6, 1996 through April 1, 2004. The Department has filed a claim with the bonding agency and expects to recover \$390,718. These amounts have not been recorded on NIS and are not reflected on the Schedule of Revenues, Expenditures, and Changes in Fund Balances.

7. Inventories

Inventories of materials and supplies are determined by both physical counts and through perpetual inventory systems. Central Pharmacy does not maintain the value of the inventory as the items are not charged to the individual facilities. Inventory is purchased through the General Fund, administration program. The Pharmacy inventory system maintains quantities only. The Department had the following inventories at June 30, 2005:

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

NOTES TO THE SCHEDULE

(Continued)

7. Inventories (Concluded)

<u>Description</u>	<u>2005</u>
CSI:	
Raw Materials	\$ 1,353,351
Work in Progress	158,131
Finished Goods	683,491
Total CSI	\$ 2,194,973
Central Warehouse	309,887
Central Pharmacy	N/A
Total	<u>\$ 2,504,860</u>

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
Kate.Witek@apa.ne.gov

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

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Department of Correctional Services
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Correctional Services for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Correctional Services' internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Correctional Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 2 (NIS Batch Management), Comment Number 3 (Medical Service Payments), Comment Number 5 (Segregation of Duties Over Payroll), Comment Number 11 (Controls

Over Receipts), Comment Number 12 (Usage of Pre-Numbered Receipts), Comment Number 17 (Controls Over Fixed Assets), Comment Number 19 (CSI Inventory Counts), and Comment Number 24 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Correctional Services' schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Department of Correctional Services in the Comments Section of this report as Comment Number 1 (Documents Not Received), Comment Number 4 (Travel Disbursements), Comment Number 6 (Payroll Not Calculated Correctly), Comment Number 7 (Timesheets Not Maintained), Comment Number 8 (Overtime Rate Calculation), Comment Number 9 (Procedures for Termination), Comment Number 10 (Leave Usage and Accruals), Comment Number 13 (Depositing of Receipts), Comment Number 14 (NIS Security - Accounts Receivable), Comment Number 15 (Accounts Receivable Review), Comment Number 16 (Petty Cash Fund), Comment Number 18 (CSI Rate Documentation Not Received), Comment Number 20 (Documentation of Maintenance Rates), Comment Number 21 (Counterfeit Checks), Comment Number 22 (HDC Inmate Trust Fund), and Comment Number 23 (Timely Transfer of Canteen Profits).

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

Pat Reding, CPA

Assistant Deputy Auditor

November 23, 2005

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES

STATISTICAL SECTION

(Unaudited)

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

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
CORNHUSKER STATE INDUSTRIES

BALANCE SHEET

June 30, 2005

(Unaudited)

	June 30, 2005
ASSETS:	
CURRENT ASSETS:	
Cash and Cash Equivalents	\$ 8,190,599
Accounts Receivable (Net of Allowance)	1,071,778
Merchandise Inventory	2,194,973
TOTAL CURRENT ASSETS	11,457,350
NONCURRENT ASSETS:	
Capital Assets:	
Land	315,000
Building and Equipment	10,168,419
Less Accumulated Depreciation	(4,094,576)
TOTAL NONCURRENT ASSETS	6,388,843
TOTAL ASSETS	\$ 17,846,193
LIABILITIES AND NET ASSETS:	
CURRENT LIABILITIES:	
Accounts Payable	\$ 759,550
TOTAL CURRENT LIABILITIES	759,550
NONCURRENT LIABILITIES	
Accrued Compensated Absences	352,999
TOTAL NONCURRENT LIABILITIES	352,999
TOTAL LIABILITIES	1,112,549
NET ASSETS:	
Invested in Capital Assets	6,073,843
Unrestricted	10,659,801
TOTAL NET ASSETS	16,733,644
TOTAL LIABILITIES AND NET ASSETS	\$ 17,846,193

Note: CSI schedules were prepared by Department staff on the accrual basis of accounting. Schedules are unaudited and do not include footnotes.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
 CORNHUSKER STATE INDUSTRIES
**STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN FUND NET ASSETS**
 For the Fiscal Year Ended June 30, 2005
 (Unaudited)

	2005
OPERATING REVENUES:	
Charges for Services	\$ 13,276,832
TOTAL OPERATING REVENUES	13,276,832
OPERATING EXPENSES:	
Personal Services	3,220,290
Operating Expenses	6,842,600
Depreciation Expense	427,225
TOTAL OPERATING EXPENSES	10,490,115
OPERATING INCOME	2,786,717
NONOPERATING REVENUES:	
Interest Income	204,815
Sale of Surplus Property	165
TOTAL NONOPERATING REVENUES	204,980
CHANGES IN NET ASSETS	2,991,697
TOTAL NET ASSETS, BEGINNING OF YEAR	13,741,947
TOTAL NET ASSETS, END OF YEAR	\$ 16,733,644

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
 CORNHUSKER STATE INDUSTRIES
STATEMENT OF CASH FLOWS
 For the Fiscal Year Ending June 30, 2005
 (Unaudited)

	2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Sales and Charges	\$ 13,757,381
Payments to Employees	(2,752,698)
Payments to Suppliers	(7,378,993)
Other Cash Receipts/Payments	31,504
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,657,194
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and Construction of Capital Assets	(439,289)
	(439,289)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	237,935
NET CASH FROM INVESTING ACTIVITIES	237,935
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,455,840
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,734,759
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,190,599
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 2,786,717
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	427,225
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	512,053
(Increase) in Merchandise Inventories	(188,384)
(Decrease) in Accounts Payable	119,583
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,657,194

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
 FEDERAL SURPLUS PROPERTY
BALANCE SHEET
 June 30, 2004 and 2005
 (Unaudited)

ASSETS	2004	2005
Cash in State Treasury	\$ 105,003	\$ 111,648
Deposits with Vendors	375	375
Accounts Receivable	26,349	133,080
Bonding Company Receivable	390,718	390,718
Inventory for Resale	788,123	484,907
Property, Plant and Equipment, Net	1,585	1,300
Total Assets	\$ 1,312,153	\$ 1,122,028
LIABILITIES AND NET ASSETS		
Liabilities:		
Received not vouchered	\$ 57	\$ 35
Accounts Payable	3,599	7,514
Deferred Surplus Sales	732,672	337,449
Total Liabilities	736,328	344,998
Net Assets:		
Invested in Capital Assets	1,585	1,300
Unrestricted	574,240	775,730
Total Net Assets	575,825	777,030
Total Liabilities and Net Assets	\$ 1,312,153	\$ 1,122,028

Note A: The Bonding Company Receivable represents the amount the Department expects to recover from a claim for employee dishonesty covered under the provisions of an agency contract with the company.

Note B: The General Fund paid \$422,227 in salaries for Federal Surplus Property personnel during the time period from October 2000 through June 2005. The Department is in the process of obtaining approval and determining the appropriate method to repay this amount to the General Fund.

