



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Board of Commissioners
Banner County, Nebraska

Dear Commissioners:

We have audited the basic financial statements of Banner County (County) for the fiscal year ended June 30, 2007, and have issued our report thereon dated May 22, 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

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.

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

2. Board Minutes

Neb. Rev. Stat. Section 23-122 R.R.S. 1997, requires board proceedings to be published within ten working days after the close of meetings of the board.

Review of proceedings of the County Board of Commissioners noted two of forty-one County Board proceedings between July 2006 and March 2008 were published 17 and 26 working days after the respective meetings.

When County Board proceedings are not published in a timely manner as prescribed by State Statute, there is an increased risk of lack of public awareness of County Board actions and/or decisions.

We recommend all County Board proceedings be published in accordance with State Statute.

3. County Budget Document

Neb. Rev. Stat. Section 13-504 R.R.S. 1997, regarding the contents of proposed budget statements, requires public entity budgets to contain, in part, information for the immediately preceding fiscal year including revenues from all sources, the actual amount of expenditures, and the unencumbered cash balances at the beginning and end of the year, as well as for the current fiscal year the actual unencumbered cash balance available at the beginning of the year.

Review of the County's 2007-2008 budget statements noted the following:

- June 30, 2007, General Fund balance was overstated by \$5,537 due to incorrect recording of a \$5,645 disallowed claim and a \$108 duplicate payment.
- 2006-2007 Road Equipment Sinking Fund actual revenues, and the resulting Fund balance, were understated by \$4,109 due to actual revenue figures from 2005-2006 being reflected, in error, as 2006-2007 revenues.
- 2006-2007 Bridge Construction Fund actual revenues, and the resulting Fund balance, were overstated by \$103 due to actual revenue figures from the 2005-2006 being reflected, in error, as 2006-2007 revenues.
- 2006-2007 Hard Surface Road Fund actual revenues of \$3,168 were not correctly reflected in the budget document. In October 2007 the County Clerk submitted a revised budget document for this fund, however, that revision did not amend the reported 2006-2007 revenues, which had actual revenue figures from 2005-2006 reflected, in error, as 2006-2007 revenues. Instead, the Clerk added a \$3,168 "Revenue Adjustment" to reflect the net change.

Review of the County's 2006-2007 budget statements reflected incorrect beginning unencumbered cash balances available in the Hard Surface Road Fund and Bridge Construction Fund by \$2,612 and \$1,131, respectively.

When complete and accurate budget information is not presented in the County's budget document, financial information made available to the public is inadequate to enable intelligent and informed public support, opposition, criticisms, suggestions, and/or observations.

We recommend the County implement procedures to ensure its annual budget document provides a complete and accurate picture of activity and fund balances.

4. Payroll Procedures

United States Department of the Treasury – Internal Revenue Service regulations require employers to deposit on a monthly basis, and report on a quarterly basis, all wages paid, Federal income tax withheld, and both the employer's and employee's share of social security and Medicare taxes. In addition, State of Nebraska Department of Revenue rules and regulations require monthly depositing, and quarterly reporting, of Nebraska taxes withheld if such taxes are more than \$500 each month. Good internal control requires payroll check registers be complete and accurate; all checks be issued in sequential order; adequate supporting documentation be retained for tax withholding payments; payroll bank accounts be reconciled to accounting records with all discrepancies investigated and resolved in a timely manner; and all employee withholdings be remitted in a timely manner.

Review of the County's payroll procedures noted the following:

- On June 19, 2007, Banner County Board Chairman Gary Grubbs signed a \$17,636 installment agreement with the United States Department of the Treasury-Internal Revenue Service (IRS) on behalf of Banner County/County Clerk. The \$17,636 in tax, penalties, and interest related to the County having not made proper Federal tax deposits, including late filing of returns and incorrect Federal tax deposits for the tax periods of December 2004, March 2005, June 2005, September 2005, June 2006, September 2006, and December 2006. The agreement indicates \$750 monthly installment payments are to be directly debited from the personal bank account of the Banner County Clerk.
- Nebraska income tax withholdings were not remitted to the Nebraska Department of Revenue in a timely manner. July through September 2006 withholdings totaling \$2,143 were not remitted until December 2006; October and November 2006 withholdings totaling \$1,466 were not remitted until April 2007; and December 2006 withholdings totaling \$704 were not remitted until March 2007.
- The payroll check register did not include a complete list of all issued check numbers and did not consistently report actual disbursement amounts.

- Payroll checks were not issued in sequential order.
- Supporting documentation for reporting of federal payroll withholding could not be located for the April-June 2007 reporting quarter.
- Payroll records did not reconcile with bank records. The County Clerk did not, and has not for many years, made any attempt to perform a monthly reconciliation of the bank account. Based on the auditor's reconciliation of the bank account as of June 30, 2007, the bank account was short \$3,288.
- The County's payroll bank account was overdrawn in January 2007, May 2007, and June 2007. In addition, the County Health Insurance bank account was overdrawn July 2006 through March 2007.
- Payroll benefit withholdings were not remitted in a timely manner. The Omaha Life Insurance Company payroll withholdings of \$224 for June 2006 through January 2007 could not be traced to a subsequent vendor disbursement, a \$2,028 payment in August 2006 to First Concord for IRS section 125 plan administration equated to approximately twelve months of employee withholdings; and a \$1,408 payment to Central United Life in February 2007 equated to approximately five months of employee withholdings.

