NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 16, 2008

Board of Supervisors
Adams County, Nebraska

Dear Supervisors:

We have audited the basic financial statements of Adams County (County) for the fiscal year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. 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

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.

We noted 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.

> 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

Expense Reimbursement Procedures

Sound accounting practices and good internal control require all claims, including petty cash and employee expense reimbursements, have adequate, detailed supporting documentation which provides evidence for the amounts claimed.

Review of petty cash and employee expense reimbursements submitted to and approved by the County Board noted the County Board is not consistent in requiring adequate supporting documentation, which both supports and agrees to amounts claimed. Furthermore, in relation to employee expense reimbursements, instances were noted in which: 1) meals were reimbursed based on both judgmental, non-Board approved per-diem amounts and actual amounts; 2) "actual" meal amounts claimed were not consistently documented by detailed receipts with instances in which meals were charged to hotel bills with no additional detail provided, as well as instances in which meals were supported only with summary credit card receipts; and 3) in-state lodging was not direct billed to the County resulting in payment of unnecessary taxes.

When claims are approved without adequate, detailed documentation providing evidence for the amounts claimed, there is an increased risk of loss, theft, or misuse of County funds.

> We strongly recommend all claims have adequate, detailed supporting documentation to evidence amounts claimed. We further recommend the County consider implementation of uniform guidelines for County employee expense reimbursements.

Tax Sale Procedures, Including Delinquent Property Tax List

Neb. Rev. Stat. § 77-1918 (Reissue 2003) states, in part, "…On or before October 1 of each year, the county treasurer shall make a report in writing to the county board setting out a complete list of all real property in the county on which any taxes are delinquent and which was not sold for want of bidders at the last annual tax sale held in such county. It shall be the duty of the county board, at its first meeting held after the making of such report, to carefully examine the same, and while it may direct the issuance of tax sale certificates to the county upon any real property upon which there are any delinquent taxes, it shall, as to all real property upon which taxes are delinquent for three or more years, either enter an order directing the foreclosure of the lien of such taxes as provided in section 77-1901 or enter an order for the county treasurer to issue tax sale certificates to the county covering the delinquent taxes upon such real property, to be foreclosed upon in the manner and at the time provided in sections 77-1901 to 77-1918…."

During our review of the County's handling of tax sale procedures, the following was noted:

- The County was unable to provide documentation that: (1) a list of all delinquent taxes was submitted to the County Board; (2) the County Board instructed the County Treasurer to issue tax sale certificates on parcels delinquent by one or more years; and (3) the County Board instructed the County Attorney to proceed with foreclosure as necessary. The County Treasurer asserted in April of each year a resolution and list of delinquent taxes, including instruction to issue tax sale certificates is presented to the County Board for approval; however, the last signed resolution occurred in 1998 and a review of Board proceeding minutes made no reference to such.

- The County Treasurer owned real estate property on which taxes had not been paid since 1997 with a total of $2,037 due by the elected official for the 1997-2007 tax years. A county tax sale was issued and forwarded to the County Attorney. According to the County Attorney, the property was turned over to that office for foreclosure action in 2004 with no foreclosure sale having occurred since that date.

When adequate documentation is not retained to support all actions taken throughout the tax sale process, there is an increased risk of noncompliance with State Statute as well as inaction by the governing body. In addition, when property belonging to elected County officials does not progress, in a timely manner, through to foreclosure sale, there is an increased risk of public perception of preferential treatment.

> We recommend adequate documentation be obtained and retained to support all actions taken throughout the tax sale process, including presentation of a delinquent property tax list and instruction to the County Treasurer to issue tax sale certificates and the County Attorney to commence foreclosure action. In addition, we strongly recommend when property belonging to elected County officials is delinquent and subject to foreclosure, such action be undertaken in a timely manner.

Expenditures In Excess of Budget

Neb. Rev. Stat. § 23-916 (Reissue 1997) regarding prohibition of contracts or liabilities in excess of budget, states, "After the adoption of the county budget, no officer, department or other expending agency shall expend or contract to be expended any money, or incur any liability, or enter into any contract which, by its terms, involves the expenditure of money not provided for in the budget, or which involves the expenditure of any money for any of the purposes for which provision is made in the budget in excess of the amounts provided in said budget for such office, department or other expending agency, or purpose, for such fiscal year. Any contract, verbal or written, made in violation of this section shall be null and void as to the county, and no money belonging thereto shall be paid thereon."

Insurance Fund expenditures exceeded the adopted budget by $21,787 with no budget amendments adopted by the County Board.

When expenditures are made in excess of the County's adopted budget, the County is not in compliance with State Statute.

> We recommend the County implement procedures to closely monitor expenditures throughout the year and amend the County's budget prior to fiscal year end to avoid having expenditures in excess of the County's adopted budget.

Prepaid Cellular Bills

Neb. Rev. Stat. § 23-135(1) (Cum. Supp. 2006) regarding claims states, in part, "…All claims against a county shall be filed with the county clerk within ninety days from the time when any materials or labor, which form the basis of the claims, <u>have been furnished or performed</u>…." and (3) states, in part, "…the county board may pay in advance of services being rendered if it is pursuant to a contract entered into with the state. Such contract shall meet the requirements of the Interlocal Cooperation Act…."

