



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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October 17, 2019

Larry McKee, President
Beatrice Senior Center
101 N 25th
Beatrice, NE 68310

Dear Mr. McKee:

As you may know, the Nebraska Auditor of Public Accounts (APA) has received certain financial concerns regarding the Beatrice Senior Center (BSC). In response, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA requested from the BSC pertinent financial information.

Based upon a review of the information provided, the APA has determined that a separate financial audit or attestation of the BSC is unnecessary at this time. Nevertheless, during the course of the preliminary planning work, we noted an issue that merits corrective action, as presented below.

Background

The BSC is run by a non-profit corporation known as the Senior Citizens Center, Inc., and is governed by a Board of Directors (Board), which is currently comprised of the following officers:

Larry McKee - President
Roger Hulls - Vice President
Alberta Rahe - Secretary
Martin Seckel - Treasurer

Until late June 2019, the BSC had been managed by a site director hired by the Board. Effective July 1, 2019, however, the Board requested the Blue Rivers Area Agency on Aging (BRAAA) to take over the nutrition program and to operate the BSC as a direct meal site. An employee of the BRAAA has been the BSC site manager for the nutrition program since that time.

The BRAAA provides all of the funding for the BSC's nutrition program by way of Federal and State grants. The BSC also collects contributions from its clients for the nutrition program that are remitted to the BRAAA. The BRAAA has an annual audit performed each fiscal year.

Comments and Recommendations

1. Lack of Documentation to Support Transactions

During our examination, the APA obtained the BSC's bank statements. Additionally, the APA acquired the deposit and check register for the BSC, which is used to record financial transactions manually.

From those records, the APA selected a number of BSC transactions for review, requesting supporting documentation for them; however, the BSC failed to provide the requested support for a majority of the transactions selected.

Among those transactions was a \$2,361.27 "Adjustment" to the BSC deposit and check register at the end of May 2019, which increased the balance of the register.

Copied below is a partial image of the relevant register page:

3/16/19	5/24	2,900	E-1	2,972 ⁹⁴		577 ⁹⁶
		Deposit: Tuesday	I-2	X	65 ¹⁵	642 ⁹⁶
		Deposit: Wednesday	I-2	X	113 ⁰⁰	755 ⁹⁶
		Deposit: Thursday	I-2	X	110 ⁰⁰	865 ⁹⁶
		Deposit: Pitch Tournament	I-45	X	44 ⁰⁰	909 ⁹⁶
3166	5/31	Howard Nelson Adjustment	E-2	300 ⁰⁰	+2361.27	3271.23