When payroll procedures are not adequate to ensure complete and accurate documentation, prompt payment of tax and other withholding liabilities, and timely reconciliation of the payroll bank account, there is an increased risk of fraud, risk, or loss as well as the potential for litigation related to employee benefits. Additionally, as was the case for Banner County in June 2007, significant penalties and interest may be levied against the County for deficiencies in remitting and reporting of tax liabilities.

We recommend the County immediately implement procedures to ensure all payroll records are complete, accurate, and retained for subsequent inspection. We further recommend the County's payroll bank account be reconciled monthly with any discrepancies addressed in a timely manner. Lastly, we strongly recommend the County implement procedures to ensure all tax liabilities and employee withholdings are remitted, and reported, immediately following withholding in order to avoid penalties, interest, additional liabilities, liens, etc.

5. Board Actions

Neb. Rev. Stat. Sections 77-2315 R.R.S. 2003 and 77-2340 R.R.S. 2003 permit the County Treasurer to invest County funds only with the consent of the County Board. Neb. Rev. Stat. Section 77-1918 R.R.S. 2003 assigns to the County Board the responsibility for directing the County Treasurer to issue tax sale certificates as it deems necessary.

Review of proceedings of the Board of Commissioners noted no instruction to the County Treasurer regarding investing of County funds or issuance of tax sale certificates.

When the Board of Commissioners does not direct official actions according to State Statute there is an increased risk of misdirection.

We recommend the County Board clearly instruct official actions as required by State Statute.

COUNTY CLERK

6. Office Accountability

Neb. Rev. Stat. Section 33-130 R.R.S. 2004, requires the County Clerk to remit all fees received and due to the County Treasurer no later than the 15th day of the following month. Neb. Rev. Stat. Section 76-903 R.R.S. 2003, regarding collection of Uniform Commercial Code (UCC) tax requires remittance to the State Treasurer of State share of revenues collected. Good internal control requires the immediate restrictive endorsement and timely deposit of all money received in order to reduce the risk of loss, theft, or misuse. Good internal control also requires checks be issued in a numerical sequence to ensure accountability.

Review of the County Clerk's office procedures noted the following:

- Remittances to the County Treasurer and State Treasurer were not timely. August 2006 through February 2007 County fees were not remitted until April 2007; April 2007 through July 2007 County fees were not remitted until September 2007; June 2006 State fees were not remitted until May 2007.
- Earnings for July through November 2006 totaling \$10,648 were not deposited to the bank account until December 2006. No bank deposits were made in January or February 2007 for the \$2,161 in earnings.
- Checks received were not restrictively endorsed immediately upon receipt.
- The bank account of the County Clerk was overdrawn during the following time periods: August 18, 2006, through December 8, 2006; February 26, 2007, through March 1, 2007; March 20, 2007, through March 29, 2007. A total of \$58 in overdraft charges were incurred and personally reimbursed by the County Clerk as a result of these overdrafts.
- Payable checks were not issued in numerical sequence.

When checks received are not restrictively endorsed immediately upon receipt, monies received are not deposited in a timely manner, fees are not timely remitted to the appropriate authorities, and payable checks are not issued in numerical sequence, there is an increased risk of loss, theft, or misuse.

We recommend procedures be implemented to ensure all checks received are restrictedly endorsed immediately upon receipt, all monies received are deposited in a timely manner and subsequently remitted to the appropriate authorities in a timely manner, and all payables checks be issued in numerical sequence.

COUNTY ASSESSOR

7. Personal Property Returns

Neb. Rev. Stat. Section 77-1229 R.S.Supp., 2007, requires the filing of tangible personal property on or before May 1 of each year. Neb. Rev. Stat. Section 77-1233.04 R.S.Supp., 2007, establishes penalties for late filing of tangible personal property returns. In addition, this statute requires that whenever valuation changes are made to a personal property return the County Assessor shall correct the assessment roll and tax list, if necessary, to reflect such changes.

During testing of ten 2006 personal property tax returns, the following was noted:

- Two returns contained no date filed by the taxpayer.
- One return listed a valuation of \$47,926, however; the personal property tax list reflected a taxable valuation of \$50,177. The County Assessor was unable to document and/or explain this increase in taxable valuation.

When tangible personal property returns do not include a date filed, it is not possible to determine if penalties, when applicable, were properly applied to the returns. In addition, when valuation changes occur and are not adequately documented, there is an increased risk of subsequent taxable valuation protest.

We recommend all tangible personal property returns be complete, accurate and include, in part, date returns were filed by taxpayers as well as documentation of valuation changes.