Source: FSP schedules prepared by Department staff on the accrual basis of accounting.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
 FEDERAL SURPLUS PROPERTY
INCOME STATEMENT
 For the Fiscal Years Ended June 30, 2004 and 2005
 (Unaudited)

	2004	2005
OPERATING REVENUES:		
Charges for Services	\$ 173,744	\$ 291,386
Federal Grants/Contracts	96,781	57,053
	270,525	348,439
OPERATING EXPENSES:		
Personal Services	-	-
Operating Expense	47,339	151,261
Depreciation Expense	285	285
	47,624	151,546
TOTAL EXPENSES	47,624	151,546
Operating Income	222,901	196,893
NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,370	4,312
	1,370	4,312
TOTAL NONOPERATING REVENUES (EXPENSES)	1,370	4,312
Net Income Before Extraordinary Item	224,271	201,205
NET Loss from Misappropriation	25,000	
Net Income After Extraordinary Item	199,271	
Net Assets, July 1 as previously reported	45,567	
Correction of error due to misappropriation	330,987	
ADJUSTED NET ASSETS, JULY 1	376,554	575,825
NET ASSETS, JUNE 30	\$ 575,825	\$ 777,030

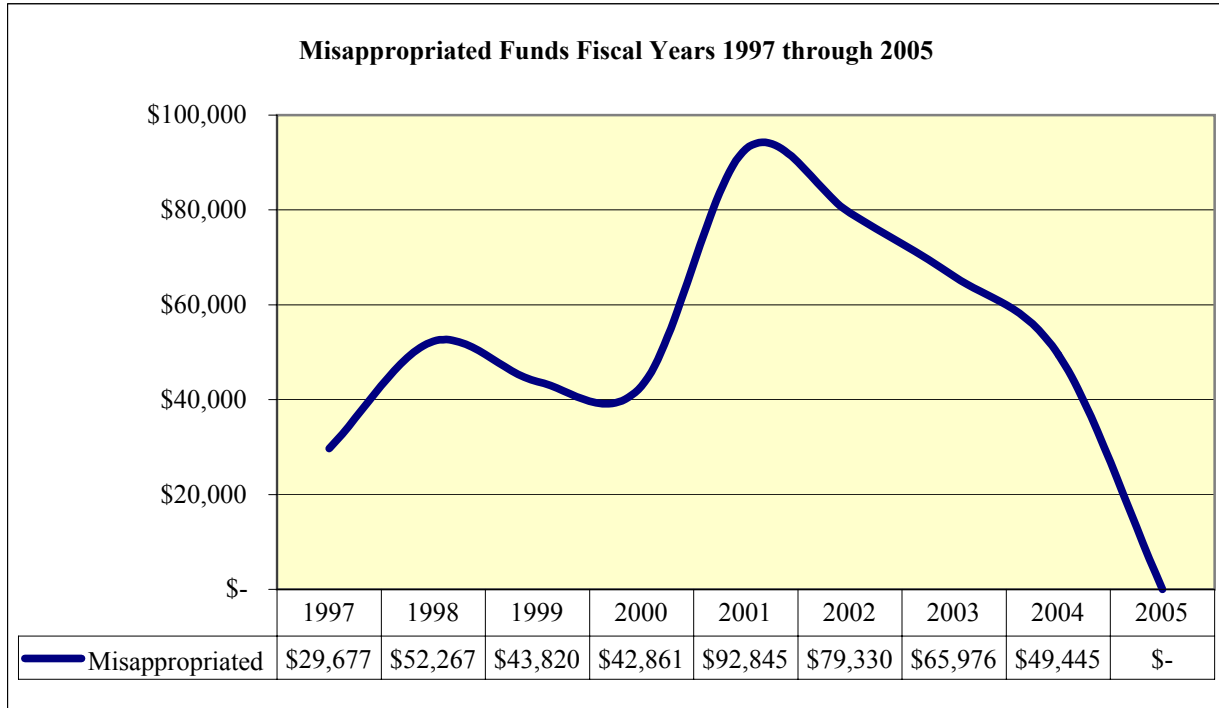
Note C: The Prior Period Adjustment represents adjustments for transactions for the periods from October 6, 1996 through June 30, 2003. During this timeframe an employee misappropriated Department assets by understating revenues by \$73,492 and by overstating expenses by \$257,495.

Note D: The Loss from Misappropriation represents the net loss over the period from October 6, 1996 through April 1, 2004 due to an employee misappropriating Department assets. The total loss of \$415,718 was determined by an investigation conducted by GSA auditors. This loss is booked net of a \$390,718 Bonding Company Receivable, which is the amount that is recoverable from the Department's bonding company.

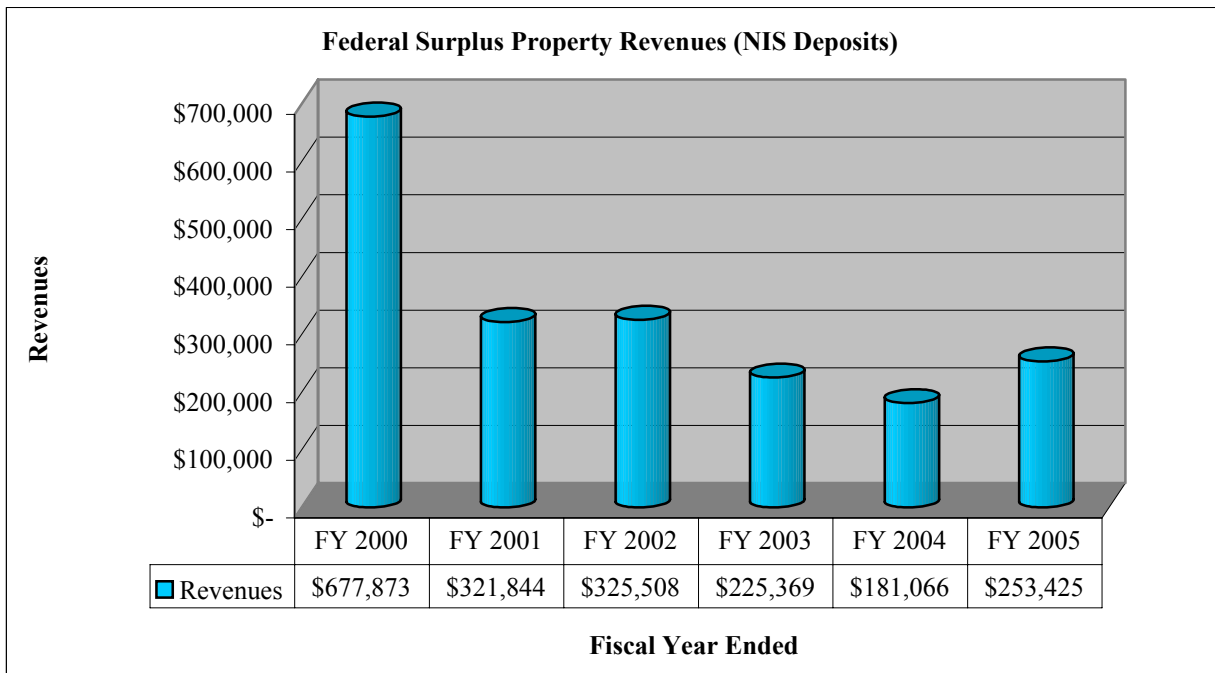
NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
FEDERAL SURPLUS PROPERTY
CASH FLOW STATEMENT
Fiscal Years Ended June 30, 2004 and 2005
(Unaudited)

	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Sales & Charges	\$ 82,914	\$ 184,655
Cash Received from Others	96,781	57,053
Cash Paid to Suppliers	(114,180)	(239,375)
NET CASH FLOWS FROM OPERATING ACTIVITIES	65,515	2,333
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	1,370	4,312
NET CASH FLOWS FROM INVESTING ACTIVITIES	1,370	4,312
NET INCREASE (DECREASE) IN CASH	66,885	6,645
CASH AND CASH EQUIVALENTS, July 1	38,493	105,378
CASH AND CASH EQUIVALENTS, June 30	\$ 105,378	\$ 112,023
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income	\$ 222,901	\$ 196,893
Adjustments to reconcile operating income to net cash flows for operating activities:		
Depreciation	285	285
Misappropriated Cash	(84,731)	
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(26,349)	(106,731)
(Increase) Decrease in Inventories	(788,123)	303,216
(Decrease) Increase in Accounts Payable and Accrued Liabilities	8,860	3,893
(Decrease) Increase in Deferred Revenue	732,672	(395,223)
Total Adjustments	(157,386)	(194,560)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 65,515	\$ 2,333

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
 FEDERAL SURPLUS PROPERTY
MISAPPROPRIATED FUNDS AND REVENUE DEPOSITS



Irregularities were discovered by the Department in April 2004. A Federal investigation determined the total loss was \$456,221 of which \$415,718 was the Department of Correctional Services and \$40,503 related to NASASP. Prepared by APA through review of bank statements.