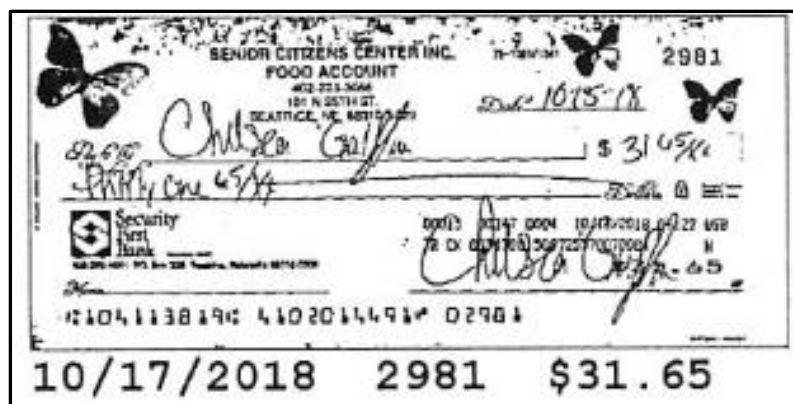
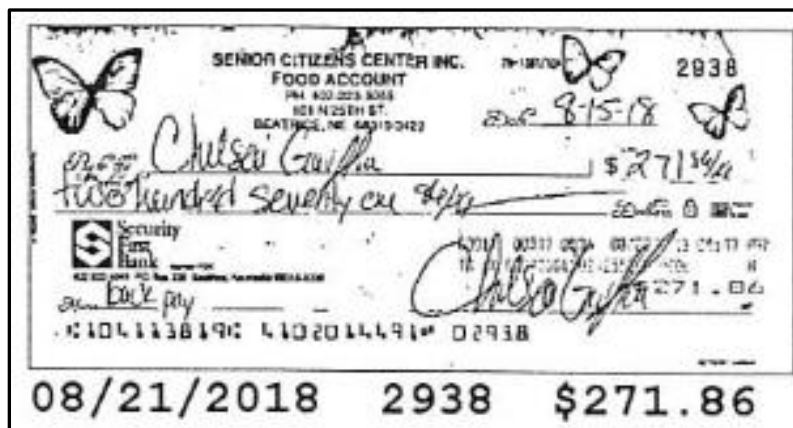
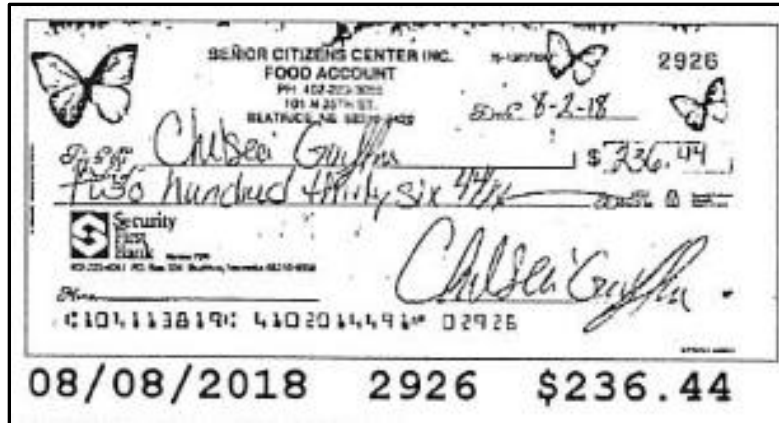
The BSC failed to provide the APA with the requested support for this unexplained "Adjustment." After the draft letter was provided to the BSC, the former director indicated that this was an unknown balance difference between the books and the bank. No support was provided.

Additionally, the APA requested documentation to support a \$873.48 payment to Holland USA on May 22, 2019, as seen below from the BSC's May 2019 bank statement:

Debits and Other Withdrawals		
Date	Amount	Activity Description
5/01	74.06	CHARTER COMMUNIC/CHARTER CO 1290276629 SPA BEATRICE SENIOR CENTER
5/02	61.15	WINDSTREAM/WSC ACH 000000279560131 CENTER SENIOR CITIZENS
5/02	217.30	NEB DEPT REVENUE/NBF BUS TX TXP*XXXXX050321*01100*190331*T*0000021 0*EFWINX* * * * \ 21B000443987 BEATRIC SENIOR CENTER
5/07	36.20	DELUXE CHECK/CHECK/ACC. SENIOR CITIZEN CENTER
5/22	873.48	HOLLAND USA061/CONS CP SENIOR CITIZENS CENTER
5/31	204.02	CHARTER COMMUNIC/CHARTER CO 1290276629 SPA BEATRICE SENIOR CENTER

The BSC failed to provide documentation to support this expense. After the draft letter was issued to the BSC, the former director obtained the invoices from the vendor indicating the purchases were for promotional items of pens and coasters.

The APA also requested documentation to support payments made to the former site director, as shown below:



Note: The former director indicated this was a purchase of cleaning supplies at Walmart. Documentation was not provided.

Each of these three checks appear to have been in addition to the former director's normal paychecks. As shown in the above images, the former director was the sole signer on the checks.

The BSC failed to provide documentation to support these payments to the former director. After the draft letter was provided to the BSC, the former director responded that in August 2018, she started using Quickbooks and used the wrong amount of hours for her paycheck. Documentation was not sufficient to support the extra checks.

