

**ATTESTATION REPORT  
OF THE  
NEBRASKA SUPREME COURT**

**JULY 1, 2003 THROUGH JUNE 30, 2004**

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**Issued on July 8, 2005**

# NEBRASKA SUPREME COURT

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# NEBRASKA SUPREME COURT

## BACKGROUND

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

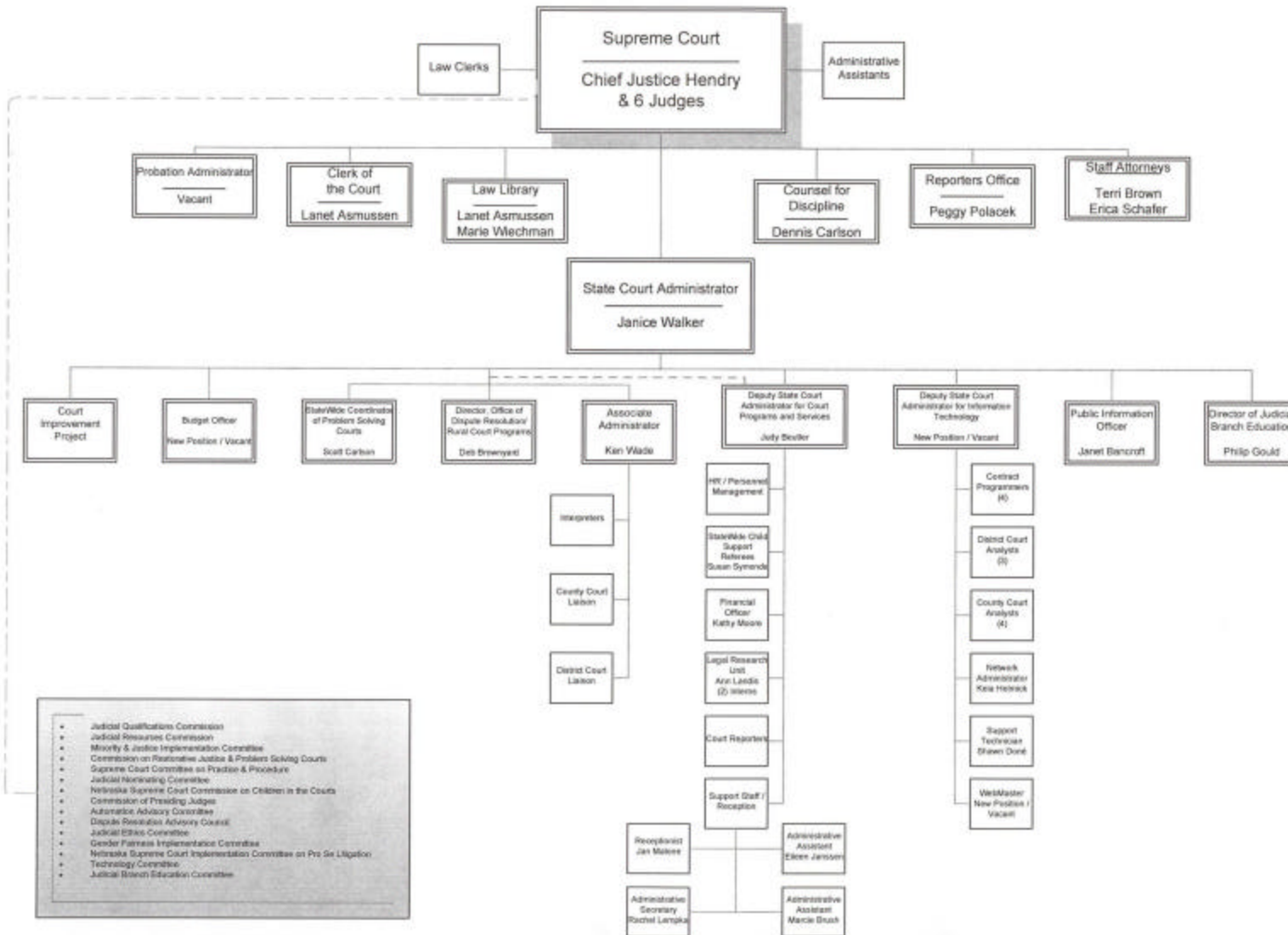
The 12 judicial districts in Nebraska and 54 district judges serve all 93 counties. District courts serve as appeals courts for cases from county courts in other than juvenile and probate matters in the State. They hear all felony matters, domestic relations matters, and civil matters where more than \$15,000 is in controversy.

Presently, 59 county court judges serve 12 judicial districts. These judges have jurisdiction over civil matters of less than \$15,000, misdemeanors, and preliminary hearings in felony cases. Judges outside of Douglas, Lancaster, and Sarpy counties also act as juvenile judges. (There are separate juvenile courts in Douglas, Lancaster, and Sarpy counties.) County courts have jurisdiction over city ordinance violations and have jurisdiction in probate, adoption, guardianship, conservatorship, and related matters. These courts also function as small claim courts.

In 1957 Nebraska adopted a general statewide system that provided for a planned, uniform system of presentence investigations, case studies, and coordinated supervision of offenders eligible for probation under court suspension of sentence. In 1971 the Legislature provided for administration of probation in district, county, and juvenile courts, except for the separate juvenile courts; and created the Office of Probation Administration. The Legislature placed probation for district courts under the authority of the Nebraska Supreme Court effective July 1, 1986. In 1990, the Legislature provided for the implementation of an Intensive Supervision Probation (ISP) Program. ISP serves as an intermediate sanction between traditional probation and jail or prison for adults or commitment for juveniles.

# NEBRASKA SUPREME COURT

## ORGANIZATIONAL CHART



## NEBRASKA SUPREME COURT

### EXIT CONFERENCE

An exit conference was held June 1, 2005, with the Supreme Court to discuss the results of our examination. Those in attendance for the Nebraska Supreme Court were:

<b>NAME</b>	<b>TITLE</b>
Janice Walker	State Court Administrator
Judy Beutler	Associate Administrator
David Wegner	Acting Co-Probation Administrator
Frank Jenson	Acting Co-Probation Administrator
Lanet Asmussen	Clerk, Nebraska Supreme Court
Kathy Moore	Financial Officer
Eileen Janssen	Administrative Assistant
Jane Wray	Financial Administrative Assistant
Marie Wiechman	Deputy Librarian

# NEBRASKA SUPREME COURT

## SUMMARY OF COMMENTS

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

1. ***Payroll Issues:*** There were several issues related to payroll processing including a lack of adequate internal controls, lack of adequate timesheets to record hours worked, lack of record retention of electronic messages, non-compliance with Supreme Court policies related to leave, lack of compliance with Federal regulations, employees who were not earning leave, and employees who were not contributing to the State Employees Retirement Plan.
2. ***Internal Control Over Expenditures:*** Two individuals could approve transactions they had prepared which did not allow for an adequate segregation of duties. There also was a lack of a review of the general ledger detail report and a lack of adequate documentation for certain transactions.
3. ***Internal Control Over Revenues:*** There was a lack of segregation of duties over the receipt process. There was no review of the general ledger detail report. Receipts were not deposited in accordance with statutory requirements.
4. ***Travel:*** There was a lack of compliance with Internal Revenue Service (IRS) regulations related to meal expenses. There were unreasonable lodging expenses compared to the Federal General Services Administration (GSA) per diem guidelines, mileage expenses were not reasonable, reimbursement requests were not filed timely or were not properly approved, use of permanently assigned State vehicles may not have been cost efficient, and there was a lack of adequate preaudit of travel documents.
5. ***Contracts:*** The Supreme Court did not enter contracts into the State accounting system as required by statute, contracts were not signed or did not contain specific language, contracts were not reviewed by legal counsel prior to execution, and there was not evidence of adequate monitoring of contracts.
6. ***Cash Fund Balance:*** The Supreme Court Reports Cash Fund had a fund balance on hand that could cover in excess of one year's expenditures.
7. ***Internal Control Over Fixed Assets:*** There was a lack of segregation of duties over the fixed asset process. One individual was responsible for all phases of a transaction from beginning to end. There was not a proper review of reports generated by the system. Two assets on the fixed asset listing could not be located. One asset in the Supreme Court offices could not be traced to the fixed asset listing. Four items were not properly tagged as property of the State of Nebraska. Items purchased were not properly coded in the accounting system or did not get properly added to the fixed asset listing.

# NEBRASKA SUPREME COURT

## SUMMARY OF COMMENTS

(Continued)

8. ***Nebraska Information System (NIS) and Accounting Procedures:*** Significant concerns or areas where improvement to NIS is needed to ensure NIS integrity and operation efficiency were identified.

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

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

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

### 1. Payroll Issues

We tested 25 employees of the Supreme Court. We noted the following:

#### Internal Control over Payroll Processing

Good internal control requires an adequate segregation of duties to ensure one employee cannot both perpetrate and conceal errors or irregularities. If an adequate segregation is not possible, controls should be implemented to compensate for the lack of segregation of duties.

The Supreme Court had four individuals with access to the payroll functions who were able to perform all payroll functions on NIS. The employees performed certain manual procedures to ensure payroll transactions were valid, such as reviewing employees' monthly gross and net pay and hours worked; however, these procedures were not documented in all instances.

The risk of loss or misuse of State funds increases with the lack of documented controls over payroll processing.

We recommend the Supreme Court implement procedures to ensure controls over payroll processing are documented.

