



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

April 2, 2009

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, 2008, and have issued our report thereon dated April 2, 2009. 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.

Remittances to County Treasurer

Neb. Rev. Stat. § 23-1601(1) (Reissue 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." Neb. Rev. Stat. § 23-106(2) (Reissue 2007) states, in part, "The county board shall have the authority to establish a petty cash fund for 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."

We noted several offices which had not remitted all office earnings to the County Treasurer but had retained a portion of the earnings in their office bank account. The County Board has not established petty cash funds in these offices and such amounts were not stated in the County's budget message. The offices and the respective amounts as of June 30, 2008, were:

- County Clerk, \$5,698
- County Attorney, \$37,610
- County Sheriff, \$205
- Highway Department, \$14
- Extension Office, \$2,588

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 all money belonging to the County be remitted to the County Treasurer monthly, at a minimum, and the County Board determine the authority for petty cash funds.

Unclaimed Property

Neb. Rev. Stat. § 69-1307.01 (Reissue 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. § 69-1310 (Reissue 2003) requires such items be reported to the Nebraska State Treasurer before November 1 of each year as of June 30 next proceeding.

We noted the following offices which had not remitted uncashed checks to the State Treasurer in accordance with the Unclaimed Property Act:

- County Sheriff had three checks totaling \$377
- Extension Office had ten checks totaling \$95

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.

COUNTY BOARD

Claim Procedures

Internal Revenue Service Publication 15 (Circular E) indicates that any payments made to employees that are not under an accountable plan, which requires substantiating evidence of expenditures, should be treated as wages. Neb. Rev. Stat. § 23-143 (Reissue 2007) states “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 of 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.” Neb. Rev. Stat. § 23-2306 (Reissue 2007) requires all full time employees, as defined by Neb. Rev. Stat. § 23-2301 to contribute to the county retirement plan.

During our audit we noted the following:

- Monthly, the County Sheriff submits a \$30 claim for each of his deputies for cell phone services. The deputies have personal cell phones which they use for work, and this claim was for payment towards that service; however, there was no supporting documentation on file for the payments.
- The claims were not reviewed for delinquent personal property taxes prior to being approved.
- Of the employees selected for testing, one employee tested was not contributing to retirement but should have started contributing in June 2007 and two employee paychecks did not have retirement contributions properly withheld.

When adequate procedures are not in place, unapproved or incorrect payments for claims or salaries may occur resulting in an increased risk of loss, theft, or misuse of funds.

We recommend the County Board ensure all personnel claims include supporting documentation, such as an invoice, or be included as wages and that all claims are reviewed against a listing of delinquent personal property taxes. We further recommend the Board implement procedures to ensure all mandatory retirement participants are participating in the plan and the necessary make-up contributions start immediately.

Deposit Coverage

Neb. Rev. Stat § 77-2395 (Reissue 2008) states “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 furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured.”

During our audit we noted the County Board did not maintain securities to fully cover the deposits in the imprest bank account. The largest bank balance noted during the audit period was \$779,284 in October 2007. When deposits are not fully secured at all times, there is an increased risk of loss.

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

Over Expended Budget

Neb. Rev. Stat § 23-916 (Reissue 2007) 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.”

During our audit we noted the Canine Fund and Communication Center Function of the General Fund over expended their budgets by \$1,200 and \$9,394, respectively.

When expenditures are made in excess of amounts budgeted with no appropriation adjustments by the County Board to address those excesses; the County is non-compliant with State statute.

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.

COUNTY CLERK

Accounting 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) and that fee remittances are complete and accurate.

During our audit we noted:

- July 2007 fee remittance was overpaid to the County Treasurer by \$16.50
- October 2007 fee remittance was underpaid to the County Treasurer by \$.50
- December 2007 fee remittance was overpaid to the County Treasurer by \$3.25
- May 2008 fee remittance was underpaid to the State Treasurer and overpaid to the County Treasurer by \$126.01

When detailed balancing procedures are not implemented there is an increased risk of loss, theft, misuse, or over/underpayment of fees.

We recommend the County Clerk implement, on at least a monthly basis, a comprehensive balancing of assets and liabilities including the identification and resolution of any discrepancies.

COUNTY SHERIFF

Accounting Procedures

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.

At June 30, 2008, the trust fund balance, per the County Sheriff's records was \$12,403; however, we could only identify individual balances totaling \$5,672, resulting in an unexplained variance of \$6,731. When all monies received are not appropriately accounted for and there is a failure to determine asset-to-liability balancing variances, there is an increased risk of loss, theft, or misuse of funds allowing errors to more easily go undetected.

We recommend the County Sheriff implement documented monthly balancing procedures and follow up on variances in a timely manner.

HIGHWAY DEPARTMENT/SURVEYOR

Accounts Receivables

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

During our audit we noted numerous delinquent accounts receivables, which remained uncollected.

- At June 30, 2008, the Highway Department had 2 receivables totaling \$76 which were over 5 years old. Additionally, the Highway Department had 8 receivables totaling \$4,454 that were over 6 months old.
- At June 30, 2008, the Surveyor had 6 receivables totaling \$300 which were over 5 years old. Additionally, the Surveyor had 25 receivables totaling \$2,725 that were over 6 months old.

Without a 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 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 accounts receivables appear to be uncollectible.

PLANNING AND ZONING

Accounting Procedures

Sound accounting practices and good internal control require procedures be in place to record all receipts received and to ensure all monies due to the County are being collected and deposited in a timely manner.

During our audit, we noted the following:

- A check made out to Merrick County Planning for the amount of \$20, written on September 19, 1996, was not deposited. The check was found filed with the original application.
- During a review of applications and receipts, a check to Merrick County was received December 19, 2007, in the amount of \$15. The receipt date for this check was March 11, 2008, more than sixty days after the check was received.
- An application for a Building and Zoning permit was sent in to the County along with a fax sheet that stated the applicant paid the application fee to the Village of Palmer. The permit was approved; however, no follow-up was done to ensure the Village of Palmer remitted the \$15 fee to the County Treasurer.
- Receipts or a record of money received is not maintained

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

We recommend all monies received be remitted to the County Treasurer in a timely manner. We further recommend Planning and Zoning implement procedures to ensure all monies due to the County are collected and appropriately accounted for.

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