



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 14, 2018

Ernie Hasch, Board President
North Central District Health Department
422 East Douglas Street
O'Neill, NE 68763

Dear Mr. Hasch:

As you may know, the Nebraska Auditor of Public Accounts (APA) has received concerns regarding the finances of the North Central District Health Department (NCDHD). Responding thereto, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. In doing so, the APA requested certain information regarding the NCDHD's financial transactions or compliance matters.

Based upon the outcome of this preliminary planning work, the APA has determined that it is unnecessary for this office to perform a separate financial audit or attestation of the NCDHD at this time. However, the NCDHD must still either provide the APA with an official audit or request an audit waiver for the fiscal year ended June 30, 2018.

During the course of our preliminary planning work, we noted certain internal control or compliance matters, or other operational matters within the NCDHD, that are presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Comments and Recommendations

1. Lack of Supporting Documentation

During the period examined, from July 2016 through October 2017, the Executive Director of the NCDHD had multiple expense reimbursements, totaling \$6,960. The Executive Director also had \$10,402 of the NCDHD credit card expense during the period examined (September 2016 was not obtained). The APA identified various issues related to these transactions, as noted below.

Mileage Reimbursement

The APA determined that 13 travel expense reimbursement forms, which included mileage, failed to identify either the purpose or the destination of the travel. Examples of the insufficient information provided are included below.

This first example contains the purpose, but not the actual destinations or stopping points, of the travel. Such specific designations are needed to ensure the reasonableness of the mileage amounts claimed.

Explanation of Business Meals, Mileage and Miscellaneous Expenses			
Date	Business Justification	Name of person & company	
7/21/2016	RROMRS Materials pick-up & trailer	RROMRS at G. B. house	
7/21/2016	extra \$.25/mile towing trailer 78 miles		
7/8/2016	Director Meeting G.U., S.L. & T.U.	To Wisner for Eastern Director Meeting	
7/7/2016	Meeting with BOH	Kelly K.	

The second example also contains the purpose of the travel, but not the actual destinations or stopping points – which are, as noted previously, needed to ensure the reasonableness of the mileage amounts claimed. For the reimbursement on 12/08/2016, the Executive Director claimed 451 miles for a trip from O’Neill, NE, to Lincoln, NE, and back. Per discussion with the Executive Director, he will often drive through Grand Island, NE, on the way to and from Lincoln. However, the APA observed a meal receipt in Norfolk on the return trip. Using Google Maps, the APA calculated that travel at only 408 miles by going through Grand Island and Norfolk on the return trip. The Executive Director reimbursed the NCDHD \$23.22 in January 2018 for the excess mileage claimed.

Explanation of Business Meals, Mileage and Miscellaneous Expenses			
Date	Business Justification	Name of person & company	
12/8/2016	Friends Represent Tobacco Mtg	Tobacco Coalition Mtg, Pat L., & Nick	
12/13/2016	RRORMS Exec Comm Mtg	Dennis C., RROMRS	

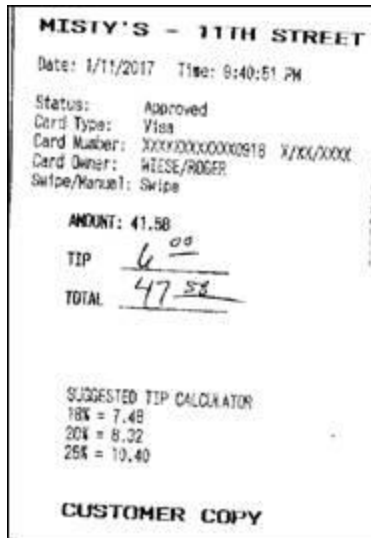
The final example states the purpose of the trip to Lincoln but does not contain all points of travel to ensure the reasonableness of the mileage amounts claimed. According to Google Maps, a round trip from O’Neill, NE, to Lincoln, NE, constitutes approximately 386 miles. However, 451 miles was claimed and reimbursed. As noted above, he usually drives through Grand Island, NE, on the way to and from Lincoln. Per Google Maps, a round trip from O’Neill to Lincoln by way of Grand Island is approximately 417 miles.

