NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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March 4, 2008

Board of Supervisors
Phelps County, Nebraska

Dear Supervisors:

We have audited the basic financial statements of Phelps County (County) for the fiscal year ended June 30, 2007, and have issued our report thereon dated March 4, 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. Specifically, we noted an employee in the County Treasurer's office was preparing the daily balancing sheets with no review or segregation of duties. That employee was convicted of theft in October 2007, and ordered to pay restitution of $31,200. In some offices, due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

> 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 TREASURER

Month/Year End Cut Off

Neb. Rev. Stat. Section 23-1605 R.R.S. 1997 states "The county treasurer of each county shall, during the months of July and January of each year, cause to be published … a tabulated statement of the affairs of his office, showing the receipts and disbursements of his office for the last preceding six months ending June 30 and December 31." Neb. Rev. Stat. Section 23-902 R.R.S. 1997 states "The fiscal year of all counties … shall begin July 1 and end June 30, and shall be the budget year." Furthermore, sound accounting practices require activity be reported using actual year end figures.

The County Treasurer's office uses a month end cut off of one day prior to the actual month end. Therefore, semi-annual reports were published for the periods of June 30, 2006, through December 28, 2006, and December 29, 2006, through June 29, 2007. In addition, the County budget statement did not represent the fund balances and activity of the County for the period July 1, 2006, to June 30, 2007, as required by State statute.

Activity reflected in the semi-annual reports and budget document are not correct if the cut off day in the records is not the end of the month. Additionally, the County Treasurer is not in compliance with State statute.

> We recommend the County Treasurer wait to close the monthly books until the actual month end and that the semi-annual statements and budget document be published in compliance with State statute.

Account Balances

During our audit we noted several accounts in the County Treasurer's records which had not recorded activity in numerous years. These accounts included:

- Free High Tuition Account, $8,909, this program ended in 1993.
- Bertrand Nursing Home Account, $10,775, no activity since early 1990's.
- Taxes in Lieu Account, $314, no activity since 2003.
- Partial Payments Account, $115,579, representing 239 individuals, some indicating no activity since early 1990's.
- Road Savings Account, $1,011, representing a shortage of County funds.

Good internal control and sound accounting procedures require the routine review of inactive account balances. The risk of misuse of funds and errors increase when accounts are not reviewed and monitored on a timely basis.

> We recommend the County Treasurer review all account balances and determine the appropriate action on inactive balances.

Insufficient Pledged Collateral

Neb. Rev. Stat. Section 77-2395 R.R.S. 2003 states "If a bank…provides a deposit guaranty bond pursuant to the act, the custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured by the Federal Deposit Insurance Corporation, unless and until the depository has provided to the custodial official a deposit guaranty bond in an amount not less than the amount on deposit which is in excess of the amount so insured."

At June 30, 2007, the County Treasurer had bank deposits totaling $1,220,144 at FirsTier bank; however, pledged collateral provided by guaranty bonds and the Federal Deposit Insurance Corporation (FDIC) insurance amounted to only $1,000,000. Deposits of $220,144 were not adequately insured.

> We recommend the County Treasurer ensure there is sufficient pledged collateral for all bank deposits in order to remain in compliance with State statute.

Listing of Delinquent Property

Neb. Rev. Stat. Section 77-1918 R.R.S. 2003 states "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."

During our audit we noted the County Treasurer did not present a list of real properties with delinquent taxes to the County Board. When the list is not presented to the County Board, they are not able to complete their duties to be in compliance with State statutes.

> We recommend the County Treasurer present a complete listing of properties with delinquent taxes to the County Board on or before October 1 of each year.

Interest on Delinquent Property Taxes

Neb. Rev. Stat. Section 77-204 R.R.S. 2003 states that one-half of the taxes due under section 77-203 shall become delinquent on May 1 and the second half on September 1 following the date the taxes become due. Neb. Rev. Stat. Section 77-207 R.R.S. 2003 states that all delinquent taxes shall draw interest from the date they become delinquent.

For 2 of 15 real estate taxes tested, interest was not assessed on property tax payments that were received approximately two weeks after their due date.

When the County Treasurer's office does not assess interest on delinquent taxes, the County is not collecting all the money that is due them.

> We recommend the County Treasurer's office charge interest on all delinquent tax payments.

Checks Not Restrictively Endorsed

Good internal controls require checks be endorsed at time of receipt in order to mitigate the chance of theft or loss.

During a cash count performed September 20, 2007, 41 of 65 checks on hand were not restrictively endorsed.

> We recommend the County Treasurer's office implement procedures to ensure all checks are restrictively endorsed upon receipt.

COUNTY BOARD

Unauthorized Expenditures

Neb. Rev. Stat. Section 23-106(2) R.R.S. 1997 states, "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." Neb. Rev. Stat. Section 23-1601 R.S.Supp., 2007 requires the County Treasurer to receive all money belonging to the County from whatsoever source derived and by any method of payment.

During our audit we noted the following:

- The County Clerk had a change fund of $17 and accumulated interest earned on a bank account of $120 which had not been remitted to the County Treasurer.
- Four instances where the County Clerk's office prepaid postage to the US Post Office and then later claimed reimbursement from the County; thus effectively using their bank account as a petty cash fund.
- The County Attorney had $840 in a bank account to pay sheriff fees, postage, and other expenses, thus effectively using their bank account as a petty cash fund.
- The County Assessor had a change fund of $25 which was being used to purchase minor items.