Prepared by APA through review of accounting records. Per the Department revenue decreases from FY2000 as compared to future years, was primarily related to the amount of federal property available to the Nebraska Federal Surplus Property Program. Revenues in FY2003 and FY2004 were impacted by the misappropriation of funds.

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 Ended June 30, 2001 through 2005

Fiscal Year	Total Adult Services				
	2001	2002	2003	2004	2005
Personal Services	\$ 52,267,557	\$ 60,760,220	\$ 67,142,153	\$ 70,413,730	\$ 72,402,793
Operations	13,634,926	15,034,260	13,292,369	14,042,729	14,975,887
Travel	436,927	484,697	425,908	409,509	454,081
Capital Outlay	2,401,331	2,321,045	169,314	313,378	1,560,758
Medical	12,405,802	18,947,535	21,797,794	21,549,263	22,099,295
Education	1,919,222	2,078,174	1,196,317	1,130,247	1,326,791
Administration	11,272,629	8,648,174	9,073,480	10,319,240	10,785,922
TOTAL	\$ 94,338,394	\$ 108,274,105	\$ 113,097,335	\$ 118,178,096	\$ 123,605,527
Average Cost per Year	\$ 22,091	\$ 22,750	\$ 23,871	\$ 24,622	\$ 25,079
Average Cost per Day	\$ 60.52	\$ 62.33	\$ 65.40	\$ 67.46	\$ 68.71
Average Total Population	4,271	4,446	4,871	4,938	4,929
Total Unallocated Expenditures*	\$ 41,094,272	\$ 24,327,204	\$ 24,738,304	\$ 13,461,966	\$ 25,414,988
Department Total Expenditures**	\$ 135,432,666	\$ 132,601,309	\$ 137,835,639	\$ 131,640,062	\$ 149,020,515
Maintenance Collected***				\$ 697,947	

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

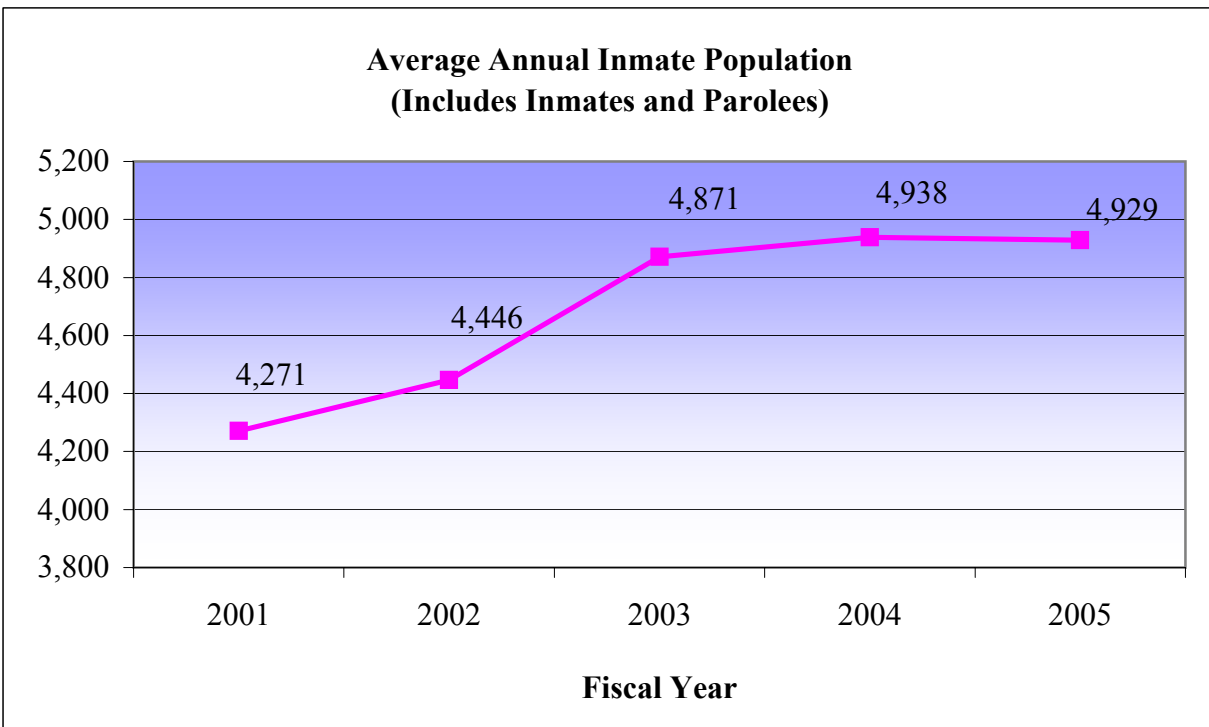
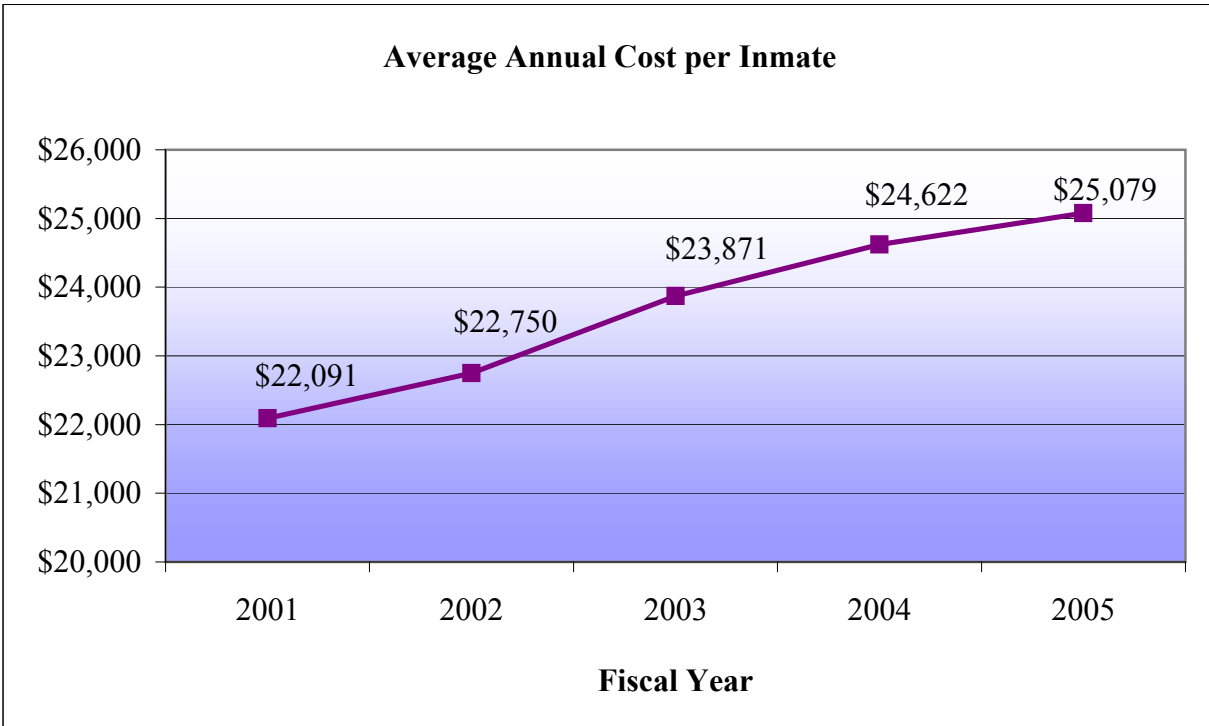
**Inmate Trust Fund expenditures are not included in the annual cost allocation report.

