



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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September 12, 2019

Charley Johnson, Chairperson  
Village of Farnam  
315 Main Street  
Farnam, NE 69029

Dear Chairperson Johnson:

As you know, the Nebraska Auditor of Public Accounts (APA) has approved the fiscal year 2018 audit waiver for the Village of Farnam (Village). However, while performing our review to determine whether to approve the audit waiver, the APA noted certain internal control or compliance matters, or other operational issues, within the Village. The following information is intended to improve internal controls or result in other operational efficiencies.

### **Comments and Recommendations**

#### **1. Lack of Claim Purpose**

During our comparison of the Village's bank account details to claims approved by the Village Board (Board), the APA noted that the claims listed in the Board's official proceedings lacked descriptions of their respective purposes.

The following is an example of the approved claims listing provided by the Village for December 5, 2017:

Name	Description	Amount
ATC Communications		\$ 66.42
Buffalo Roofing		\$ 13,339.40
Black Hills Energy		\$ 235.95
Dawson County Treasurer		\$ 608.34
Dawson Public Power		\$ 1,435.51
Dearborn National		\$ 110.08
Farnam Library		\$ 118.00
Intuit Payroll		\$ 8.52
Marlene Johnson		\$ 300.00
Nebraska Public Health Environmental Lab		\$ 247.00
Paulsen's		\$ 525.76
Rod Klein		\$ 35.00
Rod Klein		\$ 1,375.00
Russman's Welding and Fabrication		\$ 500.00
Schabens Sanitation		\$ 1,692.94
Rod Klein		\$ 2,218.79
Erika Brown		\$ 1,000.00
Kaylin Craig		\$ 234.00
Edna Lundgrin		\$ 144.00
<b>Total</b>		<b>\$ 24,194.71</b>

Neb. Rev. Stat. § 19-1102 (Cum. Supp. 2018) requires publication of the Board’s official proceedings, which must include, among other things, the purpose of each claim allowed, as follows:

*It shall be the duty of each village or city clerk in every village or city having a population of not more than one hundred thousand inhabitants as determined by the most recent federal decennial census or the most recent revised certified count by the United States Bureau of the Census to prepare and publish the official proceedings of the village or city board, council, or commission within thirty days after any meeting of the board, council, or commission. The publication shall be in a newspaper in or of general circulation in the village or city, shall set forth a statement of the proceedings of the meeting, and shall also include the amount of each claim allowed, the purpose of the claim, and the name of the claimant, except that the aggregate amount of all payroll claims may be included as one item. Between July 15 and August 15 of each year, the employee job titles and the current annual, monthly, or hourly salaries corresponding to such job titles shall be published. Each job title published shall be descriptive and indicative of the duties and functions of the position. The charge for the publication shall not exceed the rates provided for in section 23-122.*

(Emphasis added.) Good internal control and sound accounting practices require procedures to ensure that the Board’s official proceedings describe the purpose of each claim allowed.

Without such procedures, there is an increased risk of not only failure to comply with statutory publication requirements but also a lack of transparency regarding the nature of public expenditures.

We recommend the Board implement procedures to ensure the purpose of each claim allowed is included in the Board’s official proceedings and published in accordance with State statute.

## **2. Payment of Claims Prior to Board Approval**

During our comparison of the Village’s bank account details to claims approved by the Board, the APA noted that three Village payments, totaling \$354.55, were issued before the underlying claims were approved by the Board.

The table below provides a summary of those premature payments:

<b>Claim Date</b>	<b>Name/Vendor</b>	<b>Amount</b>	<b>Payment Type</b>	<b>Cleared Date</b>	<b>Days Paid Before Approval</b>
12/5/2017	Black Hills Energy	\$ 235.95	EFT	11/21/2017	14
12/5/2017	Dearborn National	\$ 110.08	EFT	11/15/2017	20
12/5/2017	Intuit Payroll	\$ 8.52	Debit Card	10/6/2017	60
<b>Total</b>		<b>\$ 354.55</b>			

Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2018) 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 city council in a city of the second class or village board of trustees . . . .*

(Emphasis added.) Good internal control requires procedures to ensure that all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

Without such procedures, there is an increased risk for the loss or misuse of Village funds.

We recommend the Board implement procedures to ensure all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

*Village Response: To explain why the utility bills were being paid before approval is due to automatic withdrawal; depending on the dates of our meetings. We are in the process of correcting those, as they will come out after any meetings in the future.*

### **3. Payment of Unapproved Claims**

During our comparison of the Village's bank account details to claims approved by the Board, the APA identified three payments, totaling \$456.70, which were paid but not included on the claims listing to be approved by the Board.

These disbursements are summarized in the table below:

<b>Name/Vendor</b>	<b>Amount</b>	<b>Payment Type</b>	<b>Cleared Date</b>
Rodney Klein	\$ 14.70	#4255	12/7/2017
University of Nebraska at Omaha	\$ 393.00	Debit Card	12/8/2017
USPS	\$ 49.00	Debit Card	12/27/2017
<b>Total</b>	<b>\$ 456.70</b>		

Good internal control requires procedures to ensure that all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

Without such procedures, there is an increased risk for the loss or misuse of Village funds.

We recommend the Board implement procedures to ensure all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

### **4. Other Issues**

The APA noted that multiple funds had a deficit fund balances as of September 30, 2018, as noted on Exhibit A of the Village's audit waiver request form.

The following table summarizes these funds and their respective balances at September 30, 2018:

<b>Fund</b>	<b>Ending Balance</b>
Street Fund	\$ (77,596.16)
Water Service Funds	\$ (60,234.07)
Sewer Service Funds	\$ (31,226.40)

Good internal controls and sound accounting practices require sufficient funds to cover fully all disbursements and transfers approved by the Village Board. Furthermore, good internal controls also require procedures to ensure that the Board is aware of each Village fund status and is in a position, therefore, to take appropriate action to resolve any deficit balances therein.

We recommend the Village Board implement procedures to review available funds prior to approving disbursements or transferring funds. We also recommend the Board review and approve an appropriate plan to resolve the deficit fund balance.

*Village Response: Our finances are in one bank account. We have them separated in our quick books for water, sewer, etc. We are doing our best to get these accounts out of the red. We have increased water prices in the last couple of years to assist us in this.*

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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 Village'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 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. Any formal responses received have been incorporated into this letter. Such responses have been objectively evaluated and recognized, as appropriate, in the letter. Any response indicating that corrective action has been taken was not verified at this time.

This communication is intended solely for the information and use of the Village 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

cc: Erika Brown, Village Clerk