



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Ross Karabel, Board Chair
Village of Miller
P.O. Box 146
Miller, NE 68858

Dear Mr. Karabel:

As you know, the Nebraska Auditor of Public Accounts (APA) received a concern regarding the financial activity of the Village of Miller (Village). The APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA requested certain information regarding the Village's financial transactions or compliance matters.

Based upon the outcome of this preliminary planning work, the APA has determined that a separate financial audit or attestation of the Village is unnecessary at this time. However, during the course of the preliminary planning work, we noted certain internal control or compliance matters, or other operational matters within the Village, that are presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Background Information

The Village maintains six bank accounts to keep the Village's various activities separate. The APA received bank statements directly from Heartland Bank for these accounts. The following is a summary of the total activity for fiscal year 2015:

Account Owner per Bank	Account Type per Bank	10/1/2014 Beginning Balance	Additions	Withdrawals	9/30/2015 Ending Balance
Village of Miller General Account	Personal Adv W/ Int	\$77,238.90	\$50,706.77	\$84,287.08	\$43,658.59
Village of Miller Hall Fund Account	Personal Adv W/ Int	\$2,181.19	\$5,438.02	\$4,841.08	\$2,778.13
Village of Miller Park Account	Regular Checking	\$851.95	\$135.00	\$630.00	\$356.95
Village of Miller Sewer Account	Personal Adv W/ Int	\$3,303.88	\$3,211.07	\$0.00	\$6,514.95
Village of Miller Street Account	Personal Adv W/ Int	\$36,629.50	\$26,371.03	\$22,528.28	\$40,472.25
Village of Miller Water Account	Personal Adv W/ Int	\$31,501.51	\$71,228.10	\$87,836.56	\$14,893.05
		\$151,706.93	\$157,089.99	\$200,123.00	\$108,673.92

The following comments and recommendations are presented as a result of our work:

Village's Control Environment

A control environment conducive to fair and complete financial reporting requires management to be aware of governmental accounting principles in order to prepare the financial statements. It also includes an adequate segregation of duties so that no one individual can process an accounting transaction from beginning to end. When an adequate segregation of duties is not possible due to the small size of municipal staff, it is imperative that the entity's governing body provide effective monitoring of its policies, procedures, and accounting functions.

Due to the limited size of the Village's staff, an adequate segregation of duties is not possible. The Village Clerk is able to process all accounting transactions from beginning to end, including receiving money owed to the Village, making deposits, reviewing and approving invoices for payment, receiving the bank statements, and preparing the list of claims for the Village Board's (Board) approval.

Despite the Clerk's many duties, the Board retains the overall responsibility for the operations of the Village. Because an adequate segregation of duties is not possible, it is all the more important for the Board to monitor and review thoroughly all of the Village's financial transactions.

In addition to the aforementioned lack of a segregation of duties, the APA also found that the Board's meeting minutes failed to indicate whether the Clerk provided the Board with a detailed monthly accounting of the Village treasury's balance. In a December 10, 2015, email response to the APA's inquiry regarding this concern, the Clerk stated the following:

At every board meeting I provide the agenda, the prior months [sic] minutes, and the claim sheet that lists all account balances. I have all the bills and bank statements at each meeting the board can look through.

Neb. Rev. Stat. § 17-606(1) (Cum. Supp. 2014) requires the Treasurer of each Village to provide specific financial information to the Board every month, as follows:

The treasurer of each city and village shall . . . at the end of every month, and as often as may be required, render an account to the city council or board of trustees, under oath, showing the state of the treasury at the date of such account and the balance of money in the treasury. He or she shall also accompany such accounts with a statement of all receipts and disbursements, together with all warrants redeemed and paid by him or her, which warrants, with any and all vouchers held by him or her, shall be filed with his or her account in the clerk's office.

By documenting that the Treasurer provides such detailed information each month, the Board should be able not only to ensure compliance with the above statutory requirement but also review and monitor more thoroughly the financial activities of the Village.

Without procedures to ensure that the Board reviews and monitors the Village's financial activities, including receiving a detailed monthly accounting of the Treasury's balance, there is an increased risk of fraud or misuse of Village funds.

We recommend the Board implement procedures to ensure a proper review and monitoring of the Village's financial activities. To facilitate that review, as well as to ensure compliance with State statute, we recommend also the Treasurer provide the Board with a detailed monthly accounting of the Treasury's balance.

