NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

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Board of Supervisors
Merrick County, Nebraska

Dear Supervisors:

We have audited the basic financial statements of Merrick County (County) for the fiscal year ended June 30, 2006, and have issued our report thereon dated May 10, 2007. In planning and performing our audit of the basic financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

COUNTY OVERALL

1. Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

During our examination we noted the following:

- The offices of the County each had a lack of segregation of duties since one person could handle all aspects of processing a transaction from beginning to end. Due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. This was also noted in prior audits.

- The MIPS computer system user ID and password for the former County Clerk was still active.
- Employee passwords were readily known and easily accessible/shared.
- The Clerk's office does not periodically change their passwords.
- System error reports were not generated.
- Control totals are not used to reconcile claims.

A lack of segregation of duties contributes to an increased risk of loss, theft, or misuse of funds.

> We recommend the County review this situation. As always, the County must weigh the cost of hiring additional personnel versus the benefit of a proper segregation of duties.

COUNTY BOARD

2. Claim Certifications

Sound accounting procedures require complete, accurate, and timely recording of all disbursements.

During our audit, we noted claim certifications were not complete, accurate, or timely and errors were not posted to the County's financials:

- Claims approved for $79,262 at the end of fiscal year 2005 were not certified to the Treasurer until fiscal year 2006.
- Claims approved for $135,989 at the end of fiscal year 2006 were not certified to the Treasurer until fiscal year 2007.
- A claim transferring money between funds for $22,170 was approved in fiscal year 2005 but not recorded by the Treasurer until fiscal year 2006.
- Claim corrections for $4,835 in fiscal year 2005 were not recorded by the Treasurer until fiscal year 2006.
- Claim corrections for $206 between two funds during fiscal year 2006 were not recorded in the financials.
- Claims certified to the Treasurer in fiscal year 2006 did not agree to the financials with a difference of $2,517.

Adjustments to the beginning financial balance totaled $61,927 and adjustments to the ending financial balance totaled $138,506. Adjustments between funds totaled $206. The County subsequently made these corrections on March 20, 2007.

When claim certifications and identification of errors is not complete, accurate, and timely, the Treasurer's records and the County's financial statements are not accurate.

> We recommend all certifications and transfers be recorded timely and corrections be recorded in a timely manner to ensure complete and accurate County financial statements.

3. Imprest Account Reconciliations

Uniform Commercial Code Article 4-406 requires an account holder to exercise "reasonable promptness" in examining monthly statements and reporting unauthorized signatures or alterations. Under the revised UCC "reasonable promptness" is generally considered 30 days. Subsection (f) sets a one-year outside limit for reporting discrepancies or errors "without regard to care or lack of care of either the customer or the bank." Furthermore, sound accounting practice and good internal control require all bank accounts be reconciled in a complete, accurate, and timely manner in order to reduce the risk of loss, theft, or misuse. Neb. Rev. Stat. Section 69-1307.01 R.R.S. 2003 states that personal property held by public entities or political subdivisions which remained unclaimed for more than three years is presumed abandoned. Neb. Rev. Stat. Section 69-1310 R.R.S. 2003 requires such items be reported to the Nebraska State Treasurer before November 1 of each year as of June 30 next proceeding.

During the examination it was noted, the County did not reconcile its Imprest checking account. The Imprest account is used to pay the vendor and payroll claims of the County. The following variances were noted:

- As of June 30, 2005; $88,475
- As of June 30, 2006; $145,854
- As of March 31, 2007, corrections of $9,908 had been made to bring the account to a variance of $11

Additionally, the following was noted:

- On at least 2 days in March 2006, the County overdrew its Imprest account at which time the bank deducted $100 in overdraft charges, deductions the County was not aware of at the time of our examination.
- As of March 31, 2007, the County was carrying 54 outstanding checks totaling $12,985. Of these checks, 41, totaling $5,766 were over 3 years old at June 30, 2006, and should have been remitted to the State Treasurer as Unclaimed Property as these checks dated back to February 1987. Included in the outstanding checks were; employee payroll checks, payments to the State of Nebraska, Platte County Detention Facility, Election Systems & Software, etc.

The failure to perform accurate and timely bank reconciliations leaves the County susceptible to intentional and/or unintentional errors or omissions and increases the risk of loss, theft, or misuse.

> We recommend procedures be implemented to completely and accurately reconcile the County's Imprest bank account and identify and resolve any variances that exist in a timely manner. We further recommend checks not be released prior to certification of such to the County Treasurer in order to avoid over drafting the

account. Lastly, we recommend the County review its old, outstanding checks and take corrective action, whether that be reissuing in some instances or remitting to the State Treasurer in accordance with the Unclaimed Property Act.

4. **Record Maintenance**

Neb. Rev. Stat. Section 23-1303 R.S.Supp., 2006 states, “The county clerk shall not issue any county warrants except upon claims approved by the county board.” Good internal control and sound accounting practice require adequate records, including copies of contracts, be maintained and retained for subsequent inspection. Furthermore, good internal control requires invoices be actively reviewed for errors and/or irregularities prior to payment.

