



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Richard Blake, Chairperson  
Village of Naponee  
702 Walnut Street  
Naponee, NE 68960

Dear Chairperson Blake:

As you know, the Nebraska Auditor of Public Accounts (APA) has approved the fiscal year 2018 audit waiver for the Village of Naponee (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. Possible Conflict of Interest**

The APA received Village Board (Board) meeting minutes and the accompanying claims listing for September 10, 2018. From this listing, the APA identified a potential conflict of interest involving the actions of Board member T. Bradley.

According to the minutes, Mr. Bradley appears to have failed to abstain from voting on the following claim:

Claim Date	Name/Vendor	Amount	Check #	Cleared Date
9/10/2018	T Bradley	\$ 364.33	1329	9/17/2018

While no claim descriptions were provided, this payment was approved to be paid out of the Street Fund. An excerpt from the September 10, 2018, Board minutes is provided below:

*Motion by M Dunn, second by T Bradley to pay claims. Motion passed unanimously.*

As the amount payable to Mr. Bradley exceeds the amounts paid to other Board members, and since the payment was approved to be paid out of the Street Fund, the APA presumes this payment was not for Board member compensation.

Therefore, the apparent failure of Board member T. Bradley to abstain from voting on the motion above gives rise to concerns regarding possible violations of the Nebraska Political Accountability and Disclosure Act (Act), which is set out at Neb. Rev. Stat. § 49-1401 (Cum. Supp. 2018) et seq.

To start, Neb. Rev. Stat. § 49-14,101.01(1) (Reissue 2010) states the following:

*A public official or public employee shall not use or authorize the use of his or her public office or any confidential information received through the holding of a public office to obtain financial gain, other than compensation provided by law, for himself or herself, a member of his or her immediate family, or a business with which the individual is associated.*

The penalty for violating the above-cited conflict of interest statute is set out in subsection (7) thereof, as follows:

*[A]ny person violating this section shall be guilty of a Class III misdemeanor, except that no vote by any member of the Legislature shall subject such member to any criminal sanction under this section.*

Furthermore, Neb. Rev. Stat. § 49-1499.03(2) (Reissue 2010) provides the following:

*(a) Any person holding an elective office of a city or village not designated in section 49-1493 and any person holding an elective office of a school district who would be required to take any action or make any decision in the discharge of his or her official duties that may cause financial benefit or detriment to him or her, a member of his or her immediate family, or a business with which he or she is associated, which is distinguishable from the effects of such action on the public generally or a broad segment of the public, shall take the following actions as soon as he or she is aware of such potential conflict or should reasonably be aware of such potential conflict, whichever is sooner:*

*(i) Prepare a written statement describing the matter requiring action or decision and the nature of the potential conflict;*

*(ii) Deliver a copy of the statement to the person in charge of keeping records for the city, village, or school district who shall enter the statement onto the public records of the city, village, or school district; and*

*(iii) Abstain from participating or voting on the matter in which the person holding elective office has a conflict of interest.*

*(b) The person holding elective office may apply to the commission for an opinion as to whether the person has a conflict of interest.*

(Emphasis added.) Good internal control requires procedures to ensure compliance with the applicable provisions of the Act.

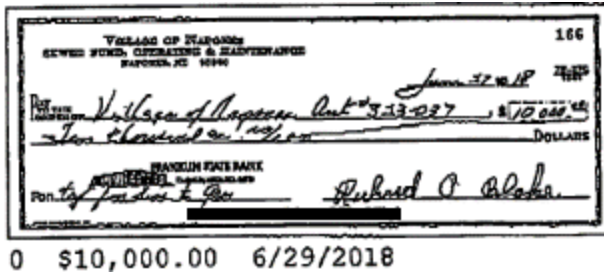
Without such procedures, there is an increased risk for both statutory violations and the loss of Village funds.

We recommend the Board implement procedures to ensure compliance with the applicable provisions of the Act. Because the issue addressed herein constitutes a possible violation of the Act, we are forwarding this information to the Nebraska Accountability and Disclosure Commission.