***Neb. Rev. Stat. Section 83-184(3) R.R.S. 1999 states, "A person authorized to work at paid employment in the community may be required to pay . . . such costs incident to the person's confinement." Inmates on work release or educational release were charged a maintenance fee of \$10.00 per day. Inmates working in a Private Venture setting were assessed a maintenance fee of \$1.50 per work hour. These maintenance fees collected by the Department have not been netted against the inmate costs reflected in the statistical schedules.

Note: Average Total Population includes all inmates in the facilities as well as parolees.

Source for inmate cost schedules and charts: Department Annual Cost Report.

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**AVERAGE ANNUAL COST PER INMATE AND
AVERAGE ANNUAL INMATE POPULATION**
For Fiscal Years Ended June 30, 2001 through 2005



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 Ended June 30, 2001 through 2005

Fiscal Year	Nebraska Correctional Youth Facility (Program 260)				
	2001	2002	2003	2004	2005
Personal Service	\$ 2,718,909	\$ 2,976,014	\$ 3,071,802	\$ 3,234,307	\$ 3,201,056
Operations	470,237	416,129	356,490	413,777	423,140
Travel	32,849	20,350	19,604	20,141	18,919
Capital Outlay	23,744	25,023	11,107	37,633	71,744
Health Services	210,607	331,834	375,282	346,359	416,666
Education	32,582	36,396	20,596	18,166	25,016
Administration	477,078	365,929	384,019	433,709	489,230
Total	\$ 3,966,006	\$ 4,171,675	\$ 4,238,900	\$ 4,504,092	\$ 4,645,771
Average Cost per Year	\$ 62,037	\$ 56,727	\$ 59,846	\$ 68,275	\$ 59,212
Average Cost per Day	\$ 169.96	\$ 155.42	\$ 163.96	\$ 187.05	\$ 162.22
Average Population	64	74	71	66	78

Fiscal Year	Tecumseh State Correctional Institution (Program 300)				
	2001	2002	2003	2004	2005
Personal Service	\$ 980,114	\$ 6,587,486	\$ 14,262,463	\$ 15,464,037	\$ 15,577,673
Operations	124,887	2,405,398	3,008,502	3,596,045	3,590,690
Travel	8,204	74,149	88,597	77,455	88,283
Capital Outlay	149,662	1,136,745	66,342	113,165	504,611
Health Services	-	1,336,858	4,209,329	4,456,985	4,254,499
Education	-	146,627	231,019	233,766	255,430
Administration	171,322	1,196,594	1,980,543	2,309,003	2,468,195
Total	\$ 1,434,189	\$ 12,883,857	\$ 23,846,795	\$ 26,250,456	\$ 26,739,381
Average Cost per Year	<i>n/a</i>	<i>n/a</i>	\$ 30,016	\$ 30,923	\$ 33,377
Average Cost per Day	<i>not fully</i>	<i>not fully</i>	\$ 82.24	\$ 84.72	\$ 91.44
Average Population	<i>operational</i>	<i>operational</i>	794	849	801

Fiscal Year	Community Corrections Center - Lincoln (Program 368)				
	2001	2002	2003	2004	2005
Personal Service	\$ 1,757,871	\$ 1,879,883	\$ 1,995,431	\$ 1,974,692	\$ 2,034,743
Operations	692,828	613,502	573,086	601,512	659,462
Travel	44,628	44,114	48,838	43,202	54,646
Capital Outlay	38,044	35,113	-	-	-
Health Services	852,013	1,219,989	1,504,467	1,485,084	1,568,154
Education	131,810	133,809	82,569	77,892	94,148
Administration	491,585	291,994	306,729	342,108	340,865
Total	\$ 4,008,779	\$ 4,218,404	\$ 4,511,120	\$ 4,524,490	\$ 4,752,018
Average Cost per Year	\$ 10,500	\$ 15,602	\$ 15,877	\$ 15,996	\$ 16,093
Average Cost per Day	\$ 42.47	\$ 42.75	\$ 43.53	\$ 43.82	\$ 44.09
Average Population	259	270	284	283	295

(Continued)

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 Ended June 30, 2001 through 2005

Fiscal Year	Community Corrections Center - Omaha (Program 369)				
	2001	2002	2003	2004	2005
Personal Service	\$ 794,304	\$ 774,851	\$ 820,646	\$ 832,258	\$ 960,289
Operations	265,474	255,321	232,246	239,276	238,701
Travel	24,606	25,407	22,293	24,014	28,446
Capital Outlay	81,741	6,026		-	32,357
Health Services	420,423	605,144	720,947	711,041	690,638
Education	65,041	66,372	39,567	37,294	41,464
Administration	222,639	124,620	130,389	147,632	171,814
Total	\$ 1,874,228	\$ 1,857,741	\$ 1,966,088	\$ 1,991,515	\$ 2,163,709
Average Cost per Year	\$ 14,686	\$ 13,852	\$ 14,449	\$ 14,705	\$ 16,638
Average Cost per Day	\$ 40.24	\$ 37.95	\$ 39.59	\$ 40.29	\$ 45.58
Average Population	128	134	136	135	130

Fiscal Year	Nebraska State Penitentiary (Program 372)				
	2001	2002	2003	2004	2005
Personal Service	\$ 15,472,427	\$ 16,573,730	\$ 17,527,128	\$ 18,132,651	\$ 18,611,744
Operations	4,111,978	3,833,567	3,357,403	3,473,192	3,527,898
Travel	33,029	34,969	30,541	27,673	23,745
Capital Outlay	764,102	272,036	36,318	46,282	290,007
Health Services	3,930,140	5,407,084	5,378,253	5,728,017	6,101,510
Education	608,005	593,051	295,172	300,431	366,321
Administration	3,371,518	2,258,353	2,320,315	2,658,279	2,724,971
Total	\$ 28,291,199	\$ 28,972,790	\$ 28,945,130	\$ 30,366,525	\$ 31,646,196
Average Cost per Year	\$ 23,714	\$ 24,178	\$ 28,515	\$ 27,834	\$ 27,544
Average Cost per Day	\$ 64.97	\$ 66.24	\$ 78.12	\$ 76.26	\$ 75.46
Average Population	1,193	1,198	1,014	1,091	1,149

