



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 5, 2017

Randy Uhrmacher, Chairman
Little Blue Natural Resources District
Board of Directors
4465 W. Highway 6
Hastings, NE 68901

Dear Mr. Uhrmacher:

As you may know, the Nebraska Auditor of Public Accounts (APA) has a telephone number and email address for Nebraskans to raise issues about possible waste, mismanagement, or fraud within government. In connection with this, we help to provide accurate information to taxpayers and attempt to correct misperceptions about government. We try to do so in a timely manner, believing this to be a valuable service to the State's citizens.

Recently, the APA received questions regarding certain financial transactions at the Little Blue Natural Resources District (LBNRD). As a result, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA obtained certain information pertaining to the LBNRD's financial transactions and compliance matters.

Based upon the outcome of this preliminary planning work, the APA has decided that a separate financial audit or attestation of the LBNRD 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 concerns within the LBNRD, that are presented below. The following comments, along with the related recommendations, will provide the LBNRD with an opportunity to improve internal controls and overall financial operations.

Our consideration of internal control was for the limited purpose described above, and it was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Comments and Recommendations

1. Board Per Diem Payments

The APA reviewed two of the quarterly per diem expense forms submitted by the LBNRD's Board of Directors (Board), which included requests for per diem payments or reimbursements to all 17 members. The APA has concerns with six of the directors' requests for payment, as follows:

Director	Amount	Description
Director #1	\$ 60.00	Director requested and received two per diems for the same day. After review by the APA, the director reimbursed the Board \$60.
Director #2	\$ 17.12	Director requested and received mileage twice for the same day. After review by the APA, the director reimbursed the Board \$17.12.
Director #3	\$ 128.85	Director requested and received the \$70 full-day per diem and \$58.85 in mileage for attending an interview, but his attendance at the interview was not properly documented. The LBNRD provided an email to the director for the interview, but there was no documentation that the director attended the actual interview.
Director #4	\$ 69.63	Director requested and received a \$60 per diem and \$9.63 in mileage for a meeting for which the meeting minutes did not identify him as being present.
Director #5	\$ 86.75	Director requested and received a \$60 per diem and \$26.75 in mileage for attending interviews, but his attendance at the interviews was not properly documented.
Director #6	\$ 120.00	Director requested and received a per diem for two meetings for which the meeting minutes did not identify him as being present. According to the LBNRD, the director was unaware that he had to sign in at the meeting. As a result, his name was absent from the meeting minutes. The LBNRD corrected the meeting minutes after the APA raised this issue.

The LBNRD Operating Policies (March 10, 2015), Policy No. 20, Section II, “Directors’ Per Diem and Expenses,” authorizes the payment of a per diem to the directors, as follows:

Directors' compensation shall be at a per diem rate, not to exceed the amount authorized by law, and approved by the Board. The rate established by the Board is \$60.00 per meeting/event, for regular committee meetings, Board meetings and short-term events. However, events for which a Board member's presence is required for a full day, (such as: NARD meeting representation, NARD conference attendance, special day-long District representations, etc.) shall be reimbursed at a rate of \$70.00 per day. (As a rule of thumb, meetings which require over 5 hours of service shall constitute a full day per diem.) Determination of the events for which the higher per diem shall be paid, is at the sole discretion of the Executive Committee. The maximum per diem for any director shall be \$3,600 per calendar year. (Neb. Rev. Stat 2-3218) (Revised 7/06)

Good internal controls require review procedures to ensure that amounts requested by the directors are adequately documented and in accordance with approved policies. Without such procedures, there is an increased risk for loss, waste, or abuse of LBNRD funds.

We recommend the Board implement adequate review procedures of the director per diem and expense reimbursement forms. The individual charged with this review should ensure adequate documentation exists to support the requested payment and be willing to raise questions regarding compliance with applicable LBNRD policies.