*Supreme Court's Response: The Court Administrator and Probation Administrator will assure that none of the four individuals processing payroll will do any part of their own payroll, ie, wage changes, leave entry or any other part of that employee's records. All payroll registers will be documented if any changes are made.*

#### Timesheets

Neb. Rev. Stat. Section 84-1001 R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees shall . . . render not less than forty hours of labor each week except any week in which a paid holiday may occur." Good internal control requires procedures to ensure adequate documentation that all employees render forty hours of work each week, particularly when employees will receive a payment for unused sick and vacation leave upon termination.

- There were 11 of 22 employees tested that did not complete timesheets to document forty hours of work each week. (Three employees tested were judges.) The Supreme Court utilized various timesheets for its employees. Some employees utilized leave requests, which only indicated the leave hours used each day. These requests did not document forty hours of work was rendered each week. Other employees utilized timesheets with columns to record hours worked and leave hours used; however, some employees only recorded leave hours used on these timesheets as well.



## NEBRASKA SUPREME COURT

### COMMENTS AND RECOMMENDATIONS

(Continued)

#### 1. Payroll Issues (Continued)

##### Timesheets (Concluded)

- One of five terminated employees tested did not have adequate supporting documentation to support time worked in the month terminated. The Supreme Court was unable to provide the timesheet of the employee.

Without adequate records to support time worked, there is an increased risk for fraudulent or inaccurate unused leave payments at termination.

We recommend the Supreme Court implement procedures to ensure all employees who expect payment of unused leave at termination to maintain adequate documentation to support forty hours of work each week.

*Supreme Court's Response: All fulltime employees, with the exception of judges, who are constitutional officers, are required to work a 40 hour week. Unless otherwise arranged, the designated work week will be from 8:00 am on Monday to 8:00 am the following Monday. The work week is documented in each office. Records indicating a deviation from this 40 hour week are maintained.*

**APA's Response: As indicated in our comment, good internal control requires each employee to document 40 hours of work each week. We do not feel recording deviations from the "normal" work schedule satisfies this requirement. Again, we recommend the Supreme Court implement procedures to ensure each employee documents 40 hours of work each week, either by completing a daily timesheet of time worked and leave used or by signing a statement certifying that at least 40 hours of work were rendered each week.**

##### Records Retention

The Nebraska Secretary of State's Electronic Messaging and Electronic Mail Guidelines 003.01 states, "Electronic messages transmitted through a government system are records and as such are subject to management under the Records Management Act, just as other types of media are subject to this act. Electronic messages with on-going record value may convey information on programs, policies, decisions, and essential transactions." In addition, the Secretary of State's Electronic Messaging and Electronic Mail Guidelines 007.03 states for electronic messages and electronic mail with less than permanent retention, the records should be in hard copy or electronic format which can be retrieved and interpreted for the legal retention period. We noted the following:

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 1. Payroll Issues (Continued)

#### Records Retention (Concluded)

- Documentation was not retained for the notification of the Department of Administrative Services (DAS) Accounting Division to process payroll for 18 of the 25 individuals tested for 2 different months.
- There also was no documentation to indicate the Supreme Court notified DAS Accounting Division to remove the accounting system access of 5 terminated individuals tested.

There is an increased risk for loss or misuse of State funds without adequate maintenance of records.

We recommend the Supreme Court implement procedures to ensure all electronic messages are retained in accordance with the records retention guidelines. We also recommend the Supreme Court implement procedures to document DAS is notified of terminated employees.

*Supreme Court's Response: All terminated employees will have documentation in their files for time worked in the month they terminated and the payoff of any leave balances.*

*All additions and deletions to the Court's payroll will be retained electronically.*

**APA's Response: As noted above, we also recommend the Supreme Court implement procedures to ensure notification for payroll processing is also documented.**

#### Leave Procedures

The Supreme Court's Personnel Policies and Procedures for vacation leave state, "It is the responsibility of each employee to monitor the amount of vacation leave available for use. If an employee takes vacation leave before it is earned it will result in the reduction of the employee's wages and possible disciplinary action." The policy also states that each employee, upon retirement, dismissal, or voluntary separation from Nebraska Court System employment shall be paid for unused accumulated vacation leave.

The Supreme Court's Personnel Policies and Procedures for sick leave state, "It is the responsibility of each employee to monitor the amount of sick leave available for use. Sick leave shall not be used as vacation leave, nor can it be taken in advance." The policy also states, "Substantiating evidence shall be required by the supervisor if the sick leave absence is 10 working days or longer and the employee is not on family/medical leave."

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 1. Payroll Issues (Continued)

#### Leave Procedures (Concluded)

Good internal control requires procedures to ensure compliance with personnel policies.

- We tested three employees with negative leave balances. Two employees had negative sick leave and the other had negative vacation leave. The amount of negative leave ranged from negative 1 hour to negative 32 hours.
- We also tested three terminated employees who still had a vacation balance in the accounting system. One of the terminated employees with a vacation balance did not receive payment for their balance upon termination. The employee had a vacation balance at termination of 25.18 hours and should have received \$226.
- We tested four employees who took more than 80 hours of sick leave in one month. Three of the employees had documentation required by the Supreme Court policy. One of the employees did not have documentation for excessive sick leave, in accordance with Supreme Court policies.

There is an increased risk of loss or misuse of State funds or incorrect payments to terminated employees when policies are not followed.

We recommend the Supreme Court implement procedures to ensure policies and procedures established by the Supreme Court are followed and that terminated employees are properly paid at termination. The Supreme Court should process a payment for the terminated employee who did not receive payment of unused vacation leave and should review all terminated employees who still have a vacation balance.

*Supreme Court's Response: Leave usage and payoffs will be well documented and no employee will have negative leave balances without either the Court Administrator's or Probation Administrator's written approval.*

**APA's Response:** We also recommend the Supreme Court process a payment for the terminated individual who was not properly paid the vacation leave balance and review all terminated employees with vacation balances to ensure all terminated employees received the proper payment, and vacation balances are reduced to zero.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 1. Payroll Issues (Continued)

#### Compliance With Federal Regulations

Office of Management and Budget (OMB) Circular A-87 provides principles and standards for determining costs for Federal awards. Attachment B, section 11, subsection h(4) states, “Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system . . . or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on . . . (b) A Federal award and a non-Federal award . . .”

OMB Circular A-87 Attachment B, section 11, subsection h(5) states, “Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee . . . (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards . . .”

OMB Circular A-87 Attachment B, section 11, subsection h(3) states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

Good internal control requires adequate documentation to support the allocation of employees’ wages to more than one fund.

There were 2 of 25 employees tested paid partially or fully from Federal funds. Neither employee met the requirements of Circular A-87. One employee had time worked charged to a Federal program, but did not actually work on the Federal program. The other employee’s time worked was charged entirely to a Federal program. There were no timesheets indicating which Federal program was worked on and no semi-annual certification required by Circular A-87.

Without compliance with Federal cost principles, there is a risk for loss of Federal funding.

We recommend the Supreme Court implement procedures to ensure compliance with OMB Circular A-87.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 1. Payroll Issues (Continued)

#### Compliance With Federal Regulations (Concluded)

*Supreme Court's Response: The Court Administrator and Probation Administrator will direct that every employee being fully funded by a single Federal award will have periodic certifications that the employees worked solely on that program for the period covered by the certification. Any employee working partially by a Federal grant award will have their time reviewed periodically and have the distribution percentages certified and adjusted if necessary.*

**APA's Response: The OMB Circular A-87 requires employees who are not fully funded by a Federal award to maintain personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee unless a substitute system has been approved.**

#### Law Clerks/Administrative Assistants

Neb. Rev. Stat. Section 84-1301(10) R.S.Supp., 2004 states, "Employee means . . . any person or officer employed by the State of Nebraska whose compensation is paid out of state funds or funds controlled or administered by a state department through any of its executive or administrative officers when acting exclusively in their respective official, executive, or administrative capacities."

Neb. Rev. Stat. Section 81-1328 R.R.S. 1999 states, "State employees shall, during each year of continuous employment, be entitled to ninety-six working hours of vacation leave with full pay. State employees who complete five years of continuous employment by the state shall be entitled to one hundred twenty hours of vacation leave during their sixth year of employment and shall thereafter be entitled to eight additional hours of vacation leave with full pay for each additional year of continuous state employment up to a maximum of two hundred hours of vacation leave a year."

Neb. Rev. Stat. Section 84-1307(2) R.S.Supp., 2004 states, "The following employees of the State of Nebraska are authorized to participate in the retirement system: (a) All permanent full-time employees who have twelve continuous months of service shall begin participation in the retirement system . . ."

There was 1 of 25 employees tested that did not have retirement withheld from his or her earnings. This employee was a law clerk. There were also 2 of 22 employees tested, also law clerks, that did not earn vacation or sick leave. The Supreme Court has approximately 35 employees who do not earn leave and may not be contributing to the State Employees' Retirement Plan as required.

Non-compliance with this statute results in loss of benefits for certain employees.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Payroll Issues** (Concluded)

Law Clerks/Administrative Assistants (Concluded)

We recommend the Supreme Court implement procedures to ensure all eligible employees join the State Employees' Retirement Plan as required by statute as well as earn both vacation and sick leave.