Fiscal Year	Nebraska Center for Women (Program 373)				
	2001	2002	2003	2004	2005
Personal Service	\$ 3,302,858	\$ 3,441,009	\$ 3,633,443	\$ 4,194,915	\$ 4,837,875
Operations	698,570	771,580	705,926	730,338	964,619
Travel	20,117	16,340	22,271	24,575	24,030
Capital Outlay	311,973	239,386	19,658	35,351	152,091
Health Services	740,961	1,230,774	1,450,106	1,335,715	1,490,408
Education	114,629	134,992	79,585	70,058	89,481
Administration	682,551	479,810	492,071	585,771	697,508
Total	\$ 5,871,659	\$ 6,313,891	\$ 6,403,060	\$ 6,976,723	\$ 8,256,012
Average Cost per Year	\$ 26,106	\$ 23,148	\$ 23,395	\$ 27,423	\$ 29,417
Average Cost per Day	\$ 71.52	\$ 63.42	\$ 64.10	\$ 75.13	\$ 80.60
Average Population	225	273	274	254	281

(Continued)

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 Ended June 30, 2001 through 2005

Fiscal Year	Diagnostic and Evaluation Center (Program 375)				
	2001	2002	2003	2004	2005
Personal Service	\$ 5,172,977	\$ 5,339,268	\$ 5,641,365	\$ 5,689,321	\$ 5,707,353
Operations	1,052,904	1,224,303	1,066,546	1,074,889	1,059,426
Travel	12,098	12,063	10,624	11,100	10,452
Capital Outlay	128,329	181,901	6,992	23,287	179,678
Health Services	1,292,301	1,779,604	1,940,151	1,568,931	1,493,222
Education	199,924	195,188	106,480	82,290	89,650
Administration	1,079,301	728,481	744,485	807,088	801,972
Total	\$ 8,937,834	\$ 9,460,808	\$ 9,516,643	\$ 9,256,906	\$ 9,341,753
Average Cost per Year	\$ 22,784	\$ 23,988	\$ 25,989	\$ 30,977	\$ 33,223
Average Cost per Day	\$ 62.42	\$ 65.72	\$ 71.20	\$ 84.87	\$ 91.02
Average Population	392	394	366	299	281

Fiscal Year	Lincoln Correctional Center (Program 376)				
	2001	2002	2003	2004	2005
Personal Service	\$ 8,262,367	\$ 8,509,343	\$ 9,057,910	\$ 9,395,276	\$ 9,757,230
Operations	1,883,125	1,754,954	1,493,166	1,515,062	1,842,094
Travel	18,905	16,823	18,477	18,681	19,303
Capital Outlay	484,884	70,200	11,176	27,408	125,143
Health Services	1,720,532	2,305,873	2,395,279	2,427,556	2,558,891
Education	266,172	252,909	131,459	127,324	153,630
Administration	1,690,381	1,126,742	1,179,115	1,341,311	1,365,008
Total	\$ 14,326,366	\$ 14,036,844	\$ 14,286,582	\$ 14,852,618	\$ 15,821,299
Average Cost per Year	\$ 27,431	\$ 27,468	\$ 31,602	\$ 32,123	\$ 32,834
Average Cost per Day	\$ 75.15	\$ 75.26	\$ 86.58	\$ 88.01	\$ 89.96
Average Population	522	511	452	462	482

Fiscal Year	Omaha Correctional Center (Program 377)				
	2001	2002	2003	2004	2005
Personal Service	\$ 6,410,997	\$ 6,875,589	\$ 7,237,741	\$ 7,336,609	\$ 7,487,274
Operations	2,186,056	2,082,775	2,002,133	1,846,521	2,085,960
Travel	40,091	40,155	34,234	23,975	38,750
Capital Outlay	104,321	178,003	15,121	30,252	198,791
Health Services	2,294,734	3,215,552	3,417,967	3,044,092	3,126,909
Education	355,004	352,683	187,587	159,661	187,732
Administration	1,585,362	1,015,009	1,039,127	1,120,086	1,136,313
Total	\$ 12,976,565	\$ 13,759,766	\$ 13,933,910	\$ 13,561,196	\$ 14,261,729
Average Cost per Year	\$ 18,629	\$ 19,309	\$ 21,600	\$ 23,389	\$ 24,221
Average Cost per Day	\$ 51.04	\$ 52.90	\$ 59.18	\$ 64.08	\$ 66.36
Average Population	697	713	645	580	589

(Continued)

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 Ended June 30, 2001 through 2005

Fiscal Year	Hastings Correctional Center (Program 378)*				
	2001	2002	2003	2004	2005
Personal Service	\$ 2,376,777	\$ 2,456,920			
Operations	701,639	828,021			
Travel	51,625	57,675			
Capital Outlay	78,977	38,213			
Health Services	595,517	914,236			
Education	92,129	100,274			
Administration	535,417	370,162			
Total	\$ 4,432,081	\$ 4,765,501			
Average Cost per Year	\$ 24,518	\$ 23,521			
Average Cost per Day	\$ 67.17	\$ 64.44			
Average Population	181	173			

*Facility became a Bureau of Immigration and Customs Enforcement holding center as of June 2002.

Fiscal Year	Nebraska Correctional Treatment Center (Program 383)**				
	2001	2002	2003	2004	2005
Personal Service	\$ 2,511,457	\$ 1,771,423			
Operations	466,050	365,080			
Travel	15,117	11,963			
Capital Outlay	28,072	20,997			
Health Services	290,890	386,027			
Education	45,002	42,340			
Administration	459,992	241,990			
Total	\$ 3,816,580	\$ 2,839,820			
Average Cost per Year	\$ 43,223	\$ 33,195			
Average Cost per Day	\$ 118.42	\$ 90.94			
Average Population	88	86			

**Facility closed June 2002

Fiscal Year	Work Ethic Camp (Program 386)*				
	2001	2002	2003	2004	2005
Personal Service	\$ 1,143,462	\$ 2,368,891	\$ 2,598,455	\$ 2,825,176	\$ 2,824,528
Operations	457,053	313,540	315,462	371,048	370,715
Travel	53,665	64,836	69,975	74,023	84,710
Capital Outlay	198,280	112,041	2,600	-	6,336
Health Services	57,684	214,560	406,013	445,483	398,398
Education	8,924	23,533	22,283	23,365	23,919
Administration	261,670	297,604	\$332,760	391,394	402,623
Total	\$ 2,180,738	\$ 3,395,005	\$ 3,747,548	\$ 4,130,489	\$ 4,111,229
Average Cost per Year**	N/A	\$ 71,399	\$ 14,871	\$ 15,948	\$ 16,578
Average Cost per Day**	N/A	\$ 195.61	\$ 40.74	\$ 43.69	\$ 45.42
Average Population	N/A	48	77	85	75

*Facility opened April 30, 2001.

**The fiscal year 2002 cost per offender was calculated using the average daily population. Beginning in fiscal year 2003, admissions from the current fiscal year were used to calculate the cost per offender.

