



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 15, 2019

Jeff Steffen, Vice Chair  
Lewis and Clark Natural Resources District  
P.O. Box 518  
Hartington, NE 68739

Paul Thoene, Chair  
Cedar Knox Rural Water Project  
Advisory Committee  
P.O. Box 518  
Hartington, NE 68739

Dear Sirs:

As you may know, the Nebraska Auditor of Public Accounts (APA) has received some financial concerns regarding the Lewis and Clark Natural Resources District (District) and the Cedar Knox Rural Water Project (Project). 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 requested certain financial information from the District. Based upon the outcome of the preliminary planning work, the APA has determined that it is unnecessary for this office to perform a separate financial audit or attestation at this time.

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

### **Background Information**

In late 1978, the District's Board of Directors (Board) created the Rural Water Project Steering Committee, granting it the authority to make decisions to be reported to and approved by the Board. One member of the Board was to serve as a member of the Committee. Later renamed the Cedar Knox Rural Water Project Advisory Committee (Committee), the Committee was made a permanent subcommittee of the District.

The first meeting of the Committee was held in January 1979. In June of 1980, the District gave notice of its intent to establish the Project – the goal of which was to acquire and construct, within portions of Cedar and Knox counties (the “project area”), water supply facilities to transport water and to furnish water service for domestic purposes. The Project was constructed and operational in the fall of 1981.

## Comments and Recommendations

### 1. Project Financial Information Presented to the Committee and the Board

The Committee is comprised of nine members who meet monthly. The District's Office Manager provides a list of monthly Project expenses for approval at each meeting. The following is an example of a typical monthly expense listing:

<b>CEDAR KNOX RURAL WATER PROJECT JULY 2018 EXPENSES</b>			
Account	Payee Name	Check #	Amount
AUTO	Stop N Go	16254	\$ 557.09
	Steffens	16248	\$ 336.66
	Capital One	16259	\$ 101.88
	Cedar Co Treasurer	16249	\$ 385.00
	Wiechelma Repair	16257	\$ 59.43
	Peitz	16245	\$ 90.47
LOAN	GMC	16228	\$ 650.00
CHEMICALS	Hawkins	16236	\$ 13,729.77
	Aqua Pure	16251	\$ 1,250.95
	Matheson	16239	\$ 637.01
CITY & CUSTOMER REFUND	Obert	16225	\$ 315.03
	St Helena	16226	\$ 1,907.41
EMPLOYEE BENEFITS	Lewis & Clark NRD	AD	\$ 512.63
	NARD	16241	\$ 12,323.43
OFFICE SUPPLIES & POSTAGE	Leaf	16238	\$ 84.14
	Capital One	16259	\$ 242.58
	Hartelco	16234	\$ 45.97
	One Office	16244	\$ 88.47
OPERATING SUPPLIES	Cox Auto	16230	\$ 95.93
	Municipal Supply	16240	\$ 7,950.10
	Bomgaars	16253	\$ 346.61
	Gary Eckmann	16224	\$ 58.39
	Kruse's	16237	\$ 21.99
LEASE	Lewis & Clark NRD	16223	\$ 12,750.00
LEGAL NOTICES	NE Nebr News	16250	\$ 5.85
	Crofton Journal	16231	\$ 4.91
SYSTEM REPAIRS	One Call Concepts	16243	\$ 69.09
	Great Plains Structures	16233	\$ 1,710.00
	Hart Gravel	16235	\$ 838.78
TESTING	Dept. of Health	16247	\$ 150.00
	Nebr Dept of Health	16242	\$ 300.00
	Capital 1	16259	\$ 584.08
SALARIES & PERSONNEL EXPENSES	Scott Fiedler	16227	\$ 40.60
	Lewis & Clark NRD	AD	\$ 11,510.04
	Best Western	16252	\$ 214.78
TAXES	Lewis & Clark NRD	AD	872.15
	Dept of Revenue	OnLine	\$ 3,255.91
UTILITIES	Cedar Knox PPD	16229	\$ 4,891.97
	US Cellular	16255	\$ 117.67
	Great Plains	16232	\$ 253.47
PROJECT IMPROVEMENTS	Municipal Supply	16240	\$ 1,714.45
	Capital One	16259	\$ 19.39
	USA Blue Book	16256	\$ 272.96
HOOKUPS	Plumbing & Electric	16246	\$ 2,454.27
<b>TOTAL FOR MONTH</b>			<b>\$ 83,821.31</b>