*Supreme Court's Response: The Court's Law Clerks and Administrative Assistants will continue to work at the discretion of the Supreme Court Justices and Judges of the Court of Appeals.*

*The Court Administrator will ask the Supreme Court to review the status of any non-career law clerk who has worked at least twelve continuous months and consider whether or not those law clerks will then become participants in the State Retirement System.*

**APA's Response: The Supreme Court is not in compliance with the statutes related to leave earnings by State employees and the State Employees Retirement Act. Again, we recommend the Supreme Court ensure all employees properly earn and use leave in accordance with State law and are properly contributing to the State Employee's Retirement Plan.**

2. **Internal Control Over Expenditures**

Segregation of Duties

Good internal control requires an adequate segregation of duties so one individual is not in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires a review of the detailed transactions to ensure all transactions are authorized and proper.

Two individuals were able to approve batches they had prepared in the accounting system. The accounting system utilized a process called batch management. This process allows agencies to define an approver for each preparer of batches (or transactions) in the system. The two individuals were set up by the Supreme Court to approve batches they had also prepared. Therefore, these individuals were able to process a transaction from beginning to end.

There was also not a review of the general ledger detail report to ensure all transactions processed through the Supreme Court funds were authorized and proper.

Without an adequate segregation of duties or controls to compensate for the lack of segregation of duties, there is an increased risk for loss or misuse of State funds.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 2. Internal Control Over Expenditures (Continued)

#### Segregation of Duties (Concluded)

We recommend the Supreme Court implement procedures to ensure an adequate segregation of duties over the expenditure process. The Supreme Court should review its batch management process in the accounting system to ensure one individual can not approve batches they prepared. We also recommend the Supreme Court implement a documented review of the general ledger detail report to ensure all transactions processed to the Supreme Courts funds are authorized and proper.

*Supreme Court's Response: The Court Administrator and Probation Administrator will direct that the two individuals mentioned will have their batch management definitions changed so that they will be unable to approve batches that they prepare.*

**APA's Response: We also recommend the Supreme Court implement a documented review of the general ledger detail report, as noted in our comment.**

#### Lack of Supporting Documentation

Good internal control requires procedures to ensure adequate documentation is maintained to support all transactions.

During the examination, we were unable to obtain documentation to support the following:

- The Supreme Court did not have a copy of the grant agreement on file for one of the six documents tested. The grant was between the Supreme Court and the Nebraska Health and Human Services System (HHSS) for the services of a child support referee.
- One of the twenty-seven documents tested did not have adequate documentation to support how the expenditure was split between the general fund and two cash funds. The expenditure totaled \$5,295.
- One of three negative entries tested did not have adequate documentation to support the transaction. Therefore, we were unable to determine if the entry was reasonable and proper. The transaction was to reduce a postage expenditure by \$5,000.

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Internal Control Over Expenditures** (Concluded)

Lack of Supporting Documentation (Concluded)

- Two of eight journal entries tested did not have adequate documentation to support the transaction. Therefore, we could not determine if the transaction was reasonable and proper. There was no support provided for the reduction in Federal reimbursement for one of the transactions and copies of original expenditures were not included in the grant file to support the expenses for the other transaction.

Without adequate documentation to support expenditure transactions, there is an increased risk of possible loss or misuse of State and Federal funds.

We recommend the Supreme Court implement procedures to ensure adequate supporting documentation is maintained for all transactions.

*Supreme Court's Response: The Court Administrator will obtain a signed agreement between the Court and HHSS for the services of the child support referee.*

*All documents with split coding will have a notation on how the split was determined.*

*Adequate documentation will be attached to all future journal entries.*

3. **Internal Control Over Revenues**

Segregation of Duties

Good internal control requires procedures to ensure financial transactions are authorized, complete, and accurate. Good internal control also requires an adequate segregation of duties over the receipt of monies to ensure one individual is not in the position to both perpetrate and conceal errors or irregularities.

There were six individuals with access in the accounts receivable function of the accounting system to perform all of the cash depositing functions, create invoices within the system, and apply cash received to the invoices. This functional access did not allow for an adequate segregation of duties over receipts.



# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. Internal Control Over Revenues (Continued)

#### Segregation of Duties (Concluded)

We also noted certain Supreme Court employees received cash and checks or opened the mail containing cash and checks. These employees created an initial control tape of monies received. Once the tape was created, it was initialed and forwarded with the cash and checks to another employee who prepared the deposit. There was not a review to ensure all monies received were actually deposited, other than the review by the employee making the deposit.

The Supreme Court also did not perform reviews of the general ledger detail to ensure all receipt transactions were authorized and proper.

Without an adequate segregation of duties or controls to compensate for the lack of segregation of duties over the receipt process, there is an increased risk for loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure an adequate segregation of duties exist over the receipt process. The Supreme Court should consider whether the accounts receivable functional access in the accounting system is appropriate. If an adequate segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation of duties. There should be a documented review of the monies received compared to the funds actually deposited by an employee other than the employee who prepared the deposit. There should also be a documented review of the general ledger detail to ensure all receipt transactions are authorized and proper.

*Supreme Court's Response: The Court Administrator and Probation Administrator will take steps to assure that all employees handling receivables will have segregation of duties. The Court Administrator and the Probation Administrator will be provided with a copy of each month's General Ledger Report to review.*

#### Receipts Not Deposited Timely

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 . . . 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."

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 3. **Internal Control Over Revenues** (Concluded)

#### Receipts Not Deposited Timely (Concluded)

Receipts were not deposited in accordance with the statute for 5 of 8 receipts tested. Four receipts, ranging from \$577 to \$1,661 were deposited from 6 to 15 days after the money was received by the Supreme Court. One receipt, totaling \$402, was deposited in 12 days.

Without adequate procedures to ensure all deposits are made timely and in accordance with statute, there is an increased risk for loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure all monies received are deposited in accordance with statute.

*Supreme Court's Response: The Court Administrator and Probation Administrator will direct that all receipts will be deposited in a timely manner.*

### 4. **Travel**

#### Meal Expenses

IRS Publication 463 requires an accountable plan to have adequate accounting of expenses. The publication states that adequate accounting requires employees to submit to their employers a statement of expense, an account book, a diary, or a similar record in which each expense is entered at or near the time of occurrence, along with documentary evidence. The publication states, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense." A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information: 1) the name and location of the restaurant, 2) the number of people served, and 3) the date and amount of expense. Credit card receipts do not contain adequate detail to substantiate meals.

Good internal control requires procedures to ensure amounts reimbursed for meals are reasonable and adequately documented.

- The Supreme Court did not require all employees to submit meal logs during the fiscal year and did not verify whether all employees properly maintained meal logs. The Supreme Court did not obtain meal logs from terminated employees. Four of six individual expense reimbursement documents tested did not have meal logs or receipts to substantiate meal costs. Unsubstantiated meal costs ranged from \$15 to \$173 on the four documents tested.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Travel (Continued)

#### Meal Expenses (Concluded)

- One individual had an unreasonable meal expense of \$30 for one meal when the per diem guideline for dinner was \$22 in Nebraska. The same individual was reimbursed \$7 more than the receipts provided. After this was brought to the Supreme Court's attention, the individual remitted a check in the amount of \$7 to the State. This individual was a contractor providing services to the Supreme Court. There was not an adequate review of the individual's expenses to ensure they were reasonable and necessary.

Without adequate documentation to substantiate meal expenses and without an adequate review to ensure meal expenses are reasonable and necessary, there is an increased risk for loss or misuse of State funds. Lack of adequate documentation could also cause the State to lose its accountable plan status with the IRS, at which time any reimbursement to employees for meals would be taxable income.

We recommend the Supreme Court require all employees to substantiate their meals by utilizing a meal log or providing detailed receipts. The log should include the date, purpose, location, restaurant/vendor, meal (e.g. lunch), and amount. We also recommend the Supreme Court implement procedures to ensure all employees are substantiating meal expenses by requiring employees to submit the log or receipt with the request for reimbursement of expenses or to periodically require employees to provide the documentation.

*Supreme Court's Response: The Court Administrator and Probation Administrator will advise all employees submitting expense vouchers that all meal expenses claimed must have original receipts or a statement of expenses attached to the expense voucher before it will be processed.*

#### Lodging

IRS Publication 463 states that employees are traveling away from home if the duties require an employee to be away from the general area of the tax home substantially longer than an ordinary day's work.

Good internal control requires procedures to ensure lodging expenses are reasonable, economical, and within the Federal GSA per diem guidelines for lodging.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Travel (Continued)

#### Lodging (Concluded)

Lodging costs were not within Federal GSA per diem guidelines and/or lodging was allowed when not “away from home overnight” for three of the nine documents tested with lodging expenses.

- One document was payment to a hotel in which 22 individuals stayed overnight who were all less than 60 miles from their home. This would indicate they may not be “away from home overnight” according to the IRS. The 22 individuals stayed from one to three nights for a total of 40 room charges. At \$80 per room, the amount paid for individuals who were less than 60 miles from home was \$3,200. We also noted three individuals stayed overnight the last day of the meeting, when the meeting ended at noon. The total for these rooms was \$240.
- One document was payment to a hotel that exceeded the per diem guideline of \$55 per night in Nebraska. Two judges stayed at the hotel at \$104 per night for three nights. One judge stayed at the hotel at \$104 per night for four nights. Two of the judges also lived within 60 miles of the hotel, which would imply they may not be “away from home overnight” according to the IRS.
- One document was payment to a hotel in which seven employees stayed overnight the night before an 11 A.M meeting. These individuals could have reasonably driven to the conference in the morning. Additionally, three employees stayed at the hotel who were all less 60 miles from their home. Again, this would indicate they may not be “away from home overnight” according to the IRS. Finally, payment was made for a room charged to one individual whose expense reimbursement document indicated she returned home that evening.