(Continued)

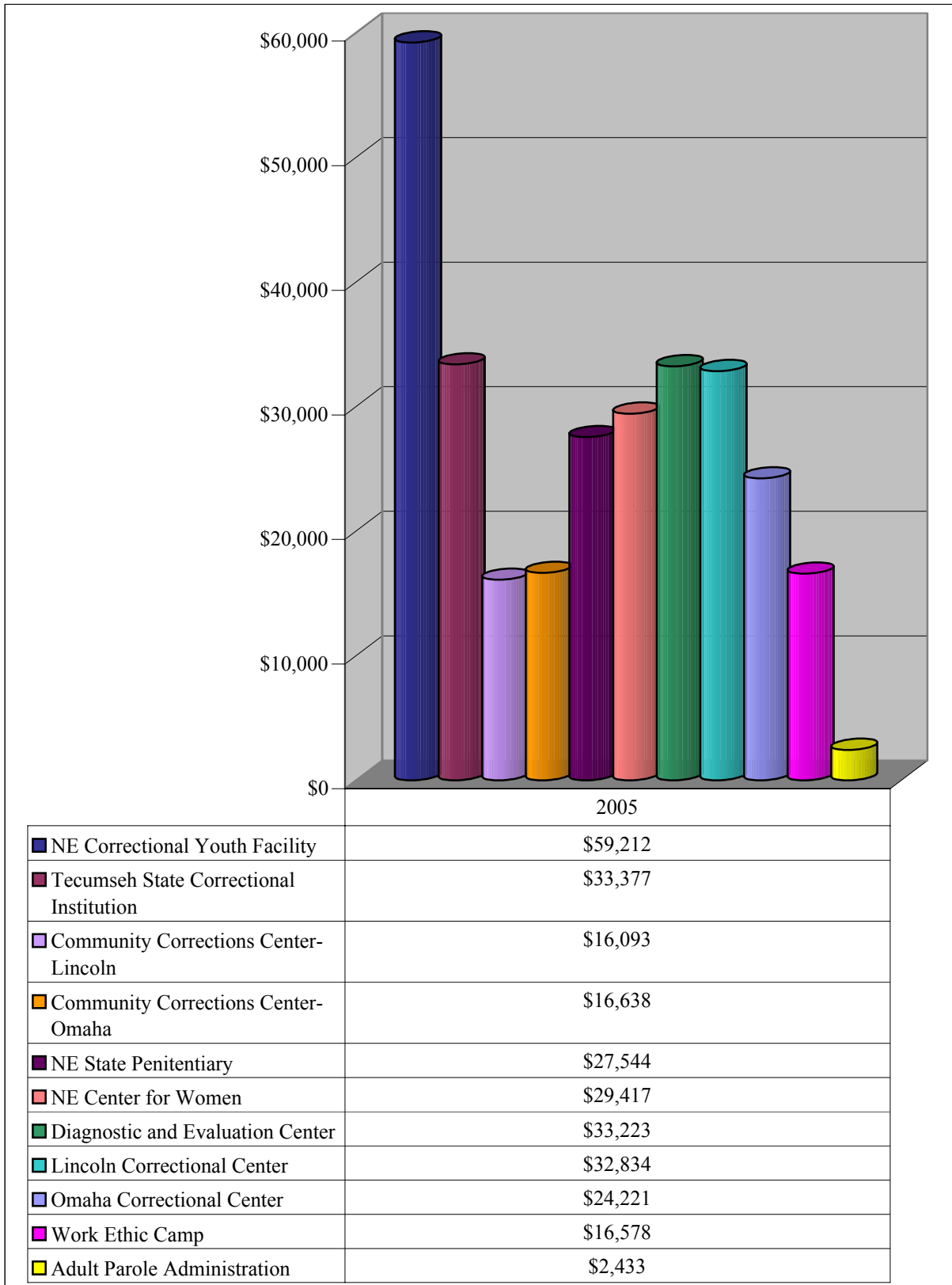
NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
**SCHEDULE OF COSTS, AVERAGE INMATE COSTS PER YEAR, AVERAGE INMATE COSTS PER DAY,
AND AVERAGE INMATE POPULATION BY FACILITY AND RELATED CHARTS**
For the Fiscal Years Ended June 30, 2001 through 2005

Fiscal Year	Adult Parole Administration (Program 389)*				
	2001	2002	2003	2004	2005
Personal Service	\$ 1,148,085	\$ 1,205,813	\$ 1,295,769	\$ 1,334,488	\$ 1,403,028
Operations	157,772	170,090	181,409	181,069	213,182
Travel	67,038	65,853	60,454	64,670	62,797
Capital Outlay	6,695	5,361	-	-	-
Health Services	-	-	-	-	-
Education	-	-	-	-	-
Administration	186,248	150,885	163,926	182,858	187,423
Total	\$ 1,565,838	\$ 1,598,002	\$ 1,701,558	\$ 1,763,085	\$ 1,866,430
Average Cost per Year	\$ 3,103	\$ 2,853	\$ 2,728	\$ 2,536	\$ 2,433
Average Cost per Day	\$ 8.50	\$ 7.82	\$ 7.47	\$ 6.95	\$ 6.75
Average Population	505	560	624	695	767

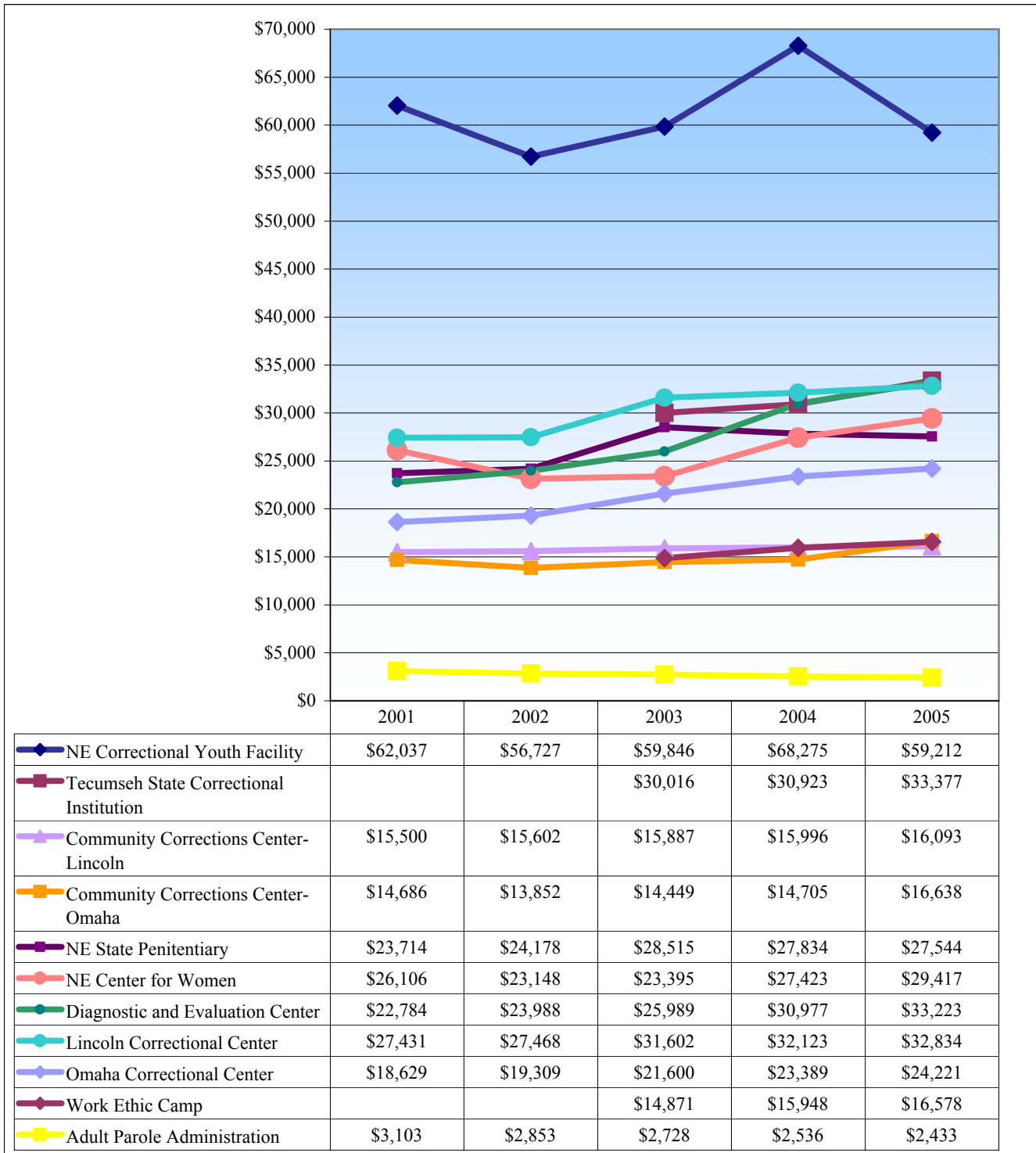
*Corrections is not responsible for Parole medical and educational expenses.

