



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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April 28, 2022

Corey R. Steel, State Court Administrator
Nebraska Supreme Court
Nebraska State Capitol, Suite 1213
Lincoln, Nebraska 68509

Dear Mr. Steel:

We were engaged to audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and we have issued our report thereon dated April 28, 2022. In connection with our engagement to audit the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our engagement to audit the financial statements as described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Supreme Court (Supreme Court) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of the Supreme Court's management, are intended to improve internal control or result in other operating efficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Supreme Court, pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards, AU-C Section 265B.A17, in a separate early communication letter dated August 5, 2021.

Draft copies of this letter were furnished to the Supreme Court to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. Any formal responses received have been incorporated into this letter. Such responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on them. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended June 30, 2021.

1. Unauthorized Bank Accounts

During fiscal year 2015, the Auditor of Public Accounts (APA) performed a statewide review of bank accounts that use the State's Federal Tax Identification Number (FTIN) without the documented approval of the Nebraska State Treasurer. During the most recent audit, the APA performed follow-up procedures and found 82 investment accounts using the State's FTIN without the approval of the State Treasurer. These bank accounts were for court cases that were yet to be settled, including land condemnation cases involving the Nebraska Department of Transportation, and probate cases that were still pending an heir. The account balances at June 30, 2021, totaled \$10,187,459.

Neb. Rev. Stat. § 77-2301(1) (Reissue 2018) provides, as is pertinent, the following:

The State Treasurer shall deposit, and at all times keep on deposit for safekeeping, in the state or national banks, or some of them doing business in this state and of approved standing and responsibility, the amount of money in his hands belonging to the several current funds in the state treasury.

Likewise, Neb. Rev. Stat. § 77-2309 (Reissue 2018) says the following:

It is made the duty of the State Treasurer to use all reasonable and proper means to secure to the state the best terms for the depositing of the money belonging to the state, consistent with the safekeeping and prompt payment of the funds of the state when demanded.

In Op. Att'y Gen. No 15-010 (Aug. 10, 2015), the Nebraska Attorney General stated the following:

A state agency is not permitted to contract for its own banking relationship; all such relationships are established through the State Treasurer.

Neb. Rev. Stat. § 24-215 (Reissue 2016) states, in relevant part, the following:

The Clerk of the Supreme Court shall, on the first day in January, April, July, and October of each year, pay into the General Fund of the state treasury all fees of every nature and description received by him or her during the preceding three months; and the State Treasurer shall issue his or her receipt for such fees.

Good internal controls require procedures to ensure that the State's FTIN is not used without the express authorization of the State Treasurer.

Without such procedures, there is an increased risk of not only loss or misuse of State funds but also improper intrusion upon the statutory and inherent constitutional authority of the State Treasurer to oversee the State's banking relationships.

A similar finding was noted during the previous audit.

We recommend the Supreme Court obtain the formal approval of the State Treasurer before utilizing the State's FTIN.

Supreme Court Response: Legislation became effective in 2021 that allowed the Administrative Office of the Courts and Probation (AOCP) to address this issue. An agreement has been drafted to present to the State Treasurer regarding the remainder of bank accounts established by county courts. Note: the AOCP disagrees that "formal approval" is required.

2. Improper Reporting of Financial Information

The Department of Administrative Services, State Accounting Division (State Accounting), prepares the State of Nebraska Annual Comprehensive Financial Report (ACFR) and requires all State agencies to determine and report payable and receivable amounts and other fiduciary activity not contained within the accounting system at fiscal year-end. A good internal control plan requires agencies to have adequate procedures for the reporting of accurate and complete financial information to State Accounting.

The Supreme Court overstated its payables by \$370,394 for the fiscal year ended June 30, 2021. The calculation of payables reported was inaccurate, and 2 of 20 vouchers tested were already recorded as payables in the State's accounting system.

The fiduciary activity of the county courts is not recorded within the State's accounting system. In order to generate the financial statements, the Supreme Court provided State Accounting with a report of receipts and disbursements. However, the report was inaccurate, causing an overstatement of receipts and disbursements by \$173,159 and \$111,512, respectively.

Without adequate procedures for the proper reporting of financial information, there is an increased risk of material misstatements occurring and remaining undetected.

We recommend the Supreme Court implement procedures to ensure the accuracy of amounts reported to State Accounting.

Supreme Court Response: The AOCP will work with State Accounting to provide the needed information.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Supreme Court and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Supreme Court.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Supreme Court, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.



Kris Kucera, CPA, CFE
Assistant Deputy Auditor