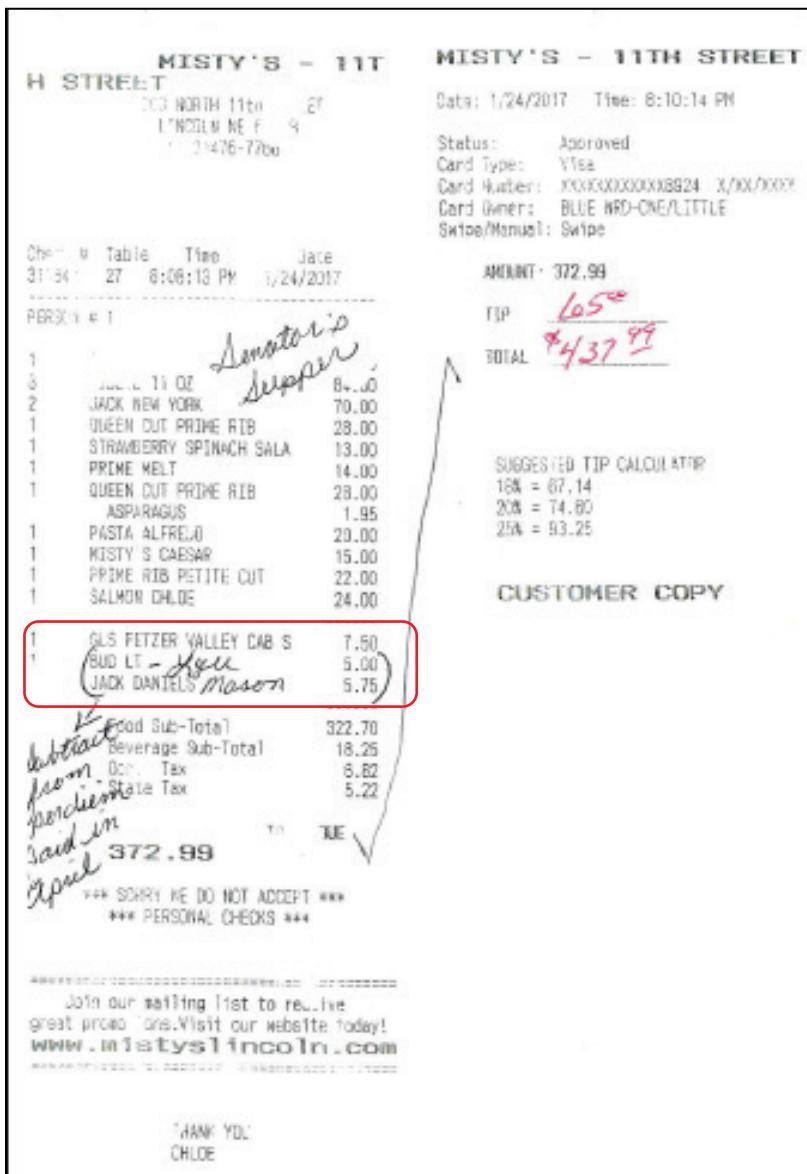
2. Credit Card Charges

Upon reviewing documentation requested for 35 credit card purchases made by eight LBNRD employees, covering the period December 2016 through June 2017, the APA identified the following concerns:

Alcohol Purchased

One receipt included the purchase of alcoholic beverages for an event called “Senator’s Supper,” which was hosted by the LBNRD at Misty’s Steakhouse and Brewery (Misty’s) in Lincoln, Nebraska, on January 24, 2017. Two senators and one spouse attended this event, along with five board members and one guest, and two staff members and one spouse, for a total of 12 individuals.

A copy of the receipt for the meals at Misty’s – including the APA’s highlighting of charges for the alcoholic beverages – is shown below:



The Misty's bill was paid for with a credit card assigned to the LBNRD's General Manager. Consequently, the three alcoholic beverages included, totaling \$18.25, were purchased by the LBNRD.

Per the handwritten note on the above copy of the receipt, the alcohol purchases were supposed to be deducted from the Board members' per diem payments. Two Board members had respective reductions of \$5.75 and \$5.00 on their per diem requests. However, the cost of the third alcoholic beverage was not deducted or reimbursed until after the APA questioned the expense.

The LBNRD Operating Policies (March 10, 2015), Policy No. 30, Section I, "District Credit Cards and Charge Accounts," states the following:

The General Manager, on behalf of the District, is authorized from time to time, to apply for and receive business credit cards for staff and board members, to be used for travel, meals, lodging, general operational expenses and automobile operation and repair. The General Manager is responsible for the proper use of such cards. The General Manager may authorize certain staff members to sign for authorized expenditures of the District.

The LBNRD also has a Personnel Policy, which was adopted in October 2016. Policy #21 – Employee Expense Reimbursement, Section III, "Credit Cards," provides the following:

Use of District credit cards is permitted for normal and reasonable District operational functions. Credit card charges for special purchases, including equipment, supplies, service or purchases over \$200 must have prior authorization of the General Manager. A report of all credit card charges including receipts for the purchase made, must be submitted by the employee to the General Manager, on a monthly basis. Employees are responsible for safeguarding District credit cards issued to them. A lost or stolen credit cards must be reported to the General Manager immediately. If NRD vehicle repair expenses are charged to NRD credit cards, receipts and/or pay requests should identify for which vehicle the expenses were incurred. Use of District credit cards or District charge accounts for any personal expenses or alcoholic beverages, is prohibited.