Explanation of Business Meals, Mileage and Miscellaneous Expenses			
Date	Business Justification	Name of person & company	
11/4/2016	HCED Annual Dinner	HCED Office	
11/16/2016	Health Care Cash Fund Hearing	Pat L. Friends/Lincoln	
11/18/2016	Pick up vaccine	LBPHD	

Good internal control 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 necessity of the travel and to ensure the reasonableness of the amounts claimed for reimbursement. Without these procedures, there is an increased risk for loss, waste, or abuse of NCDHD funds.

Itemized Receipts

The APA observed 30 receipts for meals purchased by the Executive Director that lacked sufficient detail. These transactions included amounts reimbursed as well as meals purchased with the purchasing card. The inadequate supporting documentation included missing receipts, unreadable receipts, and receipts that were not itemized. The following is an example of a meal receipt that was not itemized.



The table below summarizes the inadequate meal receipt issues and also includes four other non-meal receipts that lacked sufficient documentation.

Date	Vendor	Location	Amount	Itemized Receipt
06/09/2016	China Dragon	O'Neill	\$26.60	Not Itemized
06/28/2016	Barb's Café	Burwell	\$20.05	Insufficient Detail
07/08/2016	Fiesta Brava	West Point	\$37.79	Not Itemized
07/14/2016	China Dragon	O'Neill	\$22.60	Not Itemized
09/22/2016	Barb's Café	Burwell	\$22.05	Not itemized
09/28/2016	Buffalo Wild Wings	Lincoln	\$11.43	Not itemized
10/04/2016	El Mezcal	Norfolk	\$28.84	Not Itemized
10/05/2016	China Dragon	O'Neill	\$22.60	Not Itemized
10/11/2016	Miller Time Pub	Lincoln	\$43.60	Not Itemized*
10/11/2016	Miller Time Pub	Lincoln	\$15.95	Not Itemized*
10/19/2016	Chesterfield West	O'Neill	\$172.22	Not Itemized*
10/25/2016	Miller Time Pub	Lincoln	\$21.43	Not Itemized*
11/16/2016	Gourmet Grill	Lincoln	\$12.35	Not Itemized
11/18/2016	Barb's Diner	Burwell	\$21.43	Not Itemized
11/22/2016	China Dragon	O'Neill	\$25.60	Not Itemized
12/13/2016	El Mezcal	Norfolk	\$31.85	Not Itemized
01/11/2017	Misty's	Lincoln	\$47.58	Not Itemized
01/31/2017	Prenger's	Norfolk	\$42.80	Not Itemized*
02/02/2017	Billy's Restaurant	Lincoln	\$62.71	Not Itemized*
02/03/2017	Schwan's Home Service	N/A	\$25.47	Not Itemized
02/10/2017	Barb's Diner	Burwell	\$20.45	Not Itemized
02/16/2017	La Herradura	O'Neill	\$52.50	Insufficient Detail
05/18/2017	Dairy Queen	O'Neill	\$7.59	No Receipt
05/24/2017	Lant's Steakhouse	Wisner	\$11.95	Not Itemized
08/09/2017	La Herradura	O'Neill	\$49.23	Insufficient Detail
08/10/2017	Westside Restaurant	O'Neill	\$26.35	Not Itemized
09/20/2017	PepperJax Grill	Omaha	\$24.30	Not Itemized
09/20/2017	Leadbelly	Lincoln	\$42.13	Not Itemized*
10/09/2017	Douglas Street Coffee Co.	O'Neill	\$25.50	Not Itemized
10/16/2017	Westside Restaurant	O'Neill	\$3.10	Not Itemized
Meal Total			\$978.05	

Date	Vendor	Location	Amount	Itemized Receipt
10/01/2016	Embassy Suites	Lincoln	\$178.00	No Receipt*
07/18/2017	Cenex Kwik Stop	Saint Paul	\$28.33	No Receipt
Miscellaneous Total			\$206.33	
07/19/2017	Que Place Garage	Lincoln	\$11.25	No Receipt
09/28/2016	Parking Garage	Omaha	\$8.00	No Receipt
Parking Total			\$19.25	
Total			\$1,203.63	

*The itemized receipt for these transactions was provided after the draft report was sent to the NCDHD.