During testing the following was noted:

- The County could not provide supporting documentation for 4 of 25 claims selected for testing. Claims not located included: $46 for District Court jury, $549 for court costs, $61 for mileage reimbursement, and $1,076 for office supplies.
- One of twenty-five claims tested related to payment of attorney fees did not have adequate supporting documentation.
- One of twenty-five claims tested did not agree to the invoice. In this instance, the County asserted there had been discussions between the County Clerk and the vendor and the invoice was verbally corrected prior to payment; however, nothing regarding verbal discussions was noted on the invoice and a corrected invoice was not received from the vendor.
- Of the 21 claims tested, 16 were not signed by the County Board.
- The County did not have available a copy of its architect professional services contract on file and had to request a copy from the architect.

Without adequate maintenance and retention of all County records, including, in part, claims, contracts, etc., there is an increased risk of theft, loss, or misuse of funds.

> We recommend the County Board approve all claims, obtain and retain adequate supporting documentation for all claim payments, implement procedures to ensure invoices presented for payment are complete and accurate, and preserve all contract documents for subsequent inspection.

5. **Claim Procedures**

Neb. Rev. Stat. Section 23-143 R.R.S. 1997 states, in part, “The county board of any county, whenever the account or claim of any person, firm or corporation against the county is presented to them for allowance, shall procure from the county treasurer a certificate of the amount delinquent personal taxes assessed against the person, firm or corporation in whose favor the account or claim is presented and shall deduct from any amount found due upon such account or claim the amount of such tax, and shall forthwith issue a warrant for the balance remaining, if any." Good internal control and sound accounting practice prohibit partial payment of invoices unless absolutely necessary and adequately documented.

During testing the following was noted:

- One of twenty-one claims tested included charges covering a two-month period. The claim tested was for a current month invoice of printing charges and carried forward an unpaid charge of $135 from the prior month's invoice. The $135 prior month carry-forward had been the only item not paid on the previous month's invoice. The County Clerk was unable to provide an explanation for the partial payment.
- The County did not have any procedures in place to ensure if vendors had delinquent personal property taxes, the amount of those delinquent taxes were deducted from claims presented for payment.

Late payment of vendor claims could lead to termination of services or unnecessary payments of late fees and interest. In addition, not having procedures in place to deduct delinquent personal property taxes from claims presented for payment increases the County's risk of not collecting all monies due.

> We recommend the County Board implement procedures to ensure that if claims are not paid in full, justification of such is adequately documented on the face of the invoice and/or claim. We also recommend the County implement procedures to ensure appropriate deduction of any delinquent personal property taxes.

6. Late Payroll-Related Remittances

Sound accounting practice and good internal control require all payroll-related expenditures, including employee-authorized deductions, be remitted to the appropriate payee(s) in a timely manner to ensure prompt posting.

During testing of the payroll expenditures, the following was noted:

- Retirement contributions were not consistently made in a timely manner. Monthly retirement contributions cleared the County's bank account up to 51 days following month end (for example, checks for August 2005 contributions did not clear the bank until October 21, 2005).
- Two months were selected for testing of payroll remittances other than retirement (October 2005 and May 2006). While October 2005 remittances all cleared the bank in a reasonable timeframe, May 2006 remittances did not. For example, State income tax cleared up to 26 days following month end; AFLAC contributions cleared 23 days following month end; Fort Dearborn Life Insurance cleared 47 days following month end; and First Concord cleared 54 days following month end.

- Discussion with Merrick County employees indicated that while warrants were issued in a timely manner, they were not always promptly mailed out to payees.

When payroll-related remittances are not made in a timely manner, there is an increased risk of loss to employees related to retirement earnings, benefits continuation; tax penalties and interest, etc.

> We recommend all payments be promptly mailed to vendors once warrants are approved by the County Board.

7. Payroll Deductions

Internal Revenue Code Section 125 permits employees the benefit of certain deductions on a pre-tax basis for qualified benefits such as health insurance, group-term life insurance, and flexible spending accounts via salary deductions.

During testing of employee payroll deductions, the following was noted:

- Monthly health insurance deductions for two employees were not correctly identified as being part of the County's qualified plan. As a result, both of these employees overpaid $22 in Federal Insurance Contributions Act (FICA) taxes each month. FICA taxes require an equal match by the employer, resulting in Merrick County also overpaying $22 in FICA taxes each month for each of the employees in question. In addition, State and Federal taxable wages would have been overstated on both the employees' individual paychecks and on their annual W-2 statements.
- AFLAC disability deductions were not identified as being part of the County's qualified plan. The County did not have on file any documentation regarding its Section 125 plan coverage in order to determine if the exclusion of the AFLAC disability deductions were appropriate.

When the County does not have an adequate knowledge and/or records regarding its employee Section 125 plan coverage, there is an increased risk employee deductions could be inappropriately classified, resulting in overpayment of taxes both by the employee and the employer.

> We recommend the County immediately take corrective action regarding the monthly health insurance deductions for the two identified employees. Additionally, we recommend the County obtain, and retain on file, documentation regarding its employee Section 125 plan and determine if AFLAC disability deductions should be subject to the plan.

8. Form W-2 - Wage and Tax Statements

Internal Revenue Service (IRS) Form W-2 is used to report wages and taxes withheld to employees and the Social Security Administration (SSA). Employers must complete a W-2 for each employee to whom they pay a salary, wage, or other compensation and are instructed to send W-2s to their employees by January 31 of the year immediately following the year of income and to the SSA by the end of February.