(Emphasis added.) As stated clearly in the Personnel Policy, purchases of alcoholic beverages with an LBNRD credit card are not allowable, regardless of whether per diem deductions or reimbursements are made for such purchases.

Purchases of Meals for Spouse and Others

During the same "Senator's Supper" event at Misty's, the LBNRD also paid for the meals of one spouse of an employee and one guest of a board member.

The LBNRD Personnel Policy, #21 – Employee Expense Reimbursement, Section VII, "Spouse Expense," states the following:

The spouse of an employee may travel with employee to meetings authorized by the District; however, any expenses incurred by the spouse will be the responsibility of the employee.

The LBNRD provided documentation that the Board member reimbursed the District \$40 in cash for his guest, and the staff member chose not to claim mileage to Lincoln in exchange for his wife's meal.

On August 10, 2017, after the APA began its inquiry, the employee reimbursed the LBNRD \$27.26 for his wife's meal.

Despite these reimbursements, the APA does not believe that the use of a LBNRD credit card to purchase meals for the guest and the spouse was permissible under the current Personnel Policy.

Lack of itemized receipts

Of the 35 transactions tested, 16 were for what appear to have been meals purchased by staff members. The APA has determined that 4 of the 16 meal receipts lack sufficient detail; instead, they are merely copies of the credit card receipts, lacking the information needed to identify the items purchased.

The following are copies of the four deficient receipts:

1. Hastings Keno Sports Bar & Grill	
Hastings, NE	
Date: Jan18'17 12:57PM	
Card Type: Visa	
Acct #: XXXXXXXXXXXX8924	
Card Entry: SWIPED	
Trans Type: PURCHASE	
Trans Key: KIK004103587673	
Auth Code: 018455	
Check: 2176	
Table: 30/1	
Server: 173 Jennifer	
Subtotal: 26.15	
Total: <u>30.65</u>	
<i>Business Dinner w/ Marty Stange Daryl & Mike Open Training</i>	
I agree to pay above total according to my card issuer agreement.	
* * * Customer Copy * * *	

Chances R	
124 N 5th St. York, NE	
Date: Mar28'17 01:43PM	
Card Type: Visa	
Acct #: XXXXXXXXXXXX3405	
Card Entry: KEYED	
Trans Type: PURCHASE	
Trans Key: KIK004534934122	
Auth Code: 026720	
Check: 3862	
Table: 911 Cashier	
Server: 911 Cashier	
Subtotal: 50.00	
Tip: _____	
Total: _____	
<i>Mike gift and Job Anniversary</i>	
I agree to pay above total according to my card issuer agreement.	
* * * Customer Copy * * *	

LA COCINA 928 LINCOLN AVENUE YORK NE 68647 402-710-8090
TABLE #5 CHECK# 893791 Closed to Credit Card
DATE/TIME: 4/24/2017 12:11:31 PM
SERVER: Mario
STATION: 01
Item Count: 1
1 **** YOUR DESCRIPTION ** \$23.38
Subtotal \$23.38
Tip amount: <u>45</u>
Grand total: <u>28.88</u>
Credit \$23.38
CREDIT CARD PURCHASE \$23.38
Card Type: Visa
*****8924 XX/XX
Transaction Type: PRE-AUTH
Ref Num: 7BMR
Auth Code: 024156
Card Entry Method: Swiped
AP024156
Opened: 4/24/2017 12:11:22 PM
x w P
<i>Mike Stange Daryl & Mike Bob</i>

Solo American Cuisine™ 110 2nd Avenue Kearney, NE 68847	
Date: Feb28'17 07:25AM	
Card Type: Visa	
Acct #: XXXXXXXXXXXX2795	
Card Entry: SWIPED	
Trans Type: PURCHASE	
Auth Code: 028035	
Check: 5628	
Table: 35/1	
Server: 175 Breanna	
Subtotal: 9.72	
Tip: _____	
Total: _____	
<i>Breakfast for Jim Ottman attending Water Conference in Kearney</i>	
<i>See Agenda attached to Explanation for Card 3981.</i>	
I agree to pay above total according to my card issuer agreement.	
* * * Customer Copy * * *	

After the APA questioned these receipts, the LBNRD contacted the vendors, obtaining detailed versions of two of the above receipts and a photocopy of the gift certificate for a third receipt.

As noted above, the LBNRD Personnel Policy, #21 – Employee Expense Reimbursement, Section III, “Credit Cards,” states, in part, “A report of all credit card charges including receipts for the purchase made, must be submitted by the employee to the General Manager, on a monthly basis.”