Review of approved claims noted three instances during the fiscal year ended June 30, 2008, in which the office of the County Treasurer requested prepayment of three months of cellular telephone service. Often prepayment would occur despite the office having no balance due the vendor; for example, $487 was paid in January 2008 despite supporting invoices showing a $6 credit balance and $480 was paid in April 2008 despite supporting invoices showing a $4 credit balance. In addition, claims were supported only with one page invoice summary statements rather than detailed invoices including call detail.

When claims are: 1) approved without adequate supporting documentation, 2) based on estimates rather than actual amounts due, and 3) prepaid, the County is not in compliance with State Statute. Additionally, such claim procedures greatly increase the County's risk of loss, theft, or misuse of funds.

> We recommend all claims have adequate supporting documentation, be based on actual amounts due rather than estimates, and contain no prepayments other than provided for in State Statute.

County Board Budget Message

Neb. Rev. Stat. § 23-106(2) (Reissue 1997) states, in part, "…the county board shall have the authority to establish a petty cash fund for such county for the purpose of making payments for subsidiary general operational expenditures and purchases. Such county board shall set, by resolution of the board, the amount of money to be carried in such petty cash fund and the dollar limit of an expenditure from such fund and such amount shall be stated in the fiscal policy of the county board budget message."

Petty cash amounts were not approved by the County Board and stated in the budget message of the County budget document.

When petty cash funds are not properly authorized by the County Board and disclosed in the budget message of the County budget document, the County is not in compliance with State Statute. In addition, the County is exposed to an increased risk of loss, theft, or misuse of County funds.

> We recommend the County review petty cash fund use by County offices and, if it is the intention of the Board those offices have approved petty cash funds, a formal resolution should be entered to outline authorized funds, including amount. We further recommend all Board authorized petty cash funds be properly stated in the budget message of the County budget document.

COUNTY TREASURER

Improper Use of Cash Drawer Receipts

Neb. Rev. Stat. § 23-1601(1) (Supp. 2007) regarding County Treasurer duties states, in part, "… 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 review of the County Treasurer's cash accountability, numerous instances were noted in which cash drawer receipts were used for: reimbursable office expenses, including $219 for an employee retirement party and gift; reimbursable and non-reimbursable travel advances to office employees; and apparent short-term personal loans to the County Treasurer. The County Treasurer's Office tracks cash and cash items in a daily record book which indicated cash totaling $8,270 as having been drawn to "JM" (Julia Moeller, County Treasurer) during the fiscal year ended June 30, 2008.

When cash drawer receipts are used to support disbursements outside of the County's claims and warrant process, the County Treasurer is not in compliance with State Statute. Additionally, such disbursements greatly increase the County's risk of loss, theft, or misuse of funds.

> We recommend the County Treasurer immediately discontinue the practice of using cash drawer receipts to make advance payment of expenses as well as apparent short-term personal loans to the office holder. As such, all money received by the County Treasurer must be paid out through the County's claim and warrant process, except when provisions exists in law for payment by another means.

Negative Fund Balances

Neb. Rev. Stat. § 23-1602 (Reissue 1997) states, in part, "…all warrants issued by the county board shall, upon being presented for payment, if there are not sufficient funds in the treasury to pay the same, be endorsed by the treasurer not paid for want of funds, and the treasurer shall also endorse thereon the date of such presentation and sign his name thereto. Warrants so endorsed shall draw interest from the date of such endorsement, at the rate to be fixed by the county board at the time of issuance and inserted in the warrant…." No provision in State Statute permits the over-expense of County funds.

As of June 30, 2008, the County had negative fund balances in each of the following funds:

- Health Fund; negative $8,461
- Hastings Airport Fund; negative $3
- Lochland Clearing House Fund; negative $3,834

When funds are over-expended, the County is not in compliance with State Statute.

> We recommend the County take immediate corrective action to resolve all existing negative fund balances and implement procedures to ensure negative fund balances do not recur.

<u>Timeliness of Disbursements to Other Entities</u>

Neb. Rev. Stat. § 23-1601(4) (Supp. 2007) regarding County Treasurer duties states, in part, "…on or before the fifteenth day of each month, the county treasurer shall pay to each city, village, school district, educational service unit, county agricultural society, and rural or suburban fire protection district located within the county the amount of all funds collected or received for the city, village, school district, educational service unit, county agricultural society, and rural or suburban fire protection district the previous calendar month, including bond fund money when requested by any city of the first class under section 16-731...."

Review of disbursements to other entities noted the County Treasurer was not consistently paying out, on or before the fifteenth day of each month, all amounts collected or received for educational service units, fire protection districts, school districts, and villages.

When disbursements are not made in a timely manner the County Treasurer is not in compliance with State Statute. Additionally, failure to make timely disbursements can result in an increased risk of loss, theft, or misuse of funds.