Merrick County employees reported to the Auditor of Public Accounts that 2005 W-2s were not furnished to the employees and the SSA in a timely manner. Due to poor recordkeeping procedures within the office of the County Clerk, the 2005 W-2s could not be located for verification of when those statements would have been prepared and remitted.

When W-2s are not remitted to employees in a timely manner it affects the employees' ability to file their personal income tax returns. Additionally, when W-2 information is not submitted to the SSA in a timely manner it affects the SSA's ability to record employee contributions.

> We recommend all W-2s, Wage and Tax Statements, be filed in a timely manner.

9. Pay Advances and Garnishments

Neb. Rev. Stat. Section 23-135 R.S.Supp., 2006 states, "The county board may pay in advance of services being rendered if it is pursuant to a contract entered into with the state." In addition, sound accounting practice and good internal control discourage the practice of payroll advances.

During the examination, it was noted the County allowed employee payroll advances with the County Clerk responsible for receiving requests for advances and the County Treasurer responsible for issuing advance checks to employees. When advances of any nature are permitted, there is an increased risk of loss, theft, or misuse.

> We strongly recommend the County discontinue its practice of permitting employee payroll advances.

10. Insurance Deductible and Flex Plan Bank Accounts

Neb. Rev. Stat. Section 23-1303 R.S.Supp., 2006 states, the county clerk shall not issue any county warrants except upon claims approved by the County Board. Records Retention Schedule 24-1-2, Local Agencies General Records – Bank Statements, as issued by the State of Nebraska Secretary of State Records Management Division, permits bank statements to be disposed of after three years provided audit has been completed. Lastly, sound accounting practices, as well as good internal control, require procedures be in place to ensure all transactions are recorded in a complete, accurate, and timely manner.

During the examination the following was noted:

- The County Clerk maintained a bank account for employee health insurance deductible reimbursements. Interest accruing in the account was not recorded in a timely manner, as of June 30, 2006, $71 in accrued interest dating back to January 2005 had not been recorded by the Clerk. The bank balance on this account was $3,008 as of April 30, 2007. The disbursements in this account did not go through the claim and warrant process.

- The County Clerk maintained a bank account related to an employee flex plan; a plan terminated by the Board in May 2005. The last disbursement activity in this bank account occurred in August 2005. The County Clerk's office did not record transactions on this account in a timely manner (no transactions which went through the bank from December 2003 through December 2006 were recorded). This account had a bank balance of $5,367 as of April 30, 2007.
- The County Clerk was unable to locate all original bank statements for these accounts for the audit period and, as a result, had to obtain activity statements from the bank at the time of fieldwork.

Whenever financial activity is not recorded in a timely manner and original bank statements are not retained for subsequent inspection, there is an increased risk of loss, theft, or misuse.

> We recommend both of these bank accounts be closed. In the case of the insurance deductible account, the activity should run through the County's regular claim and warrant process and can be segregated into either its own separate Fund or as a function within the General Fund.

11. **Employee Personnel Records**

The U.S. Department of Justice Immigration Reform and Control Act of 1986 requires an Employment Eligibility Verification Form, I-9, to be completed for every employee hired after November 6, 1986. Good internal control and sound accounting practice require personnel files be maintained and include, in part, information regarding authorized salary rates, payroll deductions, I-9 forms (when applicable), etc.

During testing of payroll, the following was noted:

- All four employees tested who were hired by Merrick County after November 6, 1986, did not have an I-9 form on file.
- All five employees tested did not have an IRS W-4 form on file.
- Two of five employees tested did not have information in their personnel files regarding their authorized salary rates.
- Eligibility to participate in the County retirement plan could not be established for two of five employees tested due to the County being unable to locate the personnel files of the two employees.

Without maintenance of comprehensive, detailed, personnel files, there is an increased risk of loss, theft, or misuse.

> We recommend the County Board implement procedures to ensure comprehensive, detailed personnel files, including, in part, such items as authorized salary rates, payroll deductions, I-9 forms (when applicable), and W-4 forms are retained on file for all County employees.

12. **Budget**

Neb. Rev. Stat. Section 23-903 R.R.S. 1997 requires the County budget to present a complete financial plan for the period for which said budget is drawn. Neb. Rev. Stat. Section 23-905 R.S.Supp., 2006 states the form of the county budget and the form of the budget document are to be formulated by the Auditor of Public Accounts and the Attorney General. Neb. Rev. Stat. Section 23-913 R.R.S. 1997 requires the County Board to file with the County Clerk a complete budget document and further outlines the budget summary, contents, and filing. Neb. Rev. Stat. Section 13-504 R.S.Supp., 2006 requires the budget to present revenue, expenditures, and fund balance for the immediately preceding fiscal year. Neb. Rev. Stat. Section 23-916 R.R.S. 1997 prohibits incurring expenditures in excess of monies provided for in the budget.