(Concluded)

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
ANNUAL COST PER INMATE BY FACILITY
 For the Fiscal Year Ended June 30, 2005

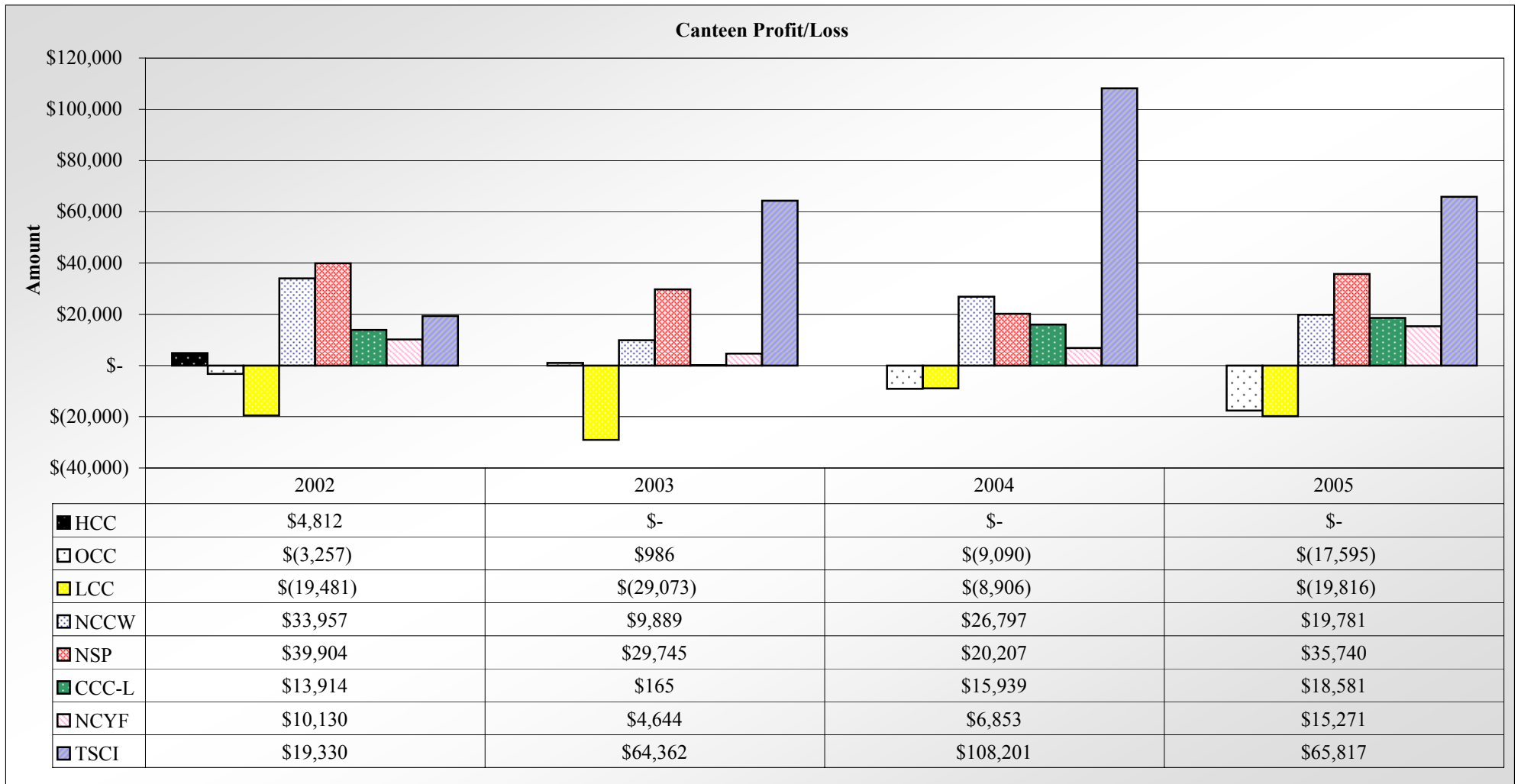


NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
ANNUAL COST PER INMATE BY FACILITY
For the Fiscal Years Ended June 30, 2001 through 2005



Note: The Work Ethic Camp (WEC) opened in April 2001. The fiscal year 2002 cost per offender was calculated using the average daily population. Beginning in fiscal year 2003, admissions from the current fiscal year were used to calculate the cost per offender. The fiscal years 2001 and 2002 are not included on the graph because the facility opened in April of 2001 and 2002 was calculated on a different basis and is not comparable to 2003 through 2005.