The lack of itemized receipts for purchases made with the NCDHD's purchasing card appears to conflict with State statute. Specifically, Neb. Rev. Stat. § 13-610(4) (Reissue 2012), which governs purchasing card programs implemented by political subdivisions, provides, in relevant part, the following:

An itemized receipt for purposes of tracking expenditures shall accompany all purchasing card purchases. In the event that a receipt does not accompany such a purchase, purchasing card privileges shall be temporarily or permanently suspended in accordance with rules and regulations adopted and promulgated by the political subdivision.

Good internal control requires adequate supporting documentation, including itemized receipts that indicate clearly the purchaser and the specific nature of each expenditure, to be obtained for all of the NCDHD's credit card purchases and meal reimbursements. Without such documentation, there is an increased risk for not only the loss or misuse of NCDHD funds but also noncompliance with State statute.

Multiple Meals

The APA noted multiple instances of the Executive Director appearing to have paid for multiple meals without adequately detailing for whom the other meals were purchased.

Date	Vendor	Location	Amount
06/09/2016	China Dragon	O'Neill	\$26.60
06/28/2016	Barb's Café	Burwell	\$20.05
07/08/2016	Fiesta Brava	West Point	\$37.79
07/14/2016	China Dragon	O'Neill	\$22.60
08/30/2016	Chesterfield West	O'Neill	\$32.77
09/22/2016	Barb's Café	Burwell	\$22.05
10/04/2016	El Mezcal	Norfolk	\$28.84
10/05/2016	China Dragon	O'Neill	\$22.60
10/19/2016	Chesterfield West	O'Neill	\$172.22
11/18/2016	Barb's Diner	Burwell	\$21.43
11/22/2016	China Dragon	O'Neill	\$25.60
01/11/2017	Misty's	Lincoln	\$47.58
01/31/2017	Prenger's	Norfolk	\$42.80
02/10/2017	Barb's Diner	Burwell	\$20.45
02/16/2017	La Herradura	O'Neill	\$52.50
03/01/2017	Misty's	Lincoln	\$52.38
03/02/2017	Buzzard Billy's	Lincoln	\$34.51
06/06/2017	Joe's Crab Shack	Omaha	\$43.85
07/05/2017	Black Cow Fat Pig Pub	Norfolk	\$30.01
08/09/2017	La Herradura	O'Neill	\$49.23
09/20/2017	Leadbelly	Lincoln	\$42.13
09/21/2017	HopCat	Lincoln	\$170.33
Total			\$1,018.32

Without procedures to ensure that public money is not expended for private purposes, such as expenses incurred by spouses or other guests, there is an increased risk for the loss or misuse of NCDHD funds.

We recommend the NCDHD ensure all purchasing card transactions and expense reimbursement requests submitted by its personnel contain adequate documentation to support the expenses claimed, including detailed receipts and the purpose and destination of all travel. Such documentation should be made available for review by the NCDHD's governing board at its regular meetings. Efforts should be made also to ensure the individual charged with reviewing expense reimbursement documents and credit card charges is willing to raise questions regarding compliance with applicable statutory requirements and sound accounting practices.

NCDHD Response: Because of these identified perceived issues with internal controls, e.g., "reflecting specific purpose and destination as well as the various locations visited for each trip", I have made a procedural change to our expense reimbursement form where I request "location(s) travel be included". New expense form is attached 1.3d. All staff are requested to list all travel points and destinations during their business travels. Included in our procedural update is that of obtaining complete itemized and readable receipts that contain sufficient details of the expense. All receipts (including those printed in light ink and pen) will be scanned as the expenses/bills are being approved. The new procedure of NCDHD will be to keep all receipts and bills and scan them to a digital file as well as a hard copy. Included in our procedure is to list the full name and agency to which a meal receipt is expensed for. In many, almost all, of my meal receipts I have listed the "person's initials" and their agency, not their complete name. [To note: I do believe a lot of the receipts listed do have adequate documentation, even to the extent that I have listed above].