During our examination, the following was noted:

- Transfers between funds in the 2006 and 2007 budgets did not agree.
- The County budget filed on September 20, 2005, omitted several of the required filings including: official representative's signature, LC-3, LC-3 supporting schedule, levy limit form, schedule of budgeted disbursements, certification of valuation, publisher's affidavit of publication. In addition, the budget summary page was not complete and corrections were not filed until November 3, 2005, and November 9, 2005. *Similar issues were noted in the 2007 budget document filed September 20, 2006; corrections filed* December 6, *2006.*
- The activity and fund balances reflected in the County budget were not accurate. Balances in the following Funds were incorrect:

General	$19,219
Road	$851
Emergency Management	$206
Institutions	$8,058
Juvenile Diversion	$812
Inheritance	$26,885
911	$1,704

- For the fiscal year ended June 30, 2006, the following General Fund functions over-expended their individual office budgets:

County Board	$296
County Attorney	$722
Veterans' Service Officer	$852

When the County's budget document is not complete and accurate, it does not reflect a true picture of the County Board's fiscal budget intentions. In addition, when expenditures are made in excess of amounts budgeted with no appropriation adjustments made by the County to address those excesses; the County is non-compliant with State statute.

> We recommend the County's budget document be complete, accurate, and contain all statutorily required information when originally filed with the Auditor of Public Accounts. In addition,

we recommend the County implement procedures to closely monitor its budget status on an ongoing basis to avoid individual Funds and/or functions from incurring expenses in excess of amounts budgeted.

13. Board Minutes

Neb. Rev. Stat. Section 23-122 R.R.S. 1997 states, in part, "… The county board of all counties having a population of less than one hundred fifty thousand inhabitants shall cause to be published, within ten working days after the close of each annual, regular, or special meeting of the board, a brief statement of the proceeding thereof .…" Neb. Rev. Stat. Section 23-1302(1) R.S.Supp., 2006 states, in part, "… It shall be the general duty of the county clerk … to record in a book provided for that purpose all proceedings of the board …."

During testing the following was noted:

- Eight of ten Board minutes tested did not have publication of the County Board proceedings published within ten days.
- Board minutes were not descriptive enough for a reader to know and understand the intent of County Board discussions and/or decisions.
- Statutorily required items such as presentation of the County Sheriff's distress warrant report, approval of pledged collateral, approval of annual inventories, approval of authority for the County Treasurer to invest County funds, and fund transfers were not documented in the Board minutes.

When County Board proceedings are not comprehensive and sufficiently detailed, taxpayers and others are not provided adequate information on County discussions and/or decisions.

We recommend all Board minutes be published within ten days and the publication is sufficiently descriptive to provide taxpayers and others with adequate information on County discussions and/or decisions.

14. Inventory Statements

Neb. Rev. Stat. Section 23-347 R.R.S. 1997 requires within two calendar months after the close of each fiscal year each county officer make, acknowledge under oath, and file with the county board an inventory statement of all county personal property in their custody and possession. The statute further states the County Board is responsible for examining those statements and filing as public records in the County Clerk's office for reference.

During review of County inventory procedures, the following was noted:

- Inventory statements for 2006 which would have included officer oaths and acceptance/approval of filing were required to be filed by August 31, 2006. The County

Clerk could not locate these statements for examination. During fieldwork the County Clerk had each officer provide inventory statements which she then submitted to the County Board for their approval at its May 8, 2007, Board meeting.

- Testing of the completeness and accuracy of the May 2007 filed inventory statements noted one personal computer in the office of the Clerk of the District Court which was not included on that office's inventory statement.

When complete and accurate inventory statements are not filed in accordance with State statute there is an increased risk of loss, theft, or misuse of County-owned assets.

> We recommend the County implement procedures to ensure the complete, accurate, and timely filing of inventory statements.

15. Audit Report Filed Late

Neb. Rev. Stat. Section 23-1608 R.S.Supp., 2006 states, in part, "… an original copy of the audit report shall be filed in the office of the county clerk and in the office of the Auditor of Public Accounts within twelve months after the end of each fiscal year …."

The County's audit report for the fiscal year ended June 30, 2005, was not issued until April 24, 2007, and not filed with the Auditor of Public Accounts until April 30, 2007. The County and its auditor both have asserted the delay was caused by an overall lack of organization in the office of the County Clerk and the inability of that County office to produce requested documents in a timely manner.

Late issuance of an audit report increases the risk of fraud, theft, or misuse of funds.

> We recommend the County Board implement procedures to ensure the annual audit of the County is completed and filed in accordance with State statute.

16. Hospital Fiscal Year

Neb. Rev. Stat. Section 23-902 R.R.S. 1997, which is part of the county budget act, states, in part, "… the fiscal year of all counties, except as is provided for in section 23-920, shall begin July 1 and end June 30 …" Attorney General's Opinion Number 1035, dated November 13, 2001, concludes county hospitals are component units of the county and, in part, "… as part of county government, the fiscal affairs of the county hospital are subject to the budget act and incorporated in the county budget making process …."

Litzenberg Memorial County Hospital is a component unit of Merrick County. Merrick County's fiscal year end is June 30; however, the Hospital's fiscal year end is April 30.

Without a common fiscal year end, Hospital financial information is not comparable to the County's financial statements.

> We recommend the Hospital implement a June 30 fiscal year end.