Without adequate procedures to ensure lodging expenses are reasonable, there is an increased risk of loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure lodging expenses are made when employees are “away from home overnight” according to the IRS. We also recommend the Supreme Court implement procedures to ensure lodging expenses are reasonable by applying the Federal GSA per diem guidelines related to lodging expenses.

*Supreme Court’s Response: The Court Administrator and Probation Administrator will continue to review all requests for lodging to assure compliance with the Supreme Court Travel Policies.*

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Travel** (Continued)

Mileage

Neb. Rev. Stat. Section 81-1176(1) R.R.S. 1999 states, “If a trip or trips included in a request for payment of reimbursement filed under sections 81-1174 and 81-1175 are made by personal automobile . . . only one mileage request shall be allowed for each mile actually and necessarily traveled in each calendar month by the most direct route . . .”

Good internal control requires expense reimbursement documents to be adequately reviewed to ensure mileage is reasonable.

Mileage expenses were not reasonable for 6 of 18 documents tested that contained mileage expenses or mileage was not verifiable due to lack of adequate documentation. This was also noted in the prior audit report. The six documents included five reimbursements to employees for personal vehicle mileage and one document for permanently assigned State vehicles.

- Five of the documents contained unreasonable or excess mileage ranging from 9 miles to 110 miles per document tested.
- One document tested included personal vehicle mileage driven within one city or vicinity. It could not be determined if the mileage driven was reasonable as there was not enough information provided. This document included 4 days in which mileage driven in one city exceeded 50 miles per day.

Without adequate procedures to ensure mileage expenses are reasonable there is a risk of loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure mileage expenses are reasonable. An adequate review should be performed by a separate individual with direct knowledge of the travel of the employee. This review should be documented. The Supreme Court should also consider a policy to review mileage within one city or vicinity in excess of an established limit.

*Supreme Court’s Response: The Court Administrator and Probation Administrator will remind employees and judges to indicate if part of the mileage claimed is because of detours, etc., so that excessive mileage is not found.*

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Travel (Continued)

#### Miscellaneous

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states that whenever any state employee is entitled to be reimbursed for actual expenses incurred by him or her in the line of duty, he or she shall be required to present a request for payment or reimbursement each month. Each request shall be fully itemized, including when, where and why the expense was incurred and the actual amount involved.

Good internal control requires an adequate review of expense reimbursement requests to ensure expenses claimed are reasonable and necessary.

- There were 3 of 16 expense reimbursement documents tested that were not submitted monthly as required. The three employees submitted from two to four months at one time. This was also noted in the prior audit.
- There were also 2 of the 22 travel documents tested that were not properly approved. One of the documents included the expenses of a contractor. The other document was for an employee of the Supreme Court. Both requests for reimbursement were not signed by another individual.

Without adequate procedures to ensure expense reimbursement requests are submitted timely and are properly reviewed, there is a risk of loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure all employees submit expense reimbursement requests monthly as required by statute. We also recommend the Supreme Court implement procedures to ensure all expense reimbursement requests are signed by a separate individual with direct knowledge of the employees travel.

*Supreme Court's Response: The Court Administrator and Probation Administrator will remind employees and judges that expenses are to be turned on a monthly basis. The exception to this is if the trip overlaps from one month to the next.*

*All travel documents will be approved by another individual who is authorized by the Court Administrator or the Probation Administrator to do so.*

*The Court Administrator and Probation Administrator review each expense voucher. This is deemed to be adequate review of such vouchers.*

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Travel (Continued)

#### Permanently Assigned Vehicles

IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits, requires the reporting of income of any employee's personal use of employer provided vehicles. The IRS defines commuting as the use of a vehicle for travel between the employee's regular place of employment to the employee's residence. The regulation provides that a value of \$1.50 for one way commute, \$3.00 for round trip, be added to the employee's income.

DAS – Transportation Services Bureau (TSB) guideline for permanently assigned vehicles requires the vehicles to be driven a minimum of 1,000 miles per month and at least 17 days a month. This provides the most cost effective use of State vehicles.

The Statewide Probation System had 53 permanently assigned vehicles. There were 29 of these vehicles assigned on a 24-hour basis. The individuals driving these vehicles are on call 24-hours a day. The Court System had three permanently assigned vehicles which are assigned on a 24-hour basis. Commuting mileage for permanently assigned vehicles was not properly reported to the IRS as taxable income.

Additionally, 6 of 6 permanent vehicles tested were not driven consistently 1,000 miles per month and 17 days per month. The six vehicles were not driven 1,000 miles and 17 days from 7 to 12 months of the year.

Without adequate procedures to ensure commuting miles are properly reported on permanently assigned vehicles, the Supreme Court is not in compliance with IRS regulations. Additionally, without adequate procedures to ensure permanently assigned vehicle usage is cost efficient, there is a risk for loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure commuting miles in State vehicles are properly reported as taxable income. We also recommend the Supreme Court review the need for permanently assigned vehicles when the use is not cost efficient.

*Supreme Court's Response: In response to comments regarding the reporting of mileage to the IRS, Probation will review current policy and procedures as well as the IRS Guidelines prior to making the suggested changes.*

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 4. Travel (Concluded)

#### Permanently Assigned Vehicles (Concluded)

*Supreme Court's Response, Concluded:*

*Probation Administration has determined, because of the nature of an Intensive Supervision Probation Officer, it is necessary they have a vehicle at their disposal 24 hours a day. We have and continue to monitor mileage and the number of days driven. We will review the utilization of these vehicles prior to action being taken regarding their status within Probation's fleet of vehicles. In addition, we will review our policies and procedures regarding these vehicles.*

#### Preaudit Procedures

Good internal control requires procedures to ensure all documents are adequately reviewed to ensure compliance with laws, regulations, and policies. The Supreme Court has an agreement with DAS to perform their own preaudit function. Supreme Court personnel are responsible for ensuring all vouchers and transactions comply with laws, regulations, and policies.

From the information included previously in this comment, it appears the Supreme Court does not have an effective preaudit over travel related documents. The same individual who prepares the document for processing in the accounting system is responsible for performing the preaudit.

Without an adequate review of documents to ensure all laws, regulations, and policies are complied with, there is an increased risk for loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure an adequate preaudit is performed on all documents. Each travel document should be reviewed to ensure the expenses claimed are reasonable and in accordance with laws, regulations, and policies. This review should be clearly documented.

### 5. Contracts

Neb. Rev. Stat. Section 73-503 R.R.S. 2003 states that all State agencies shall process and document all contracts for services through the State accounting system no later than September 15, 2003. The requirements of this section also apply to the courts.

Good internal control requires contracts to be signed, contain specific information, be reviewed by legal counsel, and be adequately monitored to ensure provisions of the contract are met.



NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Contracts** (Concluded)

We tested three contracts for services entered by the Supreme Court. The Supreme Court paid \$139,758, \$103,252, and \$13,814 on these contracts during the fiscal year. We noted the following:

- The contracts were not entered into the State accounting system as required by statute.
- Two of the three contracts tested were not signed or were not specific. The contract for \$13,814 was not signed. The contract for \$103,252 was not signed and did not contain a specific maximum amount of the contract. The original contract also was not on file.
- The three contracts tested were not reviewed by legal counsel to ensure the State's interests were properly protected.
- No monitoring of the contracts was evident for two of the three documents tested.

Without adequate procedures to ensure contracts are specific and documented, to ensure a legal review of contracts, and to ensure adequate monitoring of contracts, there is an increased risk for loss or misuse of State funds.

We recommend the Supreme Court implement procedures to ensure all contracts are entered into the State accounting system as required by statute. We also recommend the Supreme Court implement procedures to ensure the terms of the contracts are specific, the original contract documentation is on file, and the contracts are signed. Finally, we recommend the Supreme Court implement procedures to ensure contracts are reviewed by legal counsel and are adequately monitored to ensure terms of the contract are met.

*Supreme Court's Response: The Court Administrator and Probation Administrator will review the process for documentation and maintenance of contracts.*

*All contracts will be signed and kept in the Administrative Office of the Courts and Probation.*

*All contracts will be reviewed by the Court's staff attorney.*

**APA's Response:** We also recommend the Supreme Court implement procedures to ensure all contracts are adequately monitored to ensure the terms of the contract were met.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 6. Cash Fund Balance

Good fiscal policy requires cash fund balances be periodically reviewed to ensure fees charged are not too high or too low in comparison to the expenditures of the fund.

The Supreme Court Reports Cash Fund balance increased from \$145,985 at June 30, 2002, to \$192,066 at June 30, 2004. The fund balance was sufficient to cover in excess of one year's expenditures. The fiscal year expenditures were \$164,413. A similar issue was noted in the prior audit.

The balance in the Supreme Court Reports Cash Fund may indicate that fees were too high, or all costs were not properly charged to the Cash Fund.

We recommend the Supreme Court implement procedures to ensure the balance of the Supreme Court Reports Fund is appropriate.

*Supreme Court's Response: The Court Administrator and Probation Administrator will periodically review the fees being charged for each cash fund and will change such fees accordingly.*

### 7. Internal Control Over Fixed Assets

Good internal control requires an adequate segregation of duties over fixed assets to ensure one individual is not in a position to both perpetrate and conceal errors or irregularities. Good internal control also requires procedures to ensure the fixed asset records are adequately maintained. The Supreme Court inventory policy is to record all items with a purchase cost of \$1,500 or more on the fixed asset listing.