Village's Response (included verbatim): In response to your draft letter I disagree with the statement that I as the Clerk of the Village of Miller can process all accounting transactions from beginning to end. I don't not order most maintenance or repair tickets. Every check requires two signatures, I can not pay a claim without another of the two selected board members signatures. The claims are all at every board meeting for review.

APA's Response: A lack of segregation of duties is found in most offices when one individual is responsible for the accounting activities. It not only refers to the activities that the individual actually performs, but also those activities the individual is able to perform. Additionally, the Clerk indicated that the claims are at each Board meeting for review. However, proper Board monitoring would include a documented review of the documentation that supports each claim by at least one Board member prior to approval of the claims.

Claim Issues

The Village provided the APA with a list of claims for each month, a copy of the original Board meeting minutes, and a copy of those same meeting minutes as later published in the local newspaper. The APA identified multiple variances among these three pieces of information. Upon further discussion with the Village Clerk, it was determined that she had not maintained a contemporary list of claims for each month; rather, after receiving the request from the auditors, she had tried to re-create such a list for a couple of months of Village expenditures.

Based upon the documentation received, the APA found the following issues with the Village's claims process:

Issue	Amount
Claims Not Approved	\$ 77,642.27
Transfers Not Approved	\$ 45,671.96
Variance in Amount Paid	\$ (511.10)
Claims Not Paid	\$ 652.36
Total	\$ 123,455.49

Claims Not Approved:

The APA identified several payments that had been made from the Village's six bank accounts without Board approval. The following table sets out eight unapproved payments, totaling \$77,642.27, made during fiscal year 2015.

Payee	EFT/ Check No.	Date	Account	Amount
USDA	EFT	10/24/2014	Water	\$9,644.35
USDA	EFT	10/24/2014	Water	\$64,563.84
Heartland Bank	EFT	2/18/2015	General	\$15.00
Titan Machinery	1967	3/12/2015	Street	\$1,975.69
One Call Concepts	5058	5/15/2015	General	\$5.00

Payee	EFT/ Check No.	Date	Account	Amount
Rick Bowie	1970	5/14/2015	Street	\$265.34
Kay Park	1971	5/14/2015	Street	\$1,158.05
DHHS	3084	6/11/2015	Water	\$15.00
8 Payments				\$77,642.27

Transfers Not Approved

The APA also identified a separate summary of transfers between Village accounts. As detailed in the table below, that summary contained six transfers, totaling \$45,671.96 that lacked Board approval.

Payee	Date	Account	Amount	Notes
Water Account	10/10/2014	General	\$40,000.00	Transfer
Sewer Account	10/10/2014	Water	\$1,400.00	Transfer
Sewer Account	4/9/2015	Water	\$720.00	Transfer
Sewer Account	4/9/2015	Water	\$1,080.00	Transfer
General Account	4/9/2015	Park	\$630.00	Transfer
Water Account	6/11/2015	General	\$1,841.96	Transfer
6 Transfers			\$45,671.96	

Variance in Amount Paid

Additionally, the APA found instances in which Village claim payments did not agree to the amounts approved by the Board. All seven of those payments were made to the Dawson Public Power District (DPPD). The following table sets out the discrepant payments made to DPPD during fiscal year 2015, with a total underpayment amount of \$511.10.

Payee	Date	Account	Amount Approved	Amount Paid	Variance
Dawson PPD	12/14/2014	Multiple	\$1,054.08	\$554.67	(\$499.41)
Dawson PPD	1/8/2015	Multiple	\$1,417.12	\$1,417.04	(\$0.08)
Dawson PPD	2/12/2015	Multiple	\$1,172.60	\$1,412.60	\$240.00
Dawson PPD	3/12/2015	Multiple	\$1,154.86	\$1,370.07	\$215.21
Dawson PPD	5/15/2015	Multiple	\$839.03	\$415.78	(\$423.25)
Dawson PPD	6/11/2015	Multiple	\$839.03	\$857.88	\$18.85
Dawson PPD	9/14/2015	Multiple	\$1,028.53	\$966.11	(\$62.42)
7 Payments			\$7,505.25	\$6,994.15	(\$511.10)

Claims Not Paid

Finally, the APA identified two Board-approved claims, totaling \$652.36 that appear not to have been paid.

Payee	Date	Amount Approved
DHHS	1/8/2015	\$630.00
CoOp	5/15/2015	\$22.36
2 Payments		\$652.36

Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2014) sets out the proper method for the appropriation or payment of money by the Village, as follows:

All ordinances and resolutions or orders for the appropriation or payment of money shall require for their passage or adoption the concurrence of a majority of all members elected to the council or board of trustees.