COUNTY CLERK

17. Recordkeeping

Neb. Rev. Stat. Section 23-1302 R.S.Supp., 2006 outlines the general duties of the County Clerk and includes, in part, preserving and filing all accounts acted upon by the Board and perform special duties as are required by law. Records Retention Schedule 12, County Clerks, County Boards, and Election Commissioners, as issued by the State of Nebraska Secretary of State Records Management Division, outlines the records management procedures for storing and disposing of records such as, Accountability and Disclosure records, County Board records, election records, fiscal records, motor vehicle records, miscellaneous records, etc.

The overall records of the County Clerk lacked organization with not all original records available for audit, including, in part, original DMV title/lien reports, monthly bookkeeping reports and daily balance sheets. In addition, the County had a significant number of boxes containing unorganized County records which revealed:

- $58 in cash.
- Three checks, totaling $103, issued by Merrick County; which had not been marked as void.
- 29 checks, totaling $1,913, issued by various individuals and/or entities to Merrick County for a variety of reasons, including refunds/overpayments, recording of titles, deeds and liens, copy fees, team grant, subdivision applications, candidate for office filings, etc.

When records are not maintained in an organized manner, there is an increased risk of loss, theft, or misuse of County assets, as well as dereliction of official duties and/or responsibilities.

> We strongly recommend all County offices adequately preserve all County records under their control.

18. Balancing Procedures

Sound accounting practice requires detailed balancing procedures be in place to ensure assets (cash on hand, reconciled bank balance, accounts receivable) are in agreement with office liabilities (fees). In addition, sound accounting practices require accounts receivable be completely and accurately recorded with payments collected on a timely basis. Comprehensive balancing procedures will help ensure the completeness and accuracy of the County Clerk's fee remittances.

During our examination the following was noted:

- The County Clerk did not have balancing procedures in place to balance office assets with office liabilities and resolve any discrepancies in a timely manner. Based on balancing procedures performed by the Auditor of Public Accounts, the County Clerk had approximately $4,787 and $2,902 in excess assets in its fee bank account at July 1, 2005, and June 30, 2006, respectively.

- The County Clerk did not have a detailed listing of the $5,158 June 30, 2006, accounts receivable balance. For example, a receivable balance of $2,215 was associated with a "Misc. Customer," the details of which could not be further identified.
- $3,075 of its June 30, 2006, receivable balance was over 90 days old. Subsequently, in April 24, 2007, the County Board approved write-off of $2,176 in receivables.
- Two instances of overpayment of fees; one for $43 to the Nebraska Game and Parks Commission, and one for $659 to the Merrick County Treasurer, were noted.

When detailed balancing procedures are not implemented and accounts receivables are not adequately detailed and currently maintained, there is an increased risk of loss, theft, misuse, or over/under payment of fees.

> We strongly recommend the County Clerk implement, on at least a monthly basis, a comprehensive balancing of assets and liabilities including identification and resolution of any discrepancies. We would also recommend balancing procedures include a detailed identification of all accounts receivable as well as timely follow up collection, and/or write-off when necessary, of those receivables.

19. <u>Deposit and Remittance Timeliness</u>

Neb. Rev. Stat. Section 33-130 R.R.S. 2004 regarding payment of fees to the County Treasurer requires payment not later than the fifteenth day of the month following the calendar month in which fees are received. Neb. Rev. Stat. Section 60-115 R.S.Supp., 2006 regarding disposition of motor vehicle fees, requires county clerks to remit all funds due the State Treasurer monthly and not later than the fifth day of the month following collection. Furthermore, sound accounting practices require timely deposit and subsequent remittance of all monies received in order to reduce the risk of loss, theft, or misuse.

During our examination, it was noted the County Clerk did not consistently deposit and subsequently remit all fees and other revenues received in a timely manner:

- At June 30, 2006, the County Clerk had a total of 40 daily deposits, totaling $16,575, (including $4,783 in cash) dating back to April 12, 2006, which had not been deposited to the County Clerk's bank account.
- Four of ten remittances made to the County Treasurer for motor vehicle title, documentary stamp revenues, marriage licenses, plat maps, and miscellaneous fees were not timely. At June 30, 2006, collections due the County Treasurer for April, May, and June 2006 earnings were $23,568. June fees were subsequently remitted August 31, 2006; May fees were remitted October 5, 2006; and April fees were remitted November 30, 2006, a full 6 months after such fees were required to be remitted.
- Eight of twelve remittances to the State of Nebraska for motor vehicle title and documentary stamp revenues were not made by the fifth day of the month following collection.

When all monies received are not deposited and remitted in a timely manner, there is an increased risk of loss, theft, or misuse of those monies.

> We strongly recommend all monies received be deposited and remitted in a timely manner.

20. Certification of Unpaid Claims

Neb. Rev. Stat. Section 23-1302(4) R.S.Supp., 2006 which outlines the duties of the County Clerk, states, in part, "… the county clerk shall certify to the county treasurer as of June 15 and December 15 of each year the total amount of unpaid claims of the county …."

Unpaid claims as of December 15, 2005, and June 15, 2006, were not certified to the County Treasurer. The County Treasurer indicated unpaid claim information had typically not been certified but rather verbally communicated.