The current Board Treasurer claims not to have been responsible for the BSC's day-to-day bookwork. That responsibility was passed down to the BSC's site director. At its meetings, moreover, the Board received only a short Treasurer's report. The Treasurer also provided the BSC bank account balances. Consequently, the Board was unaware of many specific expenditures of BSC funds and was unable, therefore, to approve or reject them.

Since the end of June 2019, however, the Board has been receiving more detailed reports on BSC income and expenses.

Neb. Rev. Stat. § 84-304(4)(a) authorizes the APA to do the following:

To examine or cause to be examined, at the expense of the political subdivision, when the Auditor of Public Accounts determines such examination necessary or when requested by the political subdivision, the books, accounts, vouchers, records, and expenditures of any . . . service contractor or subrecipient of state or federal funds . . .

That same subsection of statute provides defines "service contractor or subrecipient" as follows:

For purposes of this subdivision, service contractor or subrecipient means any nonprofit entity that expends state or federal funds to carry out a state or federal program or function, but it does not include an individual who is a direct beneficiary of such a program or function or a licensed health care provider or facility receiving direct payment for medical services provided for a specific individual.

Neb. Rev. Stat. § 84-305(2) (Cum. Supp. 2018) requires audited entities to provide the APA with requested information no later than three weeks from a written request for it, as follows:

Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity. The three business days shall be computed by excluding the day the request is received, after which the designated period of time begins to run. Business day does not include a Saturday, a Sunday, or a day during which the offices of the custodian of the public records are closed.

Due to its failure to provide the APA with the requested information, the BSC was in violation of State statute.

Good internal control requires procedures to ensure that the Board is made aware of all expenditures of BSC funds and is able, therefore, to approve or reject them. Those same procedures should ensure also that adequate documentation is available to support all financial transactions of the BSC and, per statute, is provided to the APA upon request.

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

We recommend the implementation of procedures to ensure that the Board is made aware of all expenditures of BSC funds and is able, therefore, to approve or reject them. Those same procedures should ensure also that adequate documentation is available to support all financial transactions of the BSC. Because of the BSC's failure to provide the APA with the requested supporting documentation for the payments identified in this letter – constituting, in addition to a violation of § 84-305, a lack of accountability for the expenditure of public funds – we will forward the information herein to the County Attorney and the Attorney General for further review.

2. Lack of Proper IRS Filings

As mentioned previously, the BSC is operated by the Senior Citizens Center, Inc., a non-profit corporation in Nebraska. That managerial entity's Articles of Incorporation, adopted in June 1993, describe the corporation as having been organized under Internal Revenue Code Section 501(c)(3), which exempts certain organizations from taxation.

Generally, the Internal Revenue Service (IRS) requires tax-exempt entities, like the BSC, to file annual returns. An organization with gross receipts normally less than \$50,000 is required to file the IRS Form 990-N. If the organization has less than \$200,000 in gross receipts and less than \$500,000 in total assets, it is required to file the IRS Form 990-EZ.

The BSC appears to have failed to file these annual returns for a number of years. The Blue Rivers Area Agency on Aging indicated that an IRS Form 990 had not been filed in several years.

Good internal controls requires procedures and records to ensure compliance with all applicable State and Federal laws. Without such procedures, there is an increased risk for not only violations of the law but also loss or misuse of funds.

We recommend the Board implement procedures to ensure the required annual IRS filings are submitted for all years that such filings were not made. We also recommend the Board ensure it has adequate knowledge of applicable IRS regulations for tax-exempt organizations.

BSC Response: The Board of BSC is now more aware of the deficiencies of our existing procedures and is committed to improvements. The majority of our problem has been solved by BRAAA assuming total management of the nutrition program. The Center contributes the kitchen, equipment and dining area. The custody and control of the Beatrice Senior Center remains under the supervision of the board.

* * * * *

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 BSC's policies or procedures.

Draft copies of this letter were furnished to the BSC 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 the letter.

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

Sincerely,

A handwritten signature in black ink that reads "Mary Avery". The signature is written in a cursive, flowing style.

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

cc: Gage County Attorney
Nebraska Attorney General
Internal Revenue Service