Without detailed receipts that properly identify the items purchased, the LBNRD is unable to determine whether each expenditure was reasonable or in accordance with applicable Operating or Personnel policies, including the prohibition against the purchase of alcohol. Itemized receipts should be required at the time the request for reimbursement – and prior to payment thereof – is made.

One-Day Meal Charges

The APA also determined that 7 of the 16 meal expense receipts included meals when the employee was not in overnight travel status. The following table details those meals:

Transaction Date	Description per Stmt	Amount
1/18/17	Hastings Keno Sports Bar Hastings NE	\$ 30.65
12/22/16	SQ *Honest Abe's BU Lincoln, NE	\$ 28.62
4/24/17	La Cocina York, NE	\$ 27.88
11/22/16	Arby's 309 Aurora, NE	\$ 18.43
1/10/17	Arby's Aurora, NE	\$ 8.54
12/12/16	Runza Aurora, NE	\$ 7.16
1/27/17	Runza York, NE	\$ 7.08

The LBNRD Personnel Policy, # 21 – Employee Expense Reimbursement, Section V, “Meals,” states the following:

Expenses will normally be allowed for meals only when outside the District on District business. Business meal expenses may be allowed when the purpose is a working lunch to discuss District business with directors, at a District scheduled meeting or meetings in conjunction with other agencies, but excludes meals during routine field work job functions. No expenses for the purchase of alcoholic beverages will be allowed at any time. All employees receiving reimbursement for meals when not on overnight status must treat such meal allowances as income for IRS purposes.

The LBNRD’s policy regarding certain meal reimbursements appears compliant with comparable IRS regulations, as detailed in both IRS Publication 15-B, the “Employer’s Tax Guide to Fringe Benefits,” and IRS Publication 463, “Travel, Entertainment, Gift, and Car Expenses.”

Despite this clear directive to treat meal reimbursements “when not on overnight status” as “income for IRS purposes,” the payments summarized in the above table were not reported as income on the employees’ annual Internal Revenue Service (IRS) W-2, “Wage and Tax Statement,” forms completed by the LBNRD.

Good internal controls require procedures to ensure adherence to LBNRD policies, especially when such policies involve compliance with applicable Federal regulations. If extenuating circumstances render such adherence impracticable, action should be taken to revise or clarify accordingly any such ineffectual policy.

We recommend the Board strengthen its review of credit card transactions and documentation, ensuring compliance with applicable LBNRD policies. We also recommend the Board ensure all employees are aware of such policies, especially those prohibiting the use of LBNRD credit cards to purchase alcohol or to make expenditures for a spouse. Finally, we recommend the Board ensure itemized receipts are provided for all expense reimbursements, and the current policy governing the tax status of one-day meals is either adhered to or altered as needed.

3. Employee Expense Reimbursements

While reviewing 10 expense reimbursement forms for six LBNRD employees, covering the period of December 2016 through June 2017, the APA identified the following concerns:

Receipts to Support Meal Expenses Not Provided

Receipts were not provided for two of the three meals reimbursed to the General Manager. Those meals are summarized in the table below:

Date of Reimbursement	Description	Type of Expense	Amount
2/6/17	Manager's Meeting	Meals	\$ 19.08
2/6/17	Meals – Tour with DEQ & NRCS for Big Sandy Project	Meals	\$ 49.56

After the documentation was requested by the APA, the General Manager wrote a \$19.08 personal check to the LBNRD as reimbursement for one of the meals. The documentation provided to the APA is copied below:



The LBNRD Personnel Policy # 21 – Employee Expense Reimbursement, Section II, states the following, in part:

Receipts must be provided for meals, lodging or other business expenses and must be included with the expense form.

Purpose of Trips and Points of Travel Not Adequately Documented

The APA determined that 4 of the 10 travel expense reimbursement forms reviewed failed to identify either the purpose or the destination of the travel. Images of those four documents are provided below:

The first document did not contain the purpose of the trip, which is needed to ensure that the travel was for LBNRD business.

Date	Provide Destination, Purpose and/or Reason for Expense	Per Diem	Lodging	Automobile Miles Traveled	Amount	Meals	Misc.	TOTAL
11/29/16	Travel to Ohiowa			12				0.00
12/8/16	Travel to Byron			24				0.00
12/12/16	Travel to Byron			24				0.00

The next document also did not contain the purpose of the first trip to ensure that it was for LBNRD business.