Neb. Rev. Stat. Section 81-1118.02(3) R.R.S. 1999 states, "Each such executive, department, commission, or other state agency shall indelibly tag, mark, or stamp all such property belonging to the State of Nebraska, with the following: Property of the State of Nebraska."

The following was noted related to the Supreme Court's fixed asset procedures:

- One individual performed all fixed asset transactions including the maintenance of records, recording additions to the fixed asset listing, and initiating deletions from the listing. This was also noted in our prior report. This same individual was responsible for coordinating the annual physical inventory. However, no physical inventory was completed for the Supreme Court and the Court of Appeals.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 7. Internal Control Over Fixed Assets (Continued)

- No individual reviewed the NIS fixed asset reports or exception reports to ensure all items were properly added to the fixed asset listing.
- Two of eight assets tested from the fixed asset listing were unable to be traced to the asset. Both items were listed as computers. One item did not have a tag number attached, so we could not determine whether it was the asset on the list. The other asset was transferred to another State agency. No item matching the serial number on the listing could be located at the agency.
- One of six assets tested in the Supreme Court could not be traced to the fixed asset listing. The laptop computer also did not have a tag number and the serial number on the laptop did not match any on the listing.
- Four of fourteen items tested were not appropriately tagged as “Property of the State of Nebraska.” All items were desktop computers or laptops.
- Library books and other items totaling \$16,645 were incorrectly coded as capital outlay. The items should have been coded as an operating expense since none of the items individually cost more than \$1,500.
- Capital assets totaling \$12,655 were not added to the fixed asset listing on NIS. The assets included one recorder and other computer equipment. This was also noted in the prior audit.

Without an adequate segregation of duties and other controls to ensure all items are properly added to the fixed asset listing, there is an increased risk for loss or misuse of State assets.

We recommend the Supreme Court implement procedures to ensure an adequate segregation of duties is in place over fixed assets. These procedures should require an individual separate from the fixed asset process to review the Unposted Fixed Asset Transaction Report and the Passed Transactions Report to ensure all additions were properly added to the listing, and to review the Additions and Retirement Report to ensure all deletions were authorized. We also recommend an individual not involved with the fixed asset process complete the annual physical inventory.

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 7. Internal Control Over Fixed Assets (Concluded)

*Supreme Court's Response: The Court Administrator and Probation Administrator have directed that two individuals will maintain the Court's physical inventory. The Court Administrator and Probation Administrator will periodically review or have reviewed the Court's inventory. A physical inventory will be completed during each calendar year.*

*The Court Administrator and Probation Administrator will designate an individual to make sure that all items are tagged and that all purchases are coded correctly to fixed assets if appropriate.*

### 8. Nebraska Information System (NIS) and Accounting Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the Nebraska Information System (NIS). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004, the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003, at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December

# NEBRASKA SUPREME COURT

## COMMENTS AND RECOMMENDATIONS

(Continued)

### 8. Nebraska Information System (NIS) and Accounting Procedures (Continued)

2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003, reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **Nebraska Information System (NIS) and Accounting Procedures** (Continued)

problem. The “work around” solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately for salaried employees who incur hours that are distributed across multiple business units.

- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but does acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.
- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State. The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the State Records Administrator schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **Nebraska Information System (NIS) and Accounting Procedures** (Continued)

access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, “All critical function access rights have been secured down to the appropriate high level matrix codes.” We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.

- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, “The NIS CNC's and the NIS Security team have developed a comprehensive security policy.” We could not verify the accuracy of this statement as requested information and documentation have not been provided to us.
- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, “We have now contracted with an outside vendor for business continuity planning.” Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
  - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
  - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
  - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor

NEBRASKA SUPREME COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

8. **Nebraska Information System (NIS) and Accounting Procedures** (Concluded)

information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to DAS, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.



# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA SUPREME COURT

### INDEPENDENT ACCOUNTANT'S REPORT

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Supreme Court (the Supreme Court) for the fiscal year ended June 30, 2004. The Supreme Court's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Supreme Court for the fiscal year ended June 30, 2004, 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 June 1, 2005, on our consideration of the Nebraska Supreme Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

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

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is fluid and cursive, with the letters "T", "J", and "C" being particularly prominent.

Assistant Deputy Auditor

June 1, 2005

NEBRASKA SUPREME COURT  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2004

	General Fund 10000	Supreme Court Reports 20510	Probation Supervision 20520	Supreme Court Education 20530	Supreme Court Automation 20540	Dispute Resolution Cash 20550	Probation Contractual Services 20560
REVENUES:							
Appropriations	\$ 54,559,574	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	618,732
Sales & Charges	9,285,784	140,515	-	6,395	8,669	-	-
Miscellaneous	48,399	43,119	647,803	341,532	2,492,219	252,411	4,223
TOTAL REVENUES	<u>63,893,757</u>	<u>183,634</u>	<u>647,803</u>	<u>347,927</u>	<u>2,500,888</u>	<u>252,411</u>	<u>622,955</u>
EXPENDITURES:							
Personal Services	51,783,151	23,133	194,867	18,829	464,213	1,759	514,523
Operating	1,845,433	141,280	479,260	13,256	1,993,585	167	31,131
Travel	743,103	-	9,783	48,260	17,602	-	11,252
Capital Outlay	124,687	-	385	50	-	-	-
Government Aid	63,200	-	-	-	-	185,200	719
TOTAL EXPENDITURES	<u>54,559,574</u>	<u>164,413</u>	<u>684,295</u>	<u>80,395</u>	<u>2,475,400</u>	<u>187,126</u>	<u>557,625</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,334,183</u>	<u>19,221</u>	<u>(36,492)</u>	<u>267,532</u>	<u>25,488</u>	<u>65,285</u>	<u>65,330</u>
OTHER FINANCING SOURCES (USES):							
Deposit to General Fund	<u>(9,334,183)</u>	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,334,183)</u>	-	-	-	-	-	-
Net Change in Fund Balances	-	19,221	(36,492)	267,532	25,488	65,285	65,330
FUND BALANCES, JULY 1, 2003	<u>9,125</u>	<u>172,845</u>	<u>311,499</u>	<u>-</u>	<u>389,892</u>	<u>5,767</u>	<u>38,751</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ 9,125</u>	<u>\$ 192,066</u>	<u>\$ 275,007</u>	<u>\$ 267,532</u>	<u>\$ 415,380</u>	<u>\$ 71,052</u>	<u>\$ 104,081</u>
FUND BALANCES CONSIST OF:							
General Cash	\$ -	\$ 154,111	\$ 215,007	\$ 267,532	\$ 415,380	\$ 71,052	\$ 104,081
Petty Cash	125	-	-	-	-	-	-
Deposits with Vendors	9,000	-	-	-	-	-	-
Accounts Receivable Invoiced	-	5,955	-	-	-	-	-
Due From Other Funds	-	32,000	60,000	-	-	-	-
Due to Vendors	-	-	-	-	-	-	-
Due to Fund	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ 9,125</u>	<u>\$ 192,066</u>	<u>\$ 275,007</u>	<u>\$ 267,532</u>	<u>\$ 415,380</u>	<u>\$ 71,052</u>	<u>\$ 104,081</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA SUPREME COURT  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2004

	Counsel For Discipline 20570	Probation Program 20580	Federal General Fund 40000	Supreme Court Grants 40500	Juvenile Account Grant 40510	Probation Grants 40520	Total (Memorandum Only)
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,559,574
Intergovernmental	-	-	173,200	162,481	99,500	273,294	1,327,207
Sales & Charges	464,119	-	-	-	-	-	9,905,482
Miscellaneous	-	1,477,699	-	-	641	1,639	5,309,685
TOTAL REVENUES	<u>464,119</u>	<u>1,477,699</u>	<u>173,200</u>	<u>162,481</u>	<u>100,141</u>	<u>274,933</u>	<u>71,101,948</u>
EXPENDITURES:							
Personal Services	306,297	-	-	62,559	68,800	53,106	53,491,237
Operating	173,597	-	173,200	88,028	23,347	186,910	5,149,194
Travel	16,006	-	-	25,243	19,535	11,301	902,085
Capital Outlay	(96)	-	-	-	-	1,775	126,801
Government Aid	-	-	-	-	-	5,622	254,741
TOTAL EXPENDITURES	<u>495,804</u>	<u>-</u>	<u>173,200</u>	<u>175,830</u>	<u>111,682</u>	<u>258,714</u>	<u>59,924,058</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(31,685)</u>	<u>1,477,699</u>	<u>-</u>	<u>(13,349)</u>	<u>(11,541)</u>	<u>16,219</u>	<u>11,177,890</u>
OTHER FINANCING SOURCES (USES):							
Deposit to General Fund	-	-	-	-	-	-	(9,334,183)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,334,183)</u>
Net Change in Fund Balances	(31,685)	1,477,699	-	(13,349)	(11,541)	16,219	1,843,707
FUND BALANCES, JULY 1, 2003	<u>220,771</u>	<u>-</u>	<u>-</u>	<u>111,707</u>	<u>20,849</u>	<u>5,845</u>	<u>1,287,051</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ 189,086</u>	<u>\$ 1,477,699</u>	<u>\$ -</u>	<u>\$ 98,358</u>	<u>\$ 9,308</u>	<u>\$ 22,064</u>	<u>\$ 3,130,758</u>
FUND BALANCES CONSIST OF:							
General Cash	\$ 189,086	\$ 1,477,699	\$ -	\$ 169,623	\$ 9,308	\$ 14,556	\$ 3,087,435
Petty Cash	-	-	-	-	-	-	125
Deposits with Vendors	-	-	-	-	-	-	9,000
Accounts Receivable Invoiced	-	-	-	20,735	-	7,520	34,210
Due From Other Funds	-	-	-	-	-	-	92,000
Due to Vendors	-	-	-	-	-	(12)	(12)
Due to Fund	-	-	-	(92,000)	-	-	(92,000)
TOTAL FUND BALANCES	<u>\$ 189,086</u>	<u>\$ 1,477,699</u>	<u>\$ -</u>	<u>\$ 98,358</u>	<u>\$ 9,308</u>	<u>\$ 22,064</u>	<u>\$ 3,130,758</u>

The accompanying notes are an integral part of the schedule.