When the amount of unpaid claims is not certified by the County Clerk in compliance with State statute, there is an increased risk of error, oversight, and/or omission.

> We recommend the County Clerk comply with statute by certifying to the County Treasurer the amount of unpaid claims.

COUNTY TREASURER

21. Tax Collection Fees

Neb. Rev. Stat. Section 33-114 R.R.S. 2004 states, in part, "… Each county treasurer shall receive for and on behalf of the county for services rendered to other governmental subdivisions and agencies, when fees for services rendered by him/her are not otherwise specifically provided, the following fees: (1) On all sums of money collected by him/her for each fiscal year, two percent of the sums so collected …."

During our examination, we noted the fee received for the collection of Agricultural Society property taxes was one percent; however, the statutorily set fee rate is two percent.

When incorrect tax collection fees are assessed to subdivisions and agencies, there is a loss to the County.

> We recommend the County Treasurer collect the statutorily authorized fees.

22. Deposit Coverage

Neb. Rev. Stat. Sections 77-2318 R.R.S. 2003 and 77-2318.01 R.R.S. 2003 require the County Treasurer to not have on deposit more money than the amount insured by the Federal Deposit Insurance Corporation (FDIC) plus the maximum amount of any pledged securities.

At June 30, 2006, the County Treasurer's deposits in one of its County banks exceeded the total of FDIC and pledged securities by $334,253. Furthermore, deposits in this particular bank exceeded coverage during at least 90 days of the fiscal year.

When deposits are not fully secured at all times, there is an increased risk of loss.

> We recommend the County Treasurer implement procedures to ensure bank accounts are adequately collateralized at all times.

CLERK OF THE DISTRICT COURT

23. Financial Activity

Sound accounting practice and good internal control require procedures be in place to ensure office records reconcile with bank activity on at least a monthly basis. Reconciliation procedures should include the timely identification and resolution of all variances noted. In addition, sound accounting practices require information recorded in the District Court's official accounting and case management system (JUSTICE) agree to all monies deposited and disbursed.

During testing the following was noted:

- $2,419 in receipts and $3,849 in checks were not recorded in JUSTICE, but were maintained in a manual ledger system.
- The District Court was not utilizing JUSTICE to perform bank reconciliations.
- One check issued to Merrick County was $2 less than recorded in JUSTICE.
- Two of ten checks tested had physical check issue dates which did not agree to the issue dates recorded in JUSTICE.
- One of ten checks tested had a physical payee different from that recorded in JUSTICE.
- The amount of one of the ten checks tested did not agree to the amount recorded in JUSTICE; while the physical check was issued for $117, in JUSTICE the check was split $114 to plaintiff and $3 to Merrick County. In this particular case, the physical check issued to the plaintiff was correct.
- Physical check numbers issued by the Clerk of the District Court did not agree to check numbers issued in JUSTICE.

When reconciliations are not adequately performed and accounting records do not reflect actual activity, there is an increased risk of misuse, theft, or loss of County funds.

> We recommend the Clerk of the District Court record all transactions and prepare all bank reconciliations using the

JUSTICE system. We also recommend the District Court eliminate the unnecessary duplication of transactions. Lastly, we recommend the District Court work with the State Court Administrator to ensure physical check numbers agree to check numbers issued in JUSTICE.

24. Probation Fee Collection

Neb. Rev. Stat. Section 29-2262.06(3) and (7) R.S.Supp., 2006 states, in part, "Adult probationers placed on probation shall pay a monthly probation programming fee of twenty-five dollars, not later than the tenth day of each month, for the duration of probation … No probationer or participant in a non-probation-based program or service shall be required to pay more than one monthly probation programming fee per month." Neb. Rev. Stat. Section 29-2262 R.S.Supp., 2006 states, in part, "The court may, as a condition of a sentence of probation, require the offender … to pay for tests to determine the presence of drugs or alcohol." Neb. Rev. Stat. Section 29-2263(3) R.S.Supp., 2006 states, in part, "Upon completion of the term of probation, or the earlier discharge of the offender, the offender shall be relieved of any obligations imposed by the order of the court and shall have satisfied the sentence for his or her crime."

Three of thirteen receipts tested had probation programming and chemical testing fees collected which were not in compliance with State Statute and/or agree to court orders. In each of these cases, defendants whose sentence included probation, paid their total probation-related fees at the beginning of their probationary period. Each of these defendants subsequently received early release from probation; however, refunds were not issued for the excess fees each had been paid as a result of the shortened probationary period. As a result, one of the defendants overpaid $1,100 and the other two defendants each overpaid $180 in probation-related fees.

When probation-related fees are not collected in accordance with State statute and/or court orders, the Court increases the risk of error or misuse of funds.

> We recommend the Clerk of the District Court collect probation-related fees in accordance with State statute and/or Court orders. We further recommend when defendants sentenced to probation pay their probation-related fees in advance, if they are subsequently released early any excess fees be promptly refunded.

COUNTY SHERIFF

25. Bank Reconciliations

Sound accounting practice and good internal control require procedures be in place to ensure office records reconcile with bank activity on at least a monthly basis. Reconciliation procedures should include the timely identification and resolution of all variances noted.