2. Other Issues Noted

When examining the expense reimbursements and credit card purchases for the Executive Director of the NCDHD, the APA noted the following:

Sales Tax

The Executive Director requested and was reimbursed for six separate stays at Nebraska hotels, three of which were paid with the NCDHD credit card. The combined cost of those hotel stays included \$222 in lodging taxes, which the NCDHD is exempt from paying under Neb. Rev. Stat. § 77-2704.15 (Cum. Supp. 2016). When its personnel obtain accommodations in Nebraska, the NCDHD should attempt to direct bill or work with the lodging establishment in order to avoid unnecessary use and lodging taxes. Per subsequent correspondence with the APA, the NCDHD has acknowledged its tax-exempt status and expressed its intent to focus upon direct billing in the future.

Good internal controls require procedures to ensure that, as a tax-exempt entity, the NCDHD refrains from paying Nebraska sales tax on its purchases. Without such procedures, there is an increased risk for the loss or misuse of NCDHD funds.

Other

The APA also noted the following issues for other transactions:

- On two days examined, multiple meals were purchased on the same day (\$54.06 on 09/28/2016 and \$75.52 on 10/11/2016). For October 11, 2016, the Executive Director had the following charges:
 - Miller Time Pub (1:13 PM) – \$43.60
 - Miller Time Pub (3:59 PM) – \$15.95
 - Five Guys (6:03 PM) – \$15.97

Itemized receipts were received for the first two receipts after the draft report was sent to the NCDHD. The receipt for the items purchased at 3:59 PM shows tea on the receipt. Originally when questioned, the Executive Director stated that the purchase at 3:59 PM could have been for “coffee and pie.”

- Ten \$30 gift certificates were purchased as employee thank-you gifts, along with a plant costing \$23 for an employee’s going-away party, totaling \$323. There was no documentation to support either the purposes for which the gift cards were disbursed or their recipients.

More importantly, the Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. §§ 13-2201 through 13-2204 (Reissue 2012), establishes strict parameters for the expenditure of public funds by designated public entities.

Section 13-2203(3) of the Act specifies the types of gifts that may be purchased with public funds. That statute permits the following:

The expenditure of public funds for plaques, certificates of achievement, or items of value awarded to elected or appointed officials, employees, or volunteers, including persons serving on local government boards or commissions. Before making any such expenditure, the governing body shall, by official action after a public hearing, establish a uniform policy which sets a dollar limit on the value of any plaque, certificate of achievement, or item of value to be awarded. Such policy, following its initial adoption, shall not be amended or altered more than once in any twelve-month period.

Due to the lack of proper supporting documentation, the APA was unable to determine whether the NCDHD dispersed the gift cards at issue in accordance with § 13-2203(3).

It should be noted that § 13-2202(3) specifies the various public entities that are subject to the provisions of the Act. Unlike counties and other political subdivisions, local public health departments are not among them. Nevertheless, Neb. Rev. Stat. § 13-804(1) (Reissue 2012) of the Interlocal Cooperation Act states, in part, the following:

Any power or powers, privileges, or authority exercised or capable of exercise by a public agency of this state may be exercised and enjoyed jointly with any other public agency of this state

Likewise, Neb. Rev. Stat. § 13-804(6) (Reissue 2012) makes clear that joint entities agreed to under the Interlocal Cooperation Act, including the NCDHD, exist for the purpose of “exercising public powers and acting on behalf of the public agencies which are parties to

such agreement.” Consequently, no joint entity created under the Interlocal Cooperation Act should exercise powers greater than those enjoyed by the governmental authorities responsible for its creation.

- On September 21, 2017, a recognition dinner was held for NCDHD staff who happened to be attending the Public Health Association of Nebraska (PHAN) Conference at that time. The expense, totaling \$170, was paid for by the Executive Director and then reimbursed by NCDHD.