*Village Response: Six years ago the Board decided to handle the maintenance work with Board members. A waiver was drawn up by the Village Attorney. With a population of 106 it is nearly impossible to get reliable/responsible help outside the Board.*

## **2. Dual Signatures Required on Checks**

The APA obtained the bank statements for the Village's accounts from its fiscal year 2018 audit waiver request. From these statements, the APA noted that one of the Village checks, totaling \$10,000, written during the examination period contained only one signature. An image of the check at issue is provided below:



State statute requires Village checks to be signed by both the Board Chairperson and the Village Clerk. Specifically, Neb. Rev. Stat. § 17-711 (Cum. Supp. 2018) provides the following:

*All warrants drawn upon the city treasurer of a city of the second class or village treasurer must be signed by the mayor or chairperson of the village board of trustees and countersigned by the city clerk or village clerk, stating the particular fund to which the same is chargeable, the person to whom payable, and for what particular object. No money shall be otherwise paid than upon such warrants so drawn. Each warrant shall specify the amount included in the adopted budget statement for such fund upon which it is drawn and the amount already expended of such fund.*

Good internal control and sound accounting practices require procedures to ensure that Village checks contain the statutorily required endorsements.

Without such procedures, there is an increased risk of not only failure to comply with State statute but also the loss and/or misuse of Village funds.

We recommend the Board implement procedures to require dual signatures, from the Board Chairperson and the Village Clerk, on all Village checks, as required by law.

*Village Response: We changed banks in June 2018. From the example you showed, this was a Sewer Fund Account. This account was seldom used and carried only one line for signature. Due to the single line the Treasurer neglected to sign.*

### 3. Lack of Claim Purpose

During our comparison of the Village’s bank account details to claims approved by the 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 September 10, 2018:

Name/Vendor	Description	Amount
<b>GENERAL FUND</b>		
Naponee Street Fund		\$ 2,650.00
Franklin Cty Sheriff		\$ 21.38
J Hughes		\$ 805.54
R Blake		\$ 100.00
L Conrad		\$ 75.00
M Dunn		\$ 75.00
T Bradley		\$ 75.00
South Central Sanitation		\$ 797.03

Name/Vendor	Description	Amount
<b>STREET FUND</b>		
Hogelands		\$ 21.49
L Conrad		\$ 298.38
Southern Power Dist		\$ 569.00
Bladen Sand & Gravel		\$ 622.25
OK Tire		\$ 526.00
S & W Auto		\$ 49.84
Smith Lbr		\$ 254.76
Central Valley Elec		\$ 21.42
Casey's		\$ 168.21
CHS Agri Serv Ctr		\$ 4.27
R Blake		\$ 76.00
M Dunn		\$ 85.50
T Bradley		\$ 364.33
<b>AUDITORIUM/OFFICE FUND</b>		
True Value		\$ 41.46
Black Hills Energy		\$ 44.70
Southern Power Dist		\$ 78.00
Eakes Office Sply		\$ 17.34
<b>PARK FUND</b>		
R Blake		\$ 90.00
<b>SEWER FUND</b>		
Southern Power Dist		\$ 43.00
Ne, Ks, Co Railway		\$ 232.70
<b>WATER FUND</b>		
K Whetstine		\$ 300.00
Black Hills Energy		\$ 43.40
Frontier		\$ 23.90
Southern Power Dist		\$ 197.00
DHHS		\$ 15.00
<b>SEWER FUND ACCT</b>		
Naponee Water Fund		\$ 7,500.00
<b>Total</b>		<b>\$ 16,286.90</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.

*Village Response: We addressed each expenditure to a specific fund; that is STREET, WATER, SEWER, ETC. We always assumed the name of the vendor is descriptive of the service. For example Southern Power Dist, listed under Street Fund covers “street lights”. We will do better.*

**4. 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 checks, totaling \$361.33, were issued before the underlying claims were approved by the Board.

The table below provides a summary of those premature payments:

Name	Fund	Approval Date	Check #	Check Clear Date	Check Amount	Days Paid Before Approval
Hogelands	Street	9/10/2018	11192	8/15/2018	\$ 21.49	26
L Conrad	Street	9/10/2018	11195	8/29/2018	\$ 298.38	12
True Value	Auditorium/Office	9/10/2018	11193	8/21/2018	\$ 41.46	20
<b>Total</b>					<b>\$ 361.33</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: Board authorized early payment to avoid late payment charges.*

**5. Other Issues**

The APA also noted that interfund transfers reported, totaling \$21,646.30, on Exhibit A of the Audit Waiver Request Form did not agree to the \$19,296.30 reported on the Schedule of Interfund Transfers.

Good internal control and sound accounting practices require procedures to ensure that all Village fund activity is reported accurately.

Without such procedures there is an increased risk of not only reliance upon inadequate accounting methods but also denial of audit waiver requests due to the inaccuracy of the information contained therein.

We recommend the Village Board implement procedures to ensure all interfund activity is reported properly on the Schedule of Interfund Transfers.

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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,



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

cc: Janice Hughes, Village Clerk  
Nebraska Accountability and Disclosure Commission