# NEBRASKA SUPREME COURT

## NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

### 1. Criteria

The accounting policies of the Nebraska Supreme Court 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 Supreme Court 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, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

NIS also records other liabilities in an account titled Due to Fund. 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 NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Supreme Court are:

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

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

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

NEBRASKA SUPREME COURT

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Continued)

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

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

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

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

**Miscellaneous** – Revenue from sources not covered by other major categories, such as investment income, and fees collected in county courts in the State, such as court automation fees, probation administration enrollment and monthly program fees, intensive supervision probation fees, drug testing and electronic monitoring fees, and other reimbursements from non-government sources.

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

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

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

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

**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.

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

# NEBRASKA SUPREME COURT

## NOTES TO THE SCHEDULE

(Continued)

### 1. **Criteria** (Concluded)

**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 Supreme Court's funds at June 30, 2004, included Due to Fund.

### 2. **State Agency**

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

The Nebraska Supreme Court is part of the primary government for the State of Nebraska.

### 3. **Totals**

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

### 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 Supreme Court values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

NEBRASKA SUPREME COURT

**NOTES TO THE SCHEDULE**

(Continued)

**4. Capital Assets** (Concluded)

Equipment is depreciated using the straight-line method with estimated useful lives of 3 to 10 years.

Capital asset activity of the Supreme Court for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets				
Equipment	\$ 362,797	\$ 110,155	\$ -	\$ 472,952
Less accumulated depreciation for:				
Equipment				316,140
Total capital assets, net of depreciation				\$ 156,812



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## NEBRASKA SUPREME COURT **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**

Nebraska Supreme Court  
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Supreme Court for the fiscal year ended June 30, 2004, and have issued our report thereon dated June 1, 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 Supreme Court's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Supreme Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Payroll Issues), Comment Number 2 (Internal Control Over Expenditures), Comment Number 3 (Internal Control Over Revenues), Comment Number 7 (Internal Control Over Fixed Assets), and Comment Number 8 (Nebraska Information System (NIS) and Accounting Procedures).

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

We noted certain additional items that we reported to management of the Nebraska Supreme Court in the Comments Section of this report as Comment number 1 (Payroll Issues), Comment Number 3 (Internal Control Over Revenues), Comment Number 4 (Travel), Comment Number 5 (Contracts), Comment Number 6 (Cash Fund Balance), and Comment Number 7 (Internal Control Over Fixed Assets).

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

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is fluid and cursive, with the letters "C", "P", and "A" being more distinct and larger than the others.

Assistant Deputy Auditor

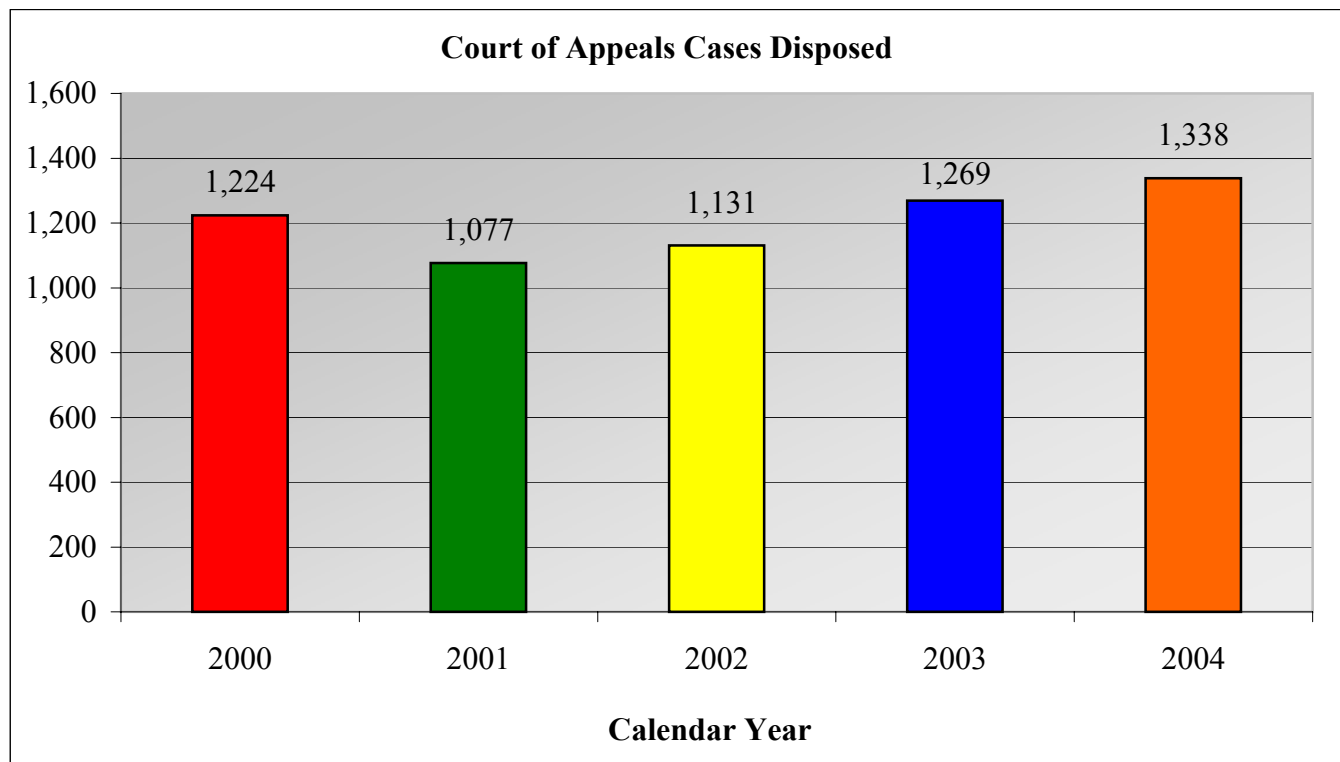
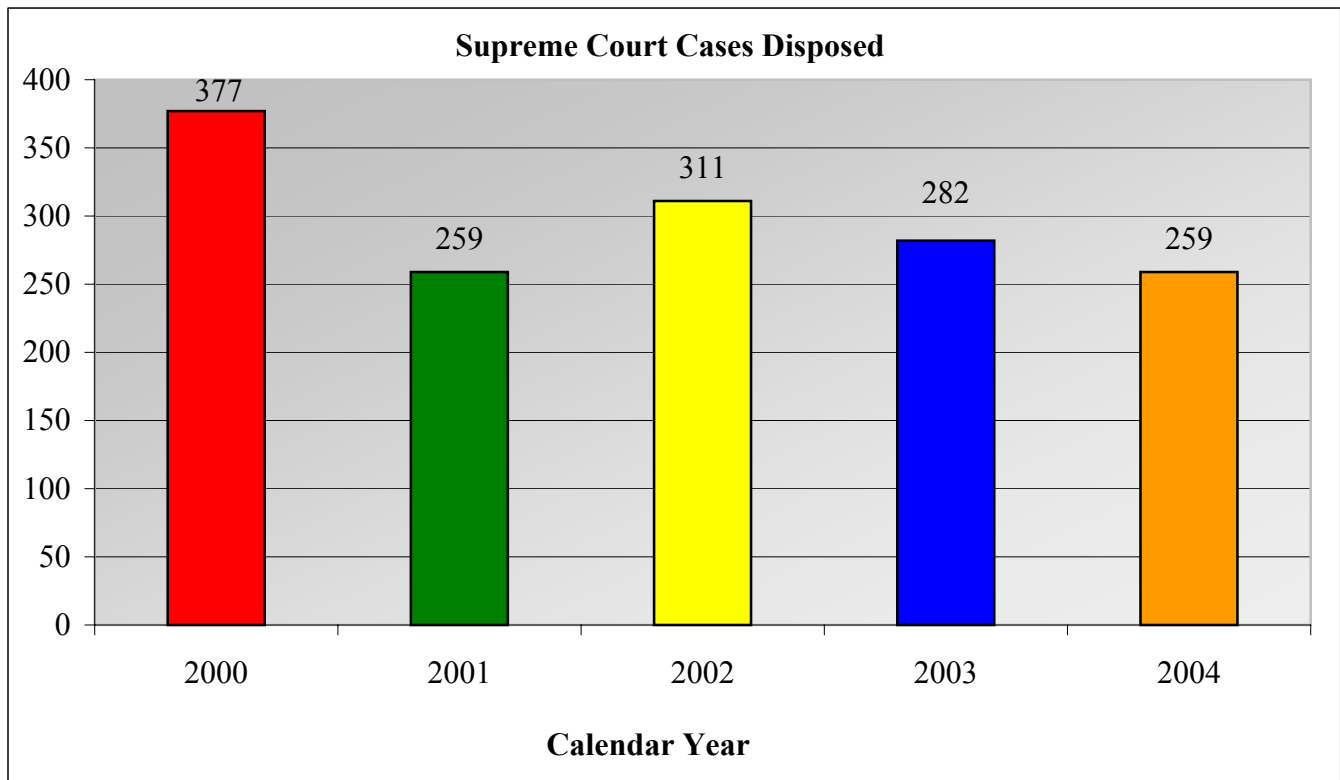
June 1, 2005