Section 13-2203 of the Act also provides the following:

In addition to other expenditures authorized by law, each governing body may approve:

* * * *

(2) The expenditure of funds for:

* * * *

(b) Nonalcoholic beverages and meals:

* * * *

(iii) Provided at one recognition dinner each year held for elected and appointed officials, employees, or volunteers of the local government. The maximum cost per person for such dinner shall be established by formal action of the governing body, but shall not exceed twenty-five dollars. An annual recognition dinner may be held separately for employees of each department or separately for volunteers, or any of them in combination, if authorized by the governing body[.]

Due to the lack of proper supporting documentation, the APA was unable to determine whether the recognition dinner was carried out in accordance with § 13-2203(3).

A good internal control plan and sound business practices require procedures to ensure that NCDHD funds are expended in a manner consistent with relevant statutory guidelines, and supporting documentation is maintained to verify the propriety of such expenditures. Those procedures should also ensure that NCDHD credit cards are not used for private purposes, and amounts reimbursed are not for personal purchases. Without such procedures, there is an increased risk for the loss or misuse of NCDHD funds.

We recommend the NCDHD implement procedures to ensure Nebraska sales, use, or lodging taxes are not paid on the business purchases of its personnel. We further recommend the NCDHD implement procedures to ensure both the proper expenditure of its funds and the maintenance of documentation sufficient to support any such costs.

NCDHD Response: The NCDHD has procedure and logistics now in place that all employees have on their possession a Nebraska Exempt Sale Certificate. When applicable, the NCDHD will direct bill. I have also implemented a procedure for identifying meals purchased for other people and a procedure to note when meals are purchased for NCDHD Employees while on business, as it was stated in conversation to the NE APA, by the NCDHD Executive Director, that as many times as

the NCDHD Director paid for a meal of a cohort, that person returned the favor by being the one to pay for a meal of the NCDHD Director. Receipts of other departments are not kept on file with NCDHD. Concerning gift certificates and appreciation/recognition dinners, the NCDHD has established a procedure that there will be complete documentation and validation of any “appreciation” items provided to employees, e.g., Administrative Assistants Week, National Nurses Week and etc., (for which these said certificates were for). This procedure will include validation from the employee of the receipt of the appreciation item(s) provided to them, this may be in the form of an email or hard copy response. The NCDHD Director does believe appropriate guidelines for appreciation expenditures were followed and that in the case of the appreciation meal, the total cost per attendee was under \$25/meal (roughly just over \$21/attendee), keeping in line with Section 13-2203(3) with receipts to prove it.

3. Sale of Van

In July 2016, the NCDHD sold its 2004 Dodge Grand Caravan to the Executive Director for \$850. According to the Executive Director, the van had 189,000 miles at the time of sale.

According to the Executive Director, the NCDHD has no specific policies on the surplus of vehicles; however, it was offered to staff for purchase. While the NCDHD may lack a formal process or policy for the sale of surplus property, Neb. Rev. Stat. § 23-3115(2) (Reissue 2012) provides the following for county property:

The county board or the purchasing agent, with the approval of the county board, may authorize a county official or employee to sell surplus mobile equipment which is obsolete or not usable by the county and which has a value of less than five thousand dollars. Surplus mobile equipment which is obsolete or not usable by the county and which has a value of five thousand dollars or more shall be sold through competitive bidding.

Good internal control requires the implementation of formal procedures, including the prior authorization of the governing board, for the sale of surplus NCDHD property. The lack of such procedures increases the risk for loss or misuse of NCDHD property or funds.

We recommend the NCDHD implement formal procedures for the sale of its surplus property, which may include approval of the board.

NCDHD Response: A policy for the disbursement of NCDHD property has been completed and provided to the NE APA. Up to this point, the NCDHD Director followed internal protocol and followed the recommendation of the NCDHD auditing firm at the time. The NCDHD now a specific procedure has been added and adopted.

* * * * *

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 NCDHD’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 suggestions that we hope will prove useful to the NCDHD.

Draft copies of this letter were furnished to the NCDHD 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 NCDHD 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
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