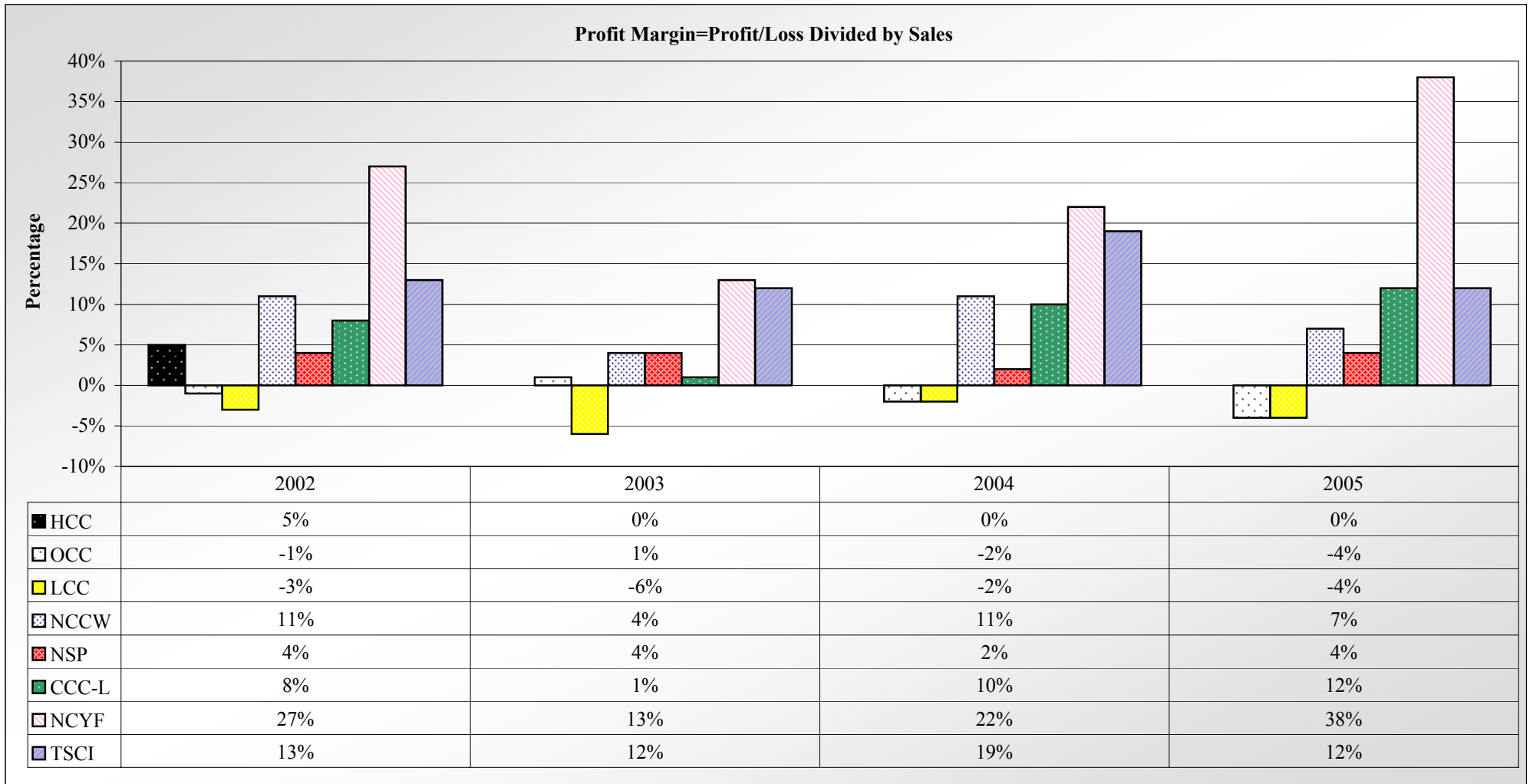
NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
CANTEEN PROFITS
 For the Fiscal Years Ended June 30, 2002 through 2005



HCC Hastings Correctional Center
 OCC Omaha Correctional Center
 LCC Lincoln Correctional Center
 NCCW Nebraska Correctional Center for Women

NSP Nebraska State Penitentiary
 CCC-L Community Correctional Center-Lincoln
 NCYF Nebraska Correctional Youth Facility

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
CANTEEN PROFITS
 For the Fiscal Years Ended June 30, 2002 through 2005



HCC Hastings Correctional Center
 OCC Omaha Correctional Center
 LCC Lincoln Correctional Center
 NCCW Nebraska Correctional Center for Women

NSP Nebraska State Penitentiary
 CCC-L Community Correctional Center-Lincoln
 NCYF Nebraska Correctional Youth Facility

NEBRASKA DEPARTMENT OF CORRECTIONAL SERVICES
CANTEEN INCOME STATEMENT SUMMARY
For the Fiscal Year Ended June 2005

	<u>OCC</u>	<u>LCC</u>	<u>NCW</u>	<u>NSP</u>	<u>CCL</u>	<u>NCYF</u>	<u>TSCI</u>	<u>COMBINED</u>
CANTEEN PROFITS								
Net Sales	\$ 418,050.66	\$ 494,007.70	\$ 265,768.13	\$ 945,883.72	\$ 157,724.38	\$ 39,890.61	\$ 569,047.18	\$ 2,890,372.38
COST OF GOODS SOLD								
Beginning Inventory	\$ 26,589.34	\$ 35,387.55	\$ 19,862.45	\$ 63,421.10	\$ 10,084.12	\$ 2,197.15	\$ 50,757.00	\$ 208,298.71
Purchases Paid Current Month	325,298.84	392,509.74	214,114.87	748,368.54	123,028.26	27,732.65	446,477.88	2,277,530.78
Purchase Paid Prior Month	-	-	-	-	-	-	-	-
Accrued Purchases	-	-	-	-	-	-	-	-
Less Ending Inventory	26,028.59	33,472.62	21,990.96	72,089.66	11,302.31	5,870.26	50,094.29	220,848.69
Cost of Goods Sold	325,859.59	394,424.67	211,986.36	739,699.98	121,810.07	24,059.54	447,140.59	2,264,980.80
Gross Profit on Sales	\$ 92,191.07	\$ 99,583.03	\$ 53,781.77	\$ 206,183.74	\$ 35,914.31	\$ 15,831.07	\$ 121,906.59	\$ 625,391.58
OPERATING EXPENSES								
Staff Wages	\$ 114,810.89	\$ 123,631.00	\$ 35,875.92	\$ 187,329.97	\$ 18,486.16	\$ -	\$ 61,221.31	\$ 541,355.25
Inmate Wages/Bonus	-	-	-	-	-	-	-	-
Contractual Services - Temporary Salary	-	-	-	-	-	-	-	-
Printing	-	-	-	139.79	-	-	-	139.79
Repair & Maintenance Household	-	-	-	-	-	-	-	-
Repair & Maintenance Other Personal Property	-	-	-	-	-	-	-	-
Office Supplies	140.12	1,243.46	169.38	27.04	374.76	16.18	140.74	2,111.68
Household and Institutional Supplies	1,166.62	1,559.72	1,212.14	5,374.70	1,409.60	1,695.86	3,608.33	16,026.97
Cash Over/Under Adjusted	-	-	-	-	(1,961.91)	-	-	(1,961.91)
Damaged Goods	730.70	411.66	450.07	616.73	212.81	58.22	656.42	3,136.61
Equipment	-	-	1,400.17	-	-	-	-	1,400.17
Total Operating Expenses	\$ 116,848.33	\$ 126,845.84	\$ 39,107.68	\$ 193,488.23	\$ 18,521.42	\$ 1,770.26	\$ 65,626.80	\$ 562,208.56
Operating Income (Loss)	\$ (24,657.26)	\$ (27,262.81)	\$ 14,674.09	\$ 12,695.51	\$ 17,392.89	\$ 14,060.81	\$ 56,279.79	\$ 63,183.02
OTHER REVENUE								
Investment Interest	2,990.76	3,473.95	1,898.62	6,766.68	1,128.37	285.38	4,071.00	20,614.76
Commission	4,071.88	3,973.22	3,207.85	16,277.57	59.52	924.54	5,466.48	33,981.06
Total Other Revenue	7,062.64	7,447.17	5,106.47	23,044.25	1,187.89	1,209.92	9,537.48	54,595.82
Net Income (Loss)	\$ (17,594.62)	\$ (19,815.64)	\$ 19,780.56	\$ 35,739.76	\$ 18,580.78	\$ 15,270.73	\$ 65,817.27	\$ 117,778.84
RATIOS								
Inventory Turnover	1.35	1.46	1.11	1.08	1.32	0.59	0.94	13.09
Average Number of Days Inventory	22.18	20.55	1.11	27.83	22.66	51.19	32.06	2.29
Profit Margin	-4.21%	-4.01%	7.44%	3.78%	11.78%	38.28%	11.57%	4.07%
Gross Profit Margin	28.29%	25.25%	25.37%	27.87%	29.48%	65.80%	27.26%	27.61%

Source: Prepared by Department.

Note: The Department looks at canteen profits through the sum of all canteens and acknowledges through the budget document every biennium the operating support from non-canteen funds. Some canteens have all of their positions funded from the canteen fund, while others are only partially funded from the canteen fund.