- The County Sheriff's office maintains the following three funds which do not flow through the County Treasurer:
  - **Pop Fund:** Monies received into this fund were primarily commissions from pop machines located in the County Sheriff's office. Disbursements were for items such as coffee, creamer, etc. During the fiscal year ended June 30, 2007, this fund had receipts of $322 and disbursements of $380, with a June 30, 2007, balance of $15.
  - **Foundation Fund:** Monies received into this fund were primarily private donations as well as Phelps County prisoner transport reimbursements for costs paid out of the Foundation Fund. Disbursements were for items such as computer accessories, reimbursable prisoner transport expenses, retirement gifts, and miscellaneous expenses. During the fiscal year ended June 30, 2007, this fund had receipts of $3,698 and disbursements of $3,224, with a June 30, 2007, balance of $1,859.
  - **Jail Retained Earnings Fund:** Monies received into this fund were related to profits earned by the jail on commissary sales. Disbursements included items such as technology equipment, jail improvement purchases, and commissary cart inventory items (pre-paid calling cards, personal hygiene items, etc.). During the fiscal year ended June 30, 2007, this fund had receipts of $46,742 and disbursements of $50,579, with a June 30, 2007, balance of $5,315.

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 County Board review the need for petty cash funds and establish such funds in compliance with State statute. We further recommend all authorized petty cash funds be identified in the County's budget message.

COUNTY SHERIFF

Office Accountability

Good internal control requires assets (cash on hand, reconciled bank balance, and accounts receivable) reconcile with office liabilities (fees, commissions, mileage, and refunds). Sound accounting practices and good internal control require the immediate endorsement of all checks received in order to reduce the risk of loss, theft, or misuse.

At June 30, 2007, the following was noted:

- While the County Sheriff's office has implemented monthly asset-to-liability balancing procedures, office assets were $2,360 long compared to office liabilities.
- Of 30 checks on hand at cash count, 7 totaling $76 were not restrictively endorsed.

Failure to resolve asset-to-liability balancing variances can result in errors more easily going undetected. In addition to unresolved asset-to-liability variances, checks not endorsed immediately upon receipt increase the risk of loss, theft, or misuse of funds.

> We recommend the County Sheriff continue its efforts in asset-to-liability balancing and all unexplained variances should be investigated and resolved in a timely manner. We also recommend all checks received be immediately endorsed upon receipt.

COUNTY ASSESSOR

Approval of Tax Corrections

Neb. Rev. Stat. Section 77-1613.02 R.S.Supp., 2007 requires the County Assessor to correct the assessment and tax rolls only after action of the County Board of Equalization. In addition, no County Assessor shall reduce or increase the valuation of any property, real or personal, without the approval of the County Board of Equalization.

During review of tax certifications, tax corrections, and tax collections, we noted:

- Numerous instances in which physical tax correction forms were not signed by the County Board of Equalization until weeks, and in some cases months, after the corrections were entered in the tax rolls by the County Treasurer.
- One instance in which a correction appeared to have been pre-signed by the County Board of Equalization prior to the tax correction form being filled out.

When tax corrections are not properly authorized by the County Board of Equalization, the County is not in compliance with State statute and there is increased risk of unauthorized tax roll corrections.

> We recommend all tax roll corrections be approved by the County Board of Equalization, in writing, prior to the reduction or increase in valuation of any real or personal property. We further recommend no physical tax corrections be signed in advance of being completely filled out.

COUNTY HIGHWAY SUPERINTENDENT

Office Accountability

Good internal control requires adequate procedures be in place to ensure all money billed is received and deposited with the County Treasurer.

During our audit of invoices and receipts we noted the following:

- Invoices were not consecutively numbered. Some invoices were numbered based on the date of the invoice and others utilized consecutive numbers.
- Three invoices were billed but not received by the County Highway Superintendent, no follow up procedures were performed. The invoices were for $350, $1,950, and $2,700 and as of June 30, 2007, had been outstanding for nine, twelve, and six months, respectively.

Without adequate internal controls in place over billing and receipting there is an increased risk of loss of County funds.

> We recommend the County Highway Superintendent implement procedures to ensure all money due is received and deposited to the County Treasurer's office. This would include consecutively numbered invoices, periodically reviewing invoices to determine if any need to be followed up on, and reconciling invoices to County Treasurer's deposits.

COUNTY CLERK OF THE DISTRICT COURT

Manual Activity

Sound accounting practices require financial information be recorded in the County Clerk of the District Court's official accounting and case management system (JUSTICE).

During our audit we noted passport activity is not recorded in JUSTICE. Manual activity for passports amounted to $15,382 in receipts and $15,285 in disbursements for the fiscal year.

When one accounting record is not used to reflect all activity, there is an increased risk of misuse, theft, or loss of funds.

> We recommend the County Clerk of the District Court record all passport activity in JUSTICE.

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,

Deann Haeffner CPA

Deann Haeffner
Assistant Deputy Auditor