NEBRASKA SUPREME COURT

**STATISTICAL SECTION**

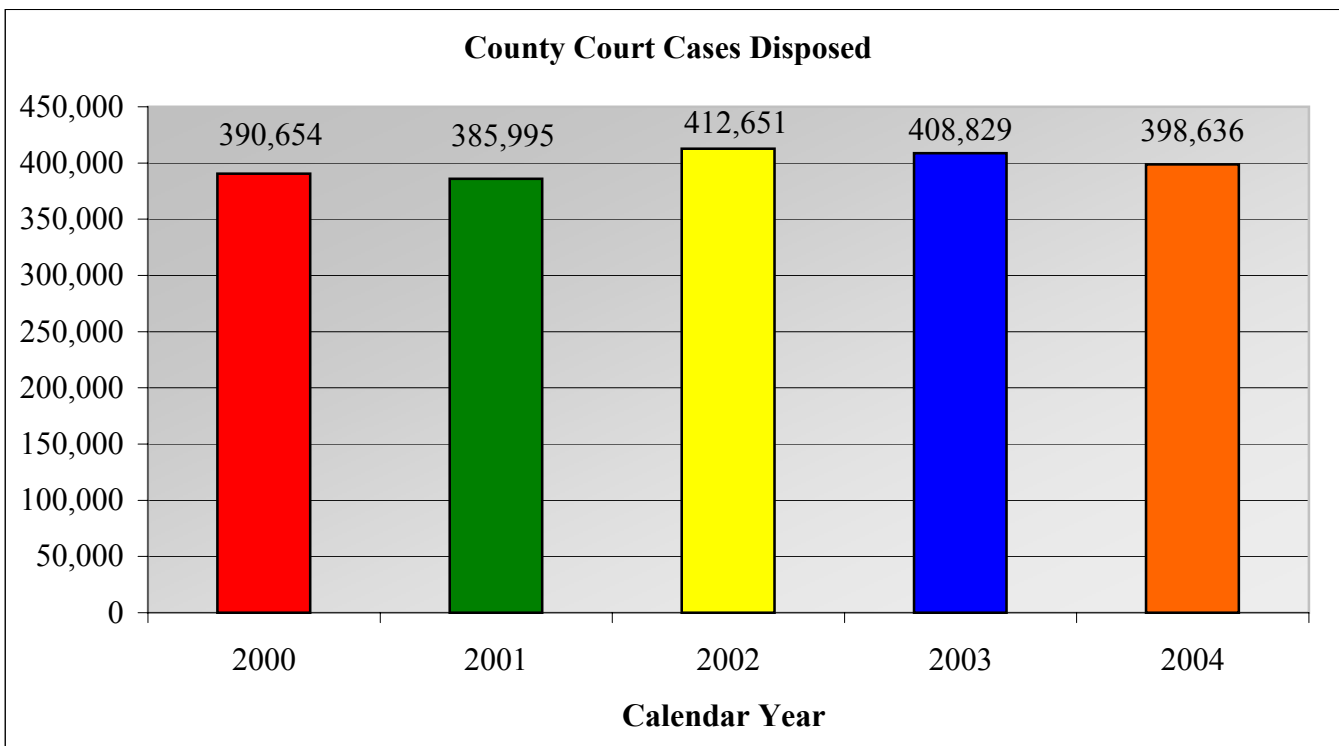
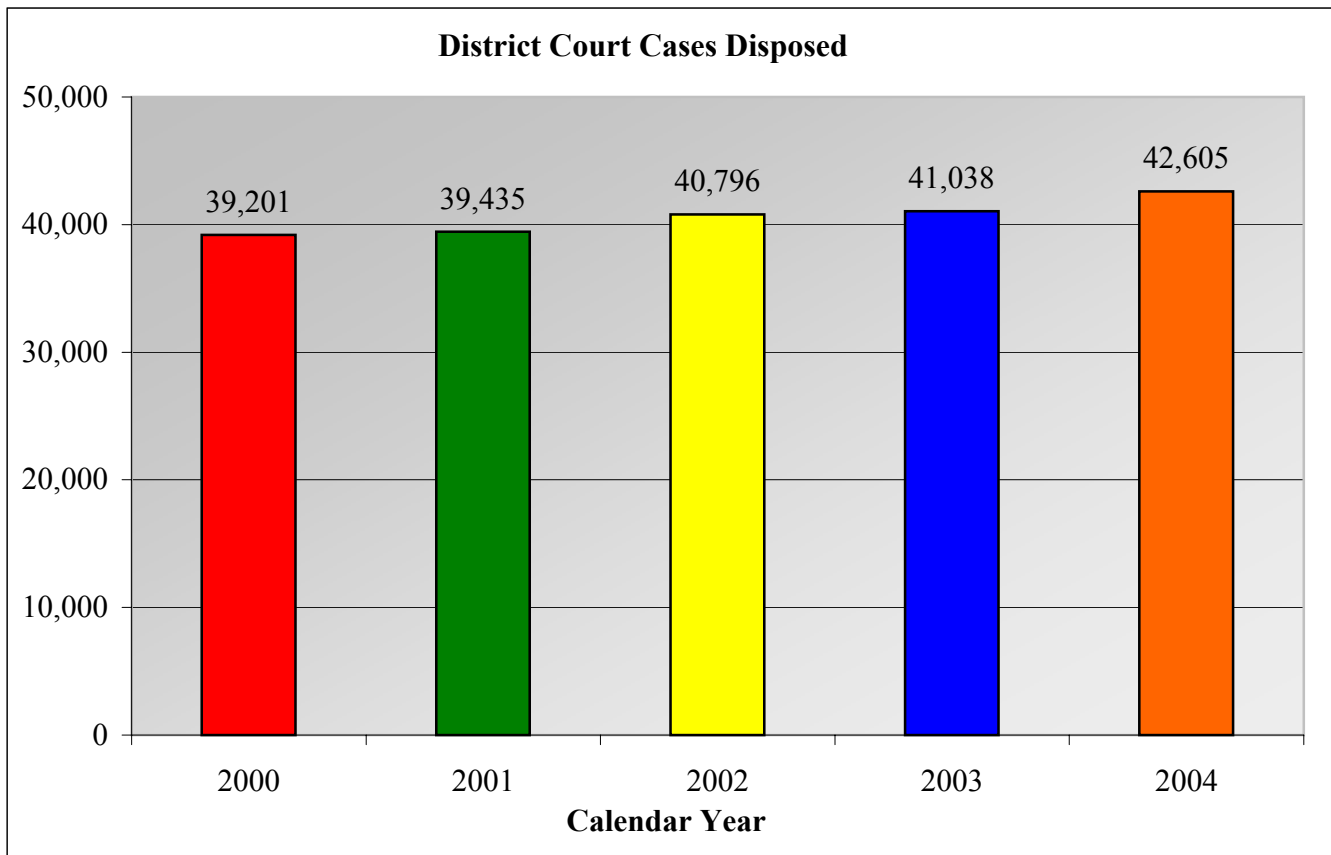
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination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