The APA identified the following concerns with the Project expense listings provided to the Committee:

- 1) The listings are created manually by entering information from the accounting system into an Excel spreadsheet, which increases the risk for errors. Similar reports could be produced directly from the District's accounting system, providing more assurance that the information is complete and accurate.
- 2) The dates of the listings are somewhat misleading. The example above reflects a July 2018 reporting period; however, the actual time periods covered are from one Committee meeting to the next – in this case, June 15, 2018, through July 12, 2018.
- 3) The wire transfers to pay for the bond interest and fees are not included on the listings.

The District's Office Manager also provides the Committee with a monthly financial statement for the Project, as follows:

<b>CEDAR KNOX RURAL WATER PROJECT FINANCIAL STATEMENT JULY 2018</b>			
<b>8/9/2018</b>			
<b>INCOME</b>	<b>MONTHLY BUDGETED</b>	<b>MONTHLY ACTUAL</b>	<b>YEAR TO DATE</b>
<b>WATER SALES</b>	\$ 60,291.67	\$ 68,712.48	\$ 68,712.48
Crofton	\$ 12,166.67	\$ 14,097.30	\$ 14,097.30
St Helena	\$ 958.33	\$ 1,592.50	\$ 1,592.50
Obert	\$ 350.00	\$ 426.30	\$ 426.30
Fordyce	\$ 1,666.67	\$ 1,881.60	\$ 1,881.60
<b>Total Water Income</b>	<b>\$ 75,433.33</b>	<b>\$ 86,710.18</b>	<b>\$ 86,710.18</b>
<b>OTHER INCOME</b>			
Sales Tax	\$ 3,500.00	\$ 3,936.06	\$ 3,936.06
Kohles Acres	\$ 333.33	\$ 797.01	\$ 797.01
Interest Income	\$ 166.67	\$ 194.92	\$ 194.92
Non Water Sales	\$ 293.33		
Late Charge	\$ 333.33	\$ 1,080.32	\$ 1,080.32
Reconnect Charges	\$ 41.67		
Maintenance Fee	\$ 7,144.00	\$ 5,817.50	\$ 5,817.50
Miscellaneous Inc	\$ 225.00		
Grant	\$ 833.33		
<b>Total Non Water Income</b>	<b>\$ 88,304.00</b>	<b>\$ 98,535.99</b>	<b>\$ 98,535.99</b>
<b>EXPENSES</b>			
Auto Expense	\$ 2,333.33	\$ 1,187.76	\$ 1,187.76
Chemicals	\$ 11,666.67	\$ 13,843.79	\$ 13,843.79
Directors	\$ 583.33	\$ -	\$ -
Dues, Licenses	\$ 83.33	\$ -	\$ -
Electricity	\$ 4,583.33	\$ 9,128.87	\$ 9,128.87
Employee Benefits	\$ 13,750.00	\$ 1,016.57	\$ 1,016.57
Fuel (Heat)	\$ 250.00	\$ -	\$ -
Information & Education	\$ 66.67	\$ -	\$ -
Insurance	\$ 4,333.33	\$ -	\$ -
Office Supplies	\$ 916.67	\$ 469.11	\$ 469.11
Operating Expenses	\$ 3,916.67	\$ 865.20	\$ 865.20