Additionally, good internal control requires procedures to ensure that, as reflected in the meeting minutes, the following occurs: 1) the Board approves all Village claims prior to payment; 2) the amounts paid agree to the claim amounts approved; and 3) all approved claims are paid as directed by the Board. Without such procedures, there is an increased risk for loss or misuse of Village funds.

We recommend the Village implement procedures to ensure, as reflected in the meeting minutes, all claims are approved by the Board prior to payment, that a contemporary claims listing by the Clerk is maintained on file at the Village, and all approved claims are paid for the correct amounts.

Village's Response (included verbatim): The claims in question, I got both them the night of the board meeting. They were written on the bottom of the claims page. When I sent in the claims for September 2015 I sent them the paper without the writing on it. At the board meeting we all wrote it on the claims sheet when we approved the two claims. One was for a new park bench For the amount of \$1158.05 to Kay park. The other was brought to the meeting, for Bowie Fertilizer in the amount of \$265.34. At that time I went into the office to get a check book to write those checks. They were also signed by Terry Hansen. When I sent in those claims to the Auditors office I sent a copy of the first sheet, not the one that was written on. I later found the one that was written on and sent that in. The automatic withdraws were setup for twenty some years, I was not aware that I had to document them every month. The transfer from the park account to the general was for the Frog Rider, we do not have a checkbook for that account. The sewer transfers were for the sewer bills paid to the water account. The general fund transfer to the water is to pay off the final water loan of some twenty years. We didn't have enough money in water account. I can appreciate the advice from the auditors office to list any transfers on the claim sheet. I will do that in the future.

Payroll Process

The APA also identified certain issues regarding the Village's processing of payroll, as follows:

- The Village did not have a written contract with its Clerk, who was paid a flat rate of \$600 per month until the rate was increased to \$700 per month during the February 2015 Board meeting.
- The Clerk is not required to keep a time sheet.
- The Village processes the payroll manually, and there is not a secondary review of the payroll calculations for each employee. The APA identified some minor variances in payroll amounts based on a recalculation of payroll from timesheets and other documentation provided. It appears two employees may have been slightly underpaid during the fiscal year, as follows:

Payee	Date	Check Amount	APA Calculated Amount	Variance
Marybelle Burge	November 2014	\$103.44	\$134.83	(\$31.39)
Marybelle Burge	April 2015	\$120.06	\$125.60	(\$5.54)
Marybelle Burge	September 2015	\$118.74	\$115.14	\$3.60
3 Paychecks				(\$33.33)
Glen Nichols	September 2014	\$312.14	\$324.15	(\$12.01)
Glen Nichols	April 2015	\$724.07	\$720.33	\$3.74
Glen Nichols	September 2015	\$277.05	\$304.76	(\$27.71)
3 Paychecks				(\$35.98)

Although the above amounts are not material, without an adequate review of the manual payroll calculations, larger payroll errors could occur and remain undetected.

Good internal control requires written contracts for employees that detail rights, responsibilities, rates of pay, and other employment information. Good internal control also requires payroll expenditures to be supported by signed timesheets or other evidence of the actual hours worked each day and total hours worked each pay period. Finally, good internal control requires procedures to ensure payroll expenditures are accurately calculated and agree to amounts paid. Without such procedures, there is an increased risk for loss or misuse of Village funds.

We recommend the Village enter into a written employment agreement with the Clerk that details the rights, responsibilities, rates of pay, and other employment information for that position. We also recommend the Board require the Clerk to complete timesheets or otherwise document actual hours worked. Finally, we recommend the Board implement procedures for a secondary review of employee payroll to ensure the accuracy of all paychecks.

Village's Overall Response: I also appreciate the advice on a few other areas.

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Our limited procedures for this letter were designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Village to make comments and suggestions that we hope will be useful to the Village.

Draft copies of this letter were furnished to the Village to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicated corrective action has been taken were not verified at this time.

Additionally, this letter is being copied to the Village Attorney for any action they deem appropriate.

This communication is intended solely for the information and use of the City and its management. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Sincerely,

A handwritten signature in cursive script that reads "Mary Avery".

Mary Avery
Special Audits and Finance Manager
Phone 402-471-3686
mary.avery@nebraska.gov

Copy to: County Attorney