Date	Give Name of Place & Nature of Service	PER DIEM			Lodging	AUTOMOBILE		Meals	Misc.	TOTAL
		Regular	Full Day	None Requested		Miles Traveled	Amount			
4/24/17	Davenport					49.4				
4/25/17	Camp Jefferson	Earth Festival				64				

The third document contained the purpose of the trip but did not include the actual points of travel, which are needed to ensure that the mileage amounts claimed were reasonable.

Date	Provide Destination, Purpose and/or Reason for Expense	Per Diem	Lodging	Automobile Miles Traveled	Amount	Meals	Misc.	TOTAL
4-16-17	Trans HP	-535		22	\$ 535			0.00
4-24-17	Trans HP			22	\$ -			0.00
5-23-17	Trans HP /2 b/c car			25				0.00
6-7-17	P.Lake/Leall open gate/stop gate			106				0.00
				/				0.00
				175	493.62			0.00

The last document stated the purpose of trip but did not contain all points of travel to ensure that the mileage amounts claimed were reasonable. Generally, a round trip from Nelson, Nebraska, to York, Nebraska, consists of approximately 141 miles. An additional 26 miles was claimed on this document, however. Per discussion with the LBNRD, the employee stopped in Hebron, Nebraska, to pick up another employee prior to continuing to York.

Date	Give Name of Place & Nature of Service	PER DIEM			Lodging	AUTOMOBILE		Meals	Misc.	TOTAL
		Regular	Full Day	None Requested		Miles Traveled	Amount			
3/8/17	To York for retirement meeting. Nelson to York					167	\$ 89.35			167

The LBNRD Personnel Policy #21 – Employee Expense Reimbursement, Section VI, “Use of Personal Vehicle,” states, in part, the following:

Mileage reimbursement will generally be limited to the most direct route of travel.

Good procedures require employee travel expense reimbursement forms to reflect the specific purpose and destination, as well as the various locations visited, for each trip. Such information is necessary to allow for a determination as to the reasonableness of the travel and to ensure that the amounts claimed for reimbursement are in accordance with approved policies. Without these procedures, there is an increased risk for loss, waste, or abuse of LBNRD funds.

We recommend the Board ensure all expense reimbursement documents contain adequate documentation to support the expenditure, including detailed receipts and the purpose and the destinations of all travel. All such documentation should be made available for Board review at its regular meetings. The Board should also ensure the individual charged with the review of expense reimbursement documents is willing to raise questions regarding compliance with applicable LBNRD policies.

4. Policy Updates

The APA learned that two significant items were not included in the Board’s Personnel or Operating Policies.

Personal Cell Phone Reimbursement

On December 8, 2015, the LBNRD Board of Directors approved a “Policy on Smart Phones/Cell Phones & Other Handheld Electronic Devices.” That policy allows employees to use their personal cellular telephones for LBNRD business and to receive a reimbursement for such use. The policy states that the LBNRD “will reimburse the user at a rate of \$25 per month.”

The General Manager was reimbursed \$25 per month for the use of his personal cellular phone.

Accountable Plan

On December 13, 2011, the Board adopted an accountable plan for business expenses. The accountable plan stated that the LBNRD has established “an expense reimbursement policy under which amounts are nontaxable (withholding, and payment of income, social security, Medicare and Federal Unemployment (FUTA) taxes) to the recipient” under certain circumstances.

Good internal controls require procedures to ensure that all policies approved by the Board are properly included in the LBNRD’s policy manuals. Without such procedures, there is a risk for noncompliance with the Board-approved policies.

We recommend the Board implement procedures to ensure all Board approved policies are included in the LBNRD’s policy manuals.

LBNRD Response: Based in questions raised in your review, the Little Blue NRD staff has implemented a number of additional procedures for better documentation and internal controls for financial management activities, including sign-in sheets for all activities where board members are present, detailed expense and charge card reporting forms, meeting agenda retention and minute review, map quest mileage reviews, and information on appropriate policies for both board and staff. The staff has also conducted a staff meeting devoted to review and training on District policies regarding the documentation of all activities, meeting attendance and reporting, expenses and reimbursements, charge card use documentation, and vehicle mileage logs. Thank you for your recommendations for improvements in procedures and internal controls.

* * * * *

The preliminary planning work that resulted in this letter was designed primarily on a test basis and, therefore, may not bring to light all existing weaknesses in the LBNRD's policies or procedures. Nevertheless, our objective is to use the knowledge gained during the performance of that preliminary planning work to make comments and recommendations that we hope will prove useful to the LBNRD.

Draft copies of this letter were furnished to the LBNRD 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.

This communication is intended solely for the information and use of the LBNRD 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,



Mary Avery
Special Audits and Finance Manager
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