CLERK OF THE DISTRICT COURT

8. Office Accountability

Sound accounting practices require all financial activity be completely and accurately recorded in the accounting system to reduce the risk of loss, theft, or misuse. Good internal control requires information from physically issued checks, including check numbers, payees, dates, amounts, etc., agree to the accounting system. Good internal control as well as sound accounting practices also require timely deposit of all monies received and a comprehensive reconciliation between book balances and bank balances be completed monthly, with variances promptly identified and resolved. Neb. Rev. Stat. Section 33-106.02 R.R.S. 2004, requires monthly remittance of District Court fees to the general fund of the County.

Review of the Clerk of the District Court's office procedures noted the following:

- Financial activity was not completely and accurately recorded in the JUSTICE system, the official accounting and case management system of the District Court. During the fiscal year ended June 30, 2007, \$6,019 in receipts and \$12,741 in disbursements were not recorded in the JUSTICE system. The District Court's sporadic use of its accounting system contributed to 17 negative trust balances as of March 31, 2008, ranging from \$21 to \$793, as well as an overpayment of \$212 in fees to the State Treasurer, and \$315 in fees claimed and paid twice by the County Board.
- No documentation of a reconciliation of the bank account balance to the JUSTICE system since the opening of the account in May 2000. As of March 31, 2008, reconciling items noted by the auditor include 16 undeposited receipts totaling \$997, 29 checks totaling \$4,942 which cleared the bank but had not been recorded to JUSTICE, 4 deposits totaling \$272 which could not be linked to a case, and 21 deposits totaling \$4,532 which had not been recorded to JUSTICE.
- Deposits were not made in a timely manner with instances of some checks being deposited weeks and/or months after having been received.
- Physically issued check numbers did not agree to check numbers recorded in the District Court's accounting system. During the fiscal year ended June 30, 2007, the District Court physically issued check numbers 1491 through 1511; a total of 21 checks, however, the District Court's accounting system reflected check numbers 1452 through 1457; a total of 6 checks.
- No fee remittances were made to the County Treasurer during the fiscal year ended June 30, 2007. The JUSTICE system reflected \$2,824 in County fees during the fiscal year.
- The District Court's manual, pre-JUSTICE bank account was consistently overdrawn from July 2006 until its closing in May 2007.

When all financial activity is not accurately recorded in the official accounting system, monies received are not deposited in a timely manner, bank account and book account balances are not reconciled, and when fees are not remitted to the appropriate authorities in a timely manner, there is a greatly increased risk of loss, theft, or misuse.

We strongly recommend the following:

- All financial activity be completely and accurately recorded in the District Court's accounting system.
- Procedures be implemented to ensure all information for physically issued checks, including check numbers, payees, dates, and amounts, agree to the JUSTICE system.

- All monies received be deposited to the District Court’s bank account in a timely manner.
- Immediate attention to reconciling the District Court’s bank account to the JUSTICE system.
- All fees/fines be timely remitted in accordance with State Statute.

County Clerk’s Overall Response: The combination of increased workloads for the clerk/ex officio office (specifically the assessing duties); the time spent on preparation for several lawsuits and TERC appeals; and a turn over of employees have caused problems with the working of the office. I am aware of the problems and have hired a part time employee for just District Court duties. The 2 employees that work in the clerk’s office now have been here a sufficient amount of time to be able to assume various duties that has not been possible previously. Hopefully all the exceptions noted in the audit will be corrected in the near future.

COUNTY TREASURER

9. Bond Forfeitures

Article VII; Section 5 of the Constitution of the State of Nebraska, regarding fines, penalties, and license monies, states, in part, “... all fines, penalties, and license monies shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue”

Bond forfeitures totaling \$675 were deposited into the County’s General Fund during the fiscal year ended June 30, 2007, rather than being distributed to the common schools as required by the State’s Constitution.

When forfeitures are not distributed to the common schools in accordance with the State’s Constitution, the schools lose out on revenues to which they are otherwise entitled.

We recommend all bond forfeitures received by the County Treasurer be distributed to the common schools as required by the Constitution of the State of Nebraska.

WEED SUPERINTENDENT

10. Weed Spraying Revenues

Neb. Rev. Stat. Section 2-959 R.R.S. 1997, regarding weed control authorities and the control of weeds, requires, in part, “all funds so received shall be deposited to the noxious weed control fund”

Weed spraying revenues totaling \$3,673 were deposited into the Road Fund during the fiscal year ended June 30, 2007, rather than into a noxious weed control fund as required by State Statute.

When weed spraying revenues are not administered in accordance with State Statute there is an increased risk these revenues will not be properly associated with related costs of operation.

We recommend all revenues received by the County specifically related to weed spraying and the control of weeds be deposited into a noxious weed control fund as required by 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. All formal responses received have been incorporated into this report. Where no response has been included, the County 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 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,

Signed Original on File

Deann Haeffner
Assistant Deputy Auditor