> We recommend all disbursements to other entities be made in accordance with State Statute.

COUNTY SHERIFF

<u>Sheriff Balancing and Remittances</u>

Neb. Rev. Stat. § 33-117(3) (Reissue 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 …."

Sound accounting practices 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 did not remit all fees and mileage earned to the County Treasurer but instead remitted only those amounts collected.

- Office assets are not balanced with office liabilities. Auditor determined office assets exceed office liabilities by $12,797 as of June 30, 2008.

When all monies earned are not remitted to the County Treasurer, the County Sheriff is not in compliance with State Statute. Additionally, failure to determine asset-to-liability balancing variances contributes to an increased risk of loss, theft, or misuse of funds in addition to allowing errors to not be detected in a timely manner.

> We recommend the County Sheriff implement documented monthly balancing procedures, including timely follow up of any identified variances. We further recommend the County Sheriff's office remit all fees earned to the County Treasurer on, at least, a quarterly basis.

Sheriff Accounting Procedures

Neb. Rev. Stat. § 23-1601(1) (Supp. 2007) 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 …."

Good internal control requires strong basic accounting procedures be implemented to assist in reducing the risk of loss, theft, or misuse of funds.

During our audit the following was noted:

- Claim and warrant process is not used consistently when receipting and expending funds. Money is receipted into and disbursed directly from the Commissary, House Arrest account, and Intoxilizer bank accounts. Deposits into these accounts included work release fees, UA fees, GPS tracking fees, and inmate purchases from the commissary. Disbursements included purchases for the commissary and GPS tracking service bills.
- Cash in the Commissary change box could not be tied to receipts or the cash on hand amount. The change box is not maintained at a specific amount, per the Sheriff's office the total amount in the box at any given time should equal $165 in bills, plus an unidentified amount of change. During our audit, total cash counted equaled $294, of which $189 tied to receipts. Therefore, total cash on hand equaled $105; which is at least $60 short of the amount which should have been on hand at the time of audit.
- 11 of 57 checks on hand at the time of the audit had not been restrictively endorsed upon receipt.

- Deposits were not made on a consistent basis. At the time of the audit several checks on hand had been receipted up to 49 days before the date the surprise cash count was performed.
- At the time of the surprise cash count, one check could not be traced to a receipt.
- Pre-numbered receipts were not used on a consistent basis.
- One bank account was maintained at a depository not approved by the County Board.

When all monies received are not appropriately accounted for and sound accounting practices and good internal control procedures are not in place, there is an increased risk of loss, theft, or misuse of funds.

> We recommend all monies received be deposited with the County Treasurer and all payments for goods and/or services be paid through the County's claim and warrant process. We also recommend the County Sheriff implement procedures to ensure cash on hand is adequately controlled, checks are restrictively endorsed upon receipt, deposits are made on a consistent basis, receipts are written for all collections, pre-numbered receipts are used, and deposits are held only in Board-approved depositories.

Unclaimed Property

Neb. Rev. Stat. § 69-1310 (Reissue 2003), the Unclaimed Property Act, provides any unclaimed property, after three years, is presumed abandoned. Any presumed abandoned property, as of June 30 each year, must be reported and remitted to the State Treasurer by November 1 of each year.

As of June 30, 2008, two checks, totaling $458, were noted which had been outstanding in excess of three years without having been reported and remitted to the State Treasurer in compliance with the Unclaimed Property Act.

When unclaimed property is not remitted pursuant to the Unclaimed Property Act the County is not in compliance with State Statute. In addition, the County is exposed to an increased risk of loss or misuse of funds.

> We recommend all Unclaimed Property be reported and remitted to the State Treasurer in accordance with State Statute.

COUNTY ATTORNEY

Trust Accountability

Sound accounting practices and good internal control require all monies held in trust by the County be adequately detailed as to whom those funds are owed.

As of June 30, 2008, the County Attorney's Trust and Check Reimbursement accounts had $729 and $22, respectively, which could not be accounted for as to whom those funds were owed.

When monies held in trust by the County are not adequately accounted for, there is an increased risk of loss, theft, or misuse of such trust funds.

> We recommend the County Attorney review monies held in trust and transfer any unaccounted balance to the County General Fund.

Unclaimed Property

Neb. Rev. Stat. § 69-1310 (Reissue 2003), the Unclaimed Property Act, provides any unclaimed property, after three years, is presumed abandoned. Any presumed abandoned property, as of June 30 each year, must be reported and remitted to the State Treasurer by November 1 of each year.

As of June 30, 2008, 12 checks, totaling $932, were noted which had been outstanding in excess of three years without having been reported and remitted to the State Treasurer in compliance with the Unclaimed Property Act.

When unclaimed property is not remitted pursuant to the Unclaimed Property Act the County is not in compliance with State Statute. In addition, the County is exposed to an increased risk of loss or misuse of funds.

> We recommend all Unclaimed Property be reported and remitted to the State Treasurer in accordance with State Statute.

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. The County declined to respond.

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,

Signed Original on File

Deann Haeffner
Assistant Deputy Auditor