## NEBRASKA SUPREME COURT



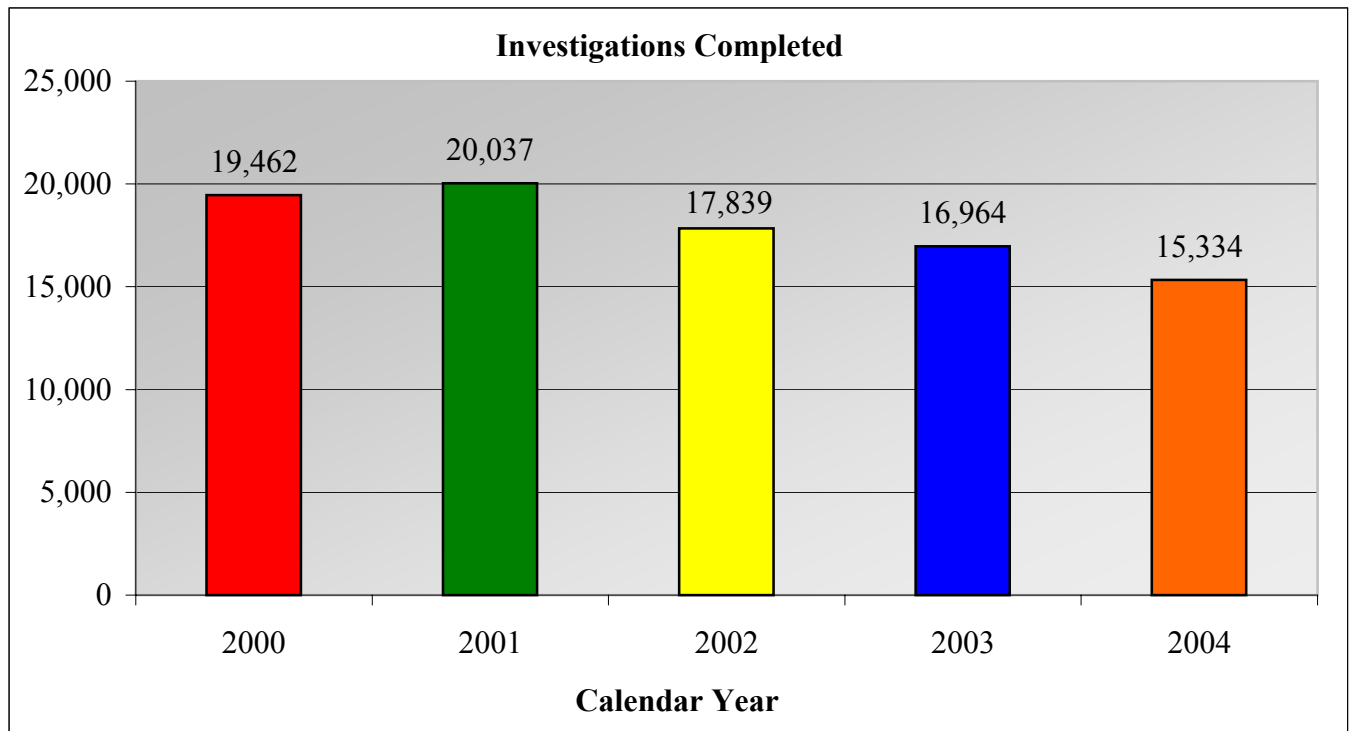
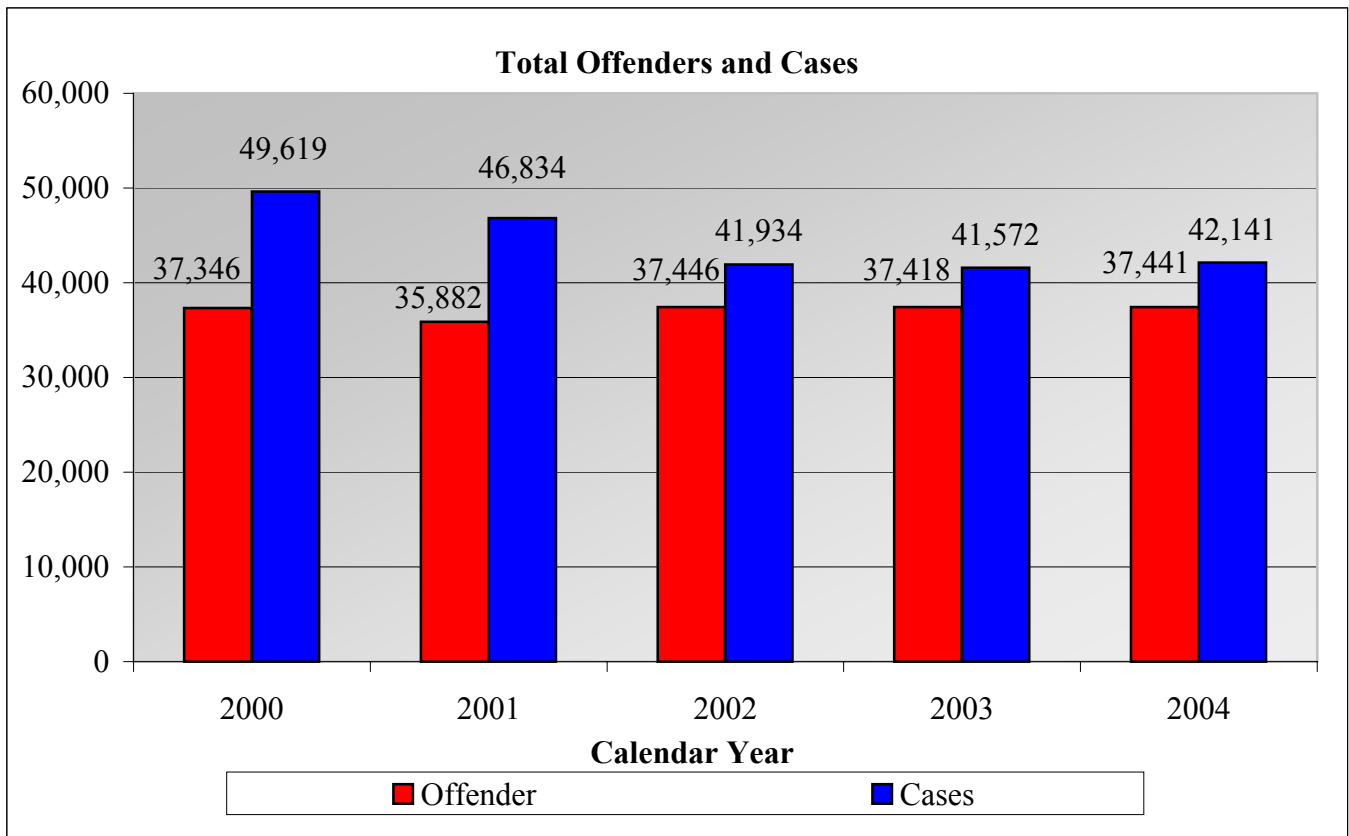
Source: Annual Caseload Reports for all Nebraska Courts.

## NEBRASKA SUPREME COURT



Source: Annual Caseload Reports for all Nebraska Courts.

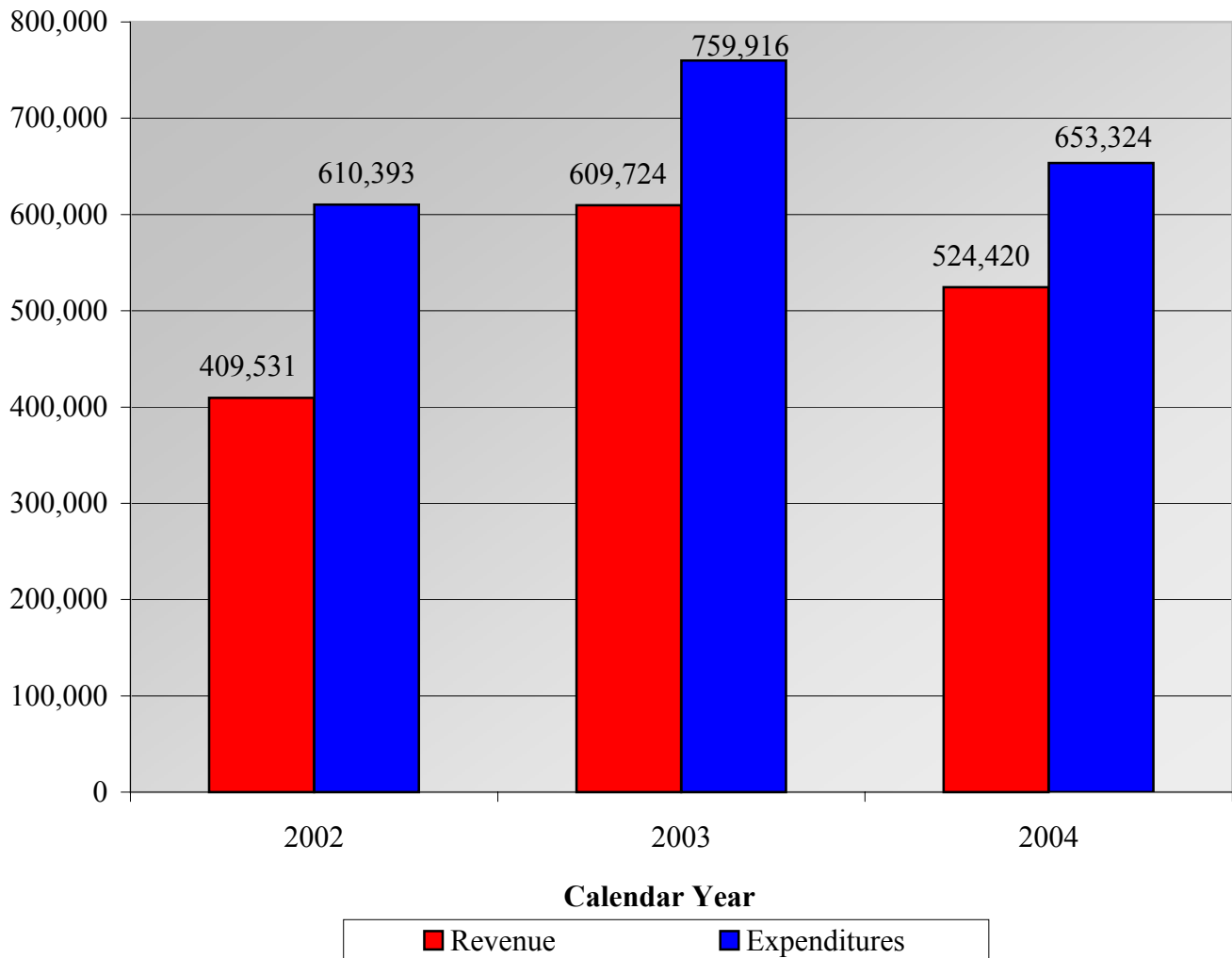
## NEBRASKA SUPREME COURT



Source: Biennial Reports from the Office of Probation Administration.

# NEBRASKA SUPREME COURT

## Probation User Fees



Source: Office of Probation Administration.