During the audit the following was noted:

- The County Sheriff's office historically has not reconciled its recorded book balances with its bank balances. As a result, at June 30, 2006, there was an unidentified long in the County Sheriff's fee checking account of $988 and an unidentified long in the County Sheriff's commissary account of $10.
- A $51 check order in March 2006 was not recorded on the County Sheriff's books and the County Sheriff did not submit a claim to the County for reimbursement of such check and/or service charges.
- The County Sheriff signs blank checks if he is going to be out of the office.

When reconciliations are not performed and unidentified variances exist in accounts, there is an increased risk of loss, theft, or misuse of funds. In addition, pre-signing of checks also leads to an increased risk of loss, theft, or misuse of funds.

> We recommend the County Sheriff perform monthly bank reconciliations and, in doing so, promptly work to identify and resolve any variances. We also recommend the County Sheriff immediately discontinue the practice of pre-signing checks.

26. <u>Balancing Procedures</u>

Sound accounting practice and good internal control require procedures be in place to ensure office assets (cash on hand, reconciled bank balance, accounts receivable, etc.) are in agreement with office liabilities (fees and trust accounts) on at least a monthly basis. Balancing procedures should include the timely identification and resolution of all variances noted.

During the audit the following was noted:

- The County Sheriff's office does not balance office assets with office liabilities. We determined the County Sheriff's assets to be long $28.
- The June 30, 2006, trust fund balance, per the County Sheriff's records, was $22,205; however, we were only able to verify and/or otherwise confirm $14,491.

Failure to determine asset-to-liability balancing variances can result in an increased risk of loss, theft, or misuse of funds and allows errors to more easily go undetected.

> We recommend the County Sheriff implement documented monthly balancing procedures, including timely follow up of any variances.

27. **Improper Remittance to Treasurer**

Neb. Rev. Stat. Section 33-117(3) R.R.S. 2004 states, in part, "… The Sheriff … shall pay all fees earned to the county treasurer … on the first Tuesday in January, April, July and October of each year …."

During the audit the following was noted:

- The County Sheriff did not remit all fees and mileage earned to the County Treasurer only those amounts collected.
- One $119 receipt for inmate phone calls was not remitted to the County Treasurer.

When all monies received are not remitted to the County Treasurer there is an increased risk of loss, theft, or misuse of funds.

> We recommend the County Sheriff's office implement procedures to remit all fees earned to the County Treasurer on, at least, a quarterly basis.

28. **Commissary Accounting**

Neb. Rev. Stat. Section 23-1601(1) R.S.Supp., 2006 states, in part, "… it is the duty of the county treasurer to receive all money belonging to the county, from whatsoever source derived and by any method of payment provided by section 77-1702, and all other money which is by law directed to be paid to him or her. All money received by the county treasurer for the use of the county shall be paid out by him or her only on warrants issued by the county board according to law, except when special provision for payment of county money is otherwise made by law …."

During our audit we noted the following:

- The County Sheriff maintains a commissary account which is used for employee and inmate purchases of candy, soda, personal hygiene products, etc. However, the revenue generated by the commissary activity is not remitted to the County Treasurer and the expenditures are not paid through the County's claims and warrant process. Claims are paid directly from the bank account instead of being sent to the County Board for approval.
- Receipts or ledgers are not used to record all revenues in the commissary account. Purchases made by inmates are tracked in a ledger on the County Sheriff's computer system; however, purchases made by employees are not recorded in the ledger or a receipt book but instead purchased on the honor system by depositing money into the cash box.

When all monies received are not appropriately accounted for, there is an increased risk of loss, theft, or misuse of funds.

We recommend all monies received be deposited with the County Treasurer. We further recommend all payments for goods and/or services be paid through the County's claim and warrant process. Lastly, we recommend a ledger or receipting procedure be implemented to ensure all activity, including that of employees, is recorded.

COUNTY ATTORNEY

29. Accounting Procedures

Neb. Rev. Stat. Section 23-1601(1) R.S.Supp., 2006 states, in part, "… it is the duty of the county treasurer to receive all money belonging to the county, from whatsoever source derived and by any method of payment provided by section 77-1702, and all other money which is by law directed to be paid to him or her. All money received by the county treasurer for the use of the county shall be paid out by him or her only on warrants issued by the county board according to law, except when special provision for payment of county money is otherwise made by law …." Neb. Rev. Stat. Section 69-1307.01 R.R.S. 2003 states that personal property held by public entities or political subdivisions which remained unclaimed for more than three years is presumed abandoned. Neb. Rev. Stat. Section 69-1310 R.R.S. 2003 requires such items be reported to the Nebraska State Treasurer before November 1 of each year as of June 30 next proceeding.

During our audit we noted the following:

- The County Attorney maintains a checking account in which funds are collected for various reasons including, in part, insufficient fund (ISF) check collection fees, restitution, diversion program fees, Youth Council funds, and Traffic Diversion STOP Class fees. Of these, the only funds remitted to the County Treasurer were the fees collected for ISF fees and interest earned on the bank account; the remaining money was retained in the bank account. As of June 30, 2006, the account had a book balance of $28,403. These unremitted funds were used to purchase items, therefore not going through the County's claim and warrant process.
- As of June 30, 2006, the County Attorney had multiple outstanding checks, some as old as five years. In August 2006 these old, outstanding checks were followed up on with some checks being reissued at that time. However, for checks not reissued, no remittance was made to the State Treasurer as unclaimed property.
- The County Attorney's June 30, 2006, bank reconciliation included one $50 outstanding check; however, there was no check number associated with it and the validity of the outstanding check could not otherwise be substantiated.

When all monies received are not remitted to the County Treasurer and paid out through an established claim and warrant process and all Unclaimed Property is not remitted to the State Treasurer in a timely manner, there is an increased risk of loss, theft, or misuse of funds.

> We recommend all monies received be deposited with the County Treasurer. We further recommend all payments for goods and/or services be paid through the County's claim and warrant process. Lastly, we recommend the County Attorney remit all unclaimed property to the State Treasurer in accordance with the Unclaimed Property Act.

VETERANS' SERVICE OFFICER

30. Records Retention

Records Retention Schedule 24-1-2, Local Agencies General Records – Bank Statements, as issued by the State of Nebraska Secretary of State Records Management Division, permits bank statements to be disposed of after three years provided an audit has been completed.

During our examination we noted the Veterans' Service Officer was unable to locate any of the original bank statements for the fiscal year ended June 30, 2006.

When original bank statements are not retained for subsequent inspection, there is an increased risk of loss, theft, or misuse.

> We recommend all original bank statements be retained in accordance with Records Retention Schedule 24-1-2.

HIGHWAY DEPARTMENT/SURVEYOR

31. Accounts Receivable

Sound accounting practice and good internal control require procedures be in place to review overdue account receivables on a regular basis to determine what action should be taken on those accounts.

During the audit the following was noted:

- As of June 30, 2006, both offices had numerous delinquent accounts receivables which they had been unable to collect.
- At June 30, 2006, the Highway Department had 13 receivables, 3 of which totaled $269 and were over five years old. The remaining 10 receivables were between six months and two and a half years old.
- At June 30, 2006, the Surveyor had 26 receivables, 4 of which totaled $103 and were over five years old. The remaining 22 receivables were between six months and three years old.

Without regular review of delinquent receivables, there is an increased risk delinquent amounts will not be collected and/or resolved in a timely manner.

> We recommend both the Highway Department and Surveyor implement procedures which include, at a minimum, annual discussions with the County Board to consider the feasibility of collection and/or the need for write-off approval if amounts appear to be uncollectible.

EXTENSION OFFICE

32. Checking Account

Neb. Rev. Stat. Section 23-1601(1) R.S.Supp., 2006 states, in part, "… it is the duty of the county treasurer to receive all money belonging to the county, from whatsoever source derived and by any method of payment provided by section 77-1702, and all other money which is by law directed to be paid to him or her. All money received by the county treasurer for the use of the county shall be paid out by him or her only on warrants issued by the county board according to law, except when special provision for payment of county money is otherwise made by law …."

During our examination we noted the Extension Office maintains an interest-bearing checking account with a June 30, 2006, book balance of $16,334. This balance consisted primarily of interest, voided checks, and monies remaining from when the Extension Office was a separate political entity.

When all monies received are not remitted to the County Treasurer and paid out through an established claim and warrant process there is an increased risk of loss, theft, or misuse of funds.

> We recommend the Extension Office maintain its checking account on an imprest basis and, as such, promptly remit all excess monies to the County Treasurer.

Extension Office's Response: The Merrick County Extension Board has utilized monies in the youth program that appeared excess in the checking account. I could not convince them to remit all monies to the treasurer because they still remember their days as a separate political entity when a balance was good. They are appointed by the Board of Supervisors to operate and oversee the Extension Office.

I will continue to work with the Extension Board to operate its checking account on an imprest basis. They do not see a small balance as excess monies, however I will continue to teach and educate.

33. Unclaimed Property

Neb. Rev. Stat. Section 69-1307.01 R.R.S. 2003 states that personal property held by public entities or political subdivisions which remained unclaimed for more than three years is presumed abandoned. Neb. Rev. Stat. Section 69-1310 R.R.S. 2003 requires such items be reported to the Nebraska State Treasurer before November 1 of each year as of June 30 next proceeding.

During our examination we noted the Extension Office is voiding uncashed checks but is not remitting them to the State Treasurer in accordance with the Unclaimed Property Act. County Extension office staff indicated they have historically never remitted uncashed checks to the State but instead retain this money in their office checking account.

When monies are not remitted to the State Treasurer in accordance with the provisions of the Unclaimed Property Act, there is an increased risk of loss, theft, or misuse.

> We recommend all personal property, including uncashed checks, which remain unclaimed for more than three years be remitted to the State Treasurer in accordance with the Unclaimed Property Act.

Extension Office's Response: The Merrick County Extension Board and staff will re-issue outstanding checks when we know the individual, which is 99% of the time. The Board felt that if former and current board members did not cash their checks, they wanted the money to stay in Extension.

The checks will be issued with an insistence that the check be cashed. If that cannot be accomplished, the monies will be remitted to the State Treasurer after three years.

It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the County.

Draft copies of this report were furnished to the County 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 County declined to respond. The responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

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

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

Sincerely,

Deann Haeffner CPA

Deann Haeffner
Assistant Deputy Auditor