Other (Legal No, Lease)	\$ 41.67	\$ 15.67	\$ 15.67
Payroll Taxes	\$ 2,000.00	\$ 1,785.14	\$ 1,785.14
Personnel Expenses	\$ 833.33	\$ 655.95	\$ 655.95
Professional Fees	\$ 475.00	\$ -	\$ -
Salaries-Operations	\$ 22,083.33	\$ 19,872.76	\$ 19,872.76
Salaries-Clerical	\$ 3,500.00	\$ 3,150.00	\$ 3,150.00
Sales Tax	\$ 3,500.00	\$ 3,255.91	\$ 3,255.91
System Repairs & Line Locate	\$ 3,395.83	\$ 1,838.52	\$ 1,838.52
Testing	\$ 1,166.67	\$ 373.72	\$ 373.72
Telephone	\$ 425.00	\$ 470.33	\$ 470.33
Bond & Interest & Office Loan	\$ 4,391.67	\$ 13,798.75	\$ 13,798.75
Project Improv	\$ 9,171.08	\$ 1,714.45	\$ 1,714.45
<b>Total Operating Expenses</b>	<b>\$ 93,466.92</b>	<b>\$ 73,442.50</b>	<b>\$ 73,442.50</b>
Hookup Income	\$ 7,083.33	\$ 25,525.00	\$ 25,525.00
Hookup Expenses	\$ 2,791.67	\$ 2,454.27	\$ 2,454.27
Income from Hookups	\$ 4,291.67	\$ 23,070.73	\$ 23,070.73
<b>TOTAL INCOME</b>	<b>\$ 95,387.33</b>	<b>\$ 124,060.99</b>	<b>\$ 124,060.99</b>
<b>TOTAL EXPENSES</b>	<b>\$ 96,258.58</b>	<b>\$ 75,896.77</b>	<b>\$ 75,896.77</b>
<b>TOTAL GAIN OR LOSS</b>	<b>\$ (7,954.58)</b>	<b>\$ 22,639.22</b>	<b>\$ 22,639.22</b>
<b>6/30/2018</b>			
<b>Bank Checking</b>	<b>\$88,182.51</b>	<b>\$ 17,048.72</b>	
<b>Unrestricted Asset</b>	<b>\$307,465.88</b>	<b>\$393,217.08</b>	
New Expansion Acct	\$45,794.77	\$63,988.08	
Expansion	\$52,253.29	\$52,479.19	
Maintenance Fee	\$0.00	\$41,000.00	
O&M	\$141,402.83	\$159,103.82	
Auto Purchase* from O&M		\$9,000.00	
Depreciation Account	\$68,014.99	\$68,245.99	
<b>Restricted Assets (Bond payments)</b>	<b>\$79,420.95</b>	<b>\$ 106,168.20</b>	
<b>Total</b>	<b>\$475,069.34</b>	<b>\$ 516,434.00</b>	

The APA found the following concerns with the information contained in the above financial statement:

- 1) Per the July 2018 expense listing (pg. 2), Project expenses totaled \$83,821.31, which does not agree to the total of only \$75,896.77 found on the financial statement for that same period.
- 2) The APA was unable to verify the bank checking balances shown at the bottom of the financial statement. District staff also failed to provide support for the balances reflected therein.
- 3) The financial statement is taken from the accounting system's accrual basis Profit and Loss Report; however, as detailed in the table below, the APA could not verify several accounts reported to the accounting system:

	<b>Quickbooks P&amp;L Accrual Basis July 2018</b>	<b>July 2018 F/S Provided to Board</b>	<b>Variance</b>
<b>Income</b>			
Total 4010Tx · Water Sales Tax	\$ 4,173.27	\$ 3,936.06	\$ 237.21
4013SC · St Helena Service Charge	\$ 210.00	\$ -	\$ 210.00
4014SC · Obert Service Charge	\$ 75.00	\$ -	\$ 75.00
Total 4017 · Late Charges	\$ 545.98	\$ 1,080.32	\$ (534.34)
4300 · Meter Repair Income	\$ 14.00	\$ -	\$ 14.00
5500 · Miscellaneous Income	\$ (89.44)	\$ -	\$ (89.44)
<b>Expenses</b>			
6020 · Salaries - Operation	\$ 20,041.93	\$ 19,872.76	\$ 169.17
6022 · Salaries - Clerical	\$ 2,400.00	\$ 3,150.00	\$ (750.00)
Total 6031 · Electricity	\$ 19.73	\$ 9,128.87	\$ (9,109.14)
6032 · Heat	\$ 1,141.26	\$ -	\$ 1,141.26
Total 6040 · Chemicals	\$ 13,046.76	\$ 13,843.79	\$ (797.03)
Total 6050 · Operating Supplies	\$ 15,219.23	\$ 865.20	\$ 14,354.03
Total 6051 · Water Testing Costs	\$ 953.44	\$ 373.72	\$ 579.72
Total 6060 · System Repair (Major repairs to system inc Leaks)	\$ 3,498.53	\$ 1,838.52	\$ 1,660.01
6065 · System Repair-Line Locates	\$ 70.41	\$ -	\$ 70.41
Total 6070 · Auto & Truck Expense	\$ 1,470.60	\$ 1,187.76	\$ 282.84
6080 · Information & Education	\$ 50.00	\$ -	\$ 50.00
Total 6300 · Telephone	\$ 371.09	\$ 470.33	\$ (99.24)
Total 6310 · Office Supplies	\$ 2,339.84	\$ 469.11	\$ 1,870.73
6330 · Professional Fee, acct, eng	\$ 87.50	\$ 15.67	\$ 71.83
6340 · Licenses, Dues & Subscriptions	\$ 75.00	\$ -	\$ 75.00
6350 · Legal Notices	\$ 5.85	\$ -	\$ 5.85
Total 6360 · Personnel Expenses	\$ 1,450.58	\$ 655.95	\$ 794.63
Total 6530 · Employee Benefits	\$ 26,003.80	\$ 1,016.57	\$ 24,987.23
Total 6560 · Payroll Taxes	\$ 1,743.09	\$ 1,785.14	\$ (42.05)
Total 6570 · Sales Tax	\$ 3,893.86	\$ 3,255.91	\$ 637.95
6850ZM · Zebra Mussel Control	\$ 22,560.01	\$ 1,714.45	\$ 20,845.56
6615 · Loan Payment on Vehicles	\$ 1,300.00	\$ 13,798.75	\$ (12,498.75)
Total 7010 · System Hookup Costs	\$ 1,607.11	\$ 2,454.27	\$ (847.16)

According to District staff, the variances in the income amounts were due to several transactions posting after the Profit and Loss Report had been run. When asked whether the Committee was notified of those amounts, District staff said that they were reflected in the "Year to Date" columns of the financial statements.

For the expense variances, District staff explained that the June expenses were actually reported for many of the accounts, as had been the process for a number of years. Other variances were due to transactions posting after the Profit and Loss Report had been run.

Unlike the financial information provided to the Committee, as described above, the APA determined that the Board is provided only with a monthly check register at each meeting, but it does not receive other financial reports, such as profit and loss statements, account balances, or budgets to actual reports. Additionally, the direct deposit fees do not appear to be reported to the Board at all, and the sales taxes paid are reported in the wrong period.

A proper system of internal control requires effective monitoring by the governing body of an entity. The lack of a system to monitor adequately financial activities increases the risk for loss or misuse of funds.

We recommend the District and the Committee work to implement procedures that ensure financial information is complete and accurate. At a minimum, such procedures ought to include the following: 1) financial information should be taken directly from the accounting system; 2) account balances should be readily reconcilable to bank records; 3) reporting periods should be adequately identified; and 4) important financial information supplemental to that provided in the monthly expense listings should be provided

## **2. Mileage Expenses**

The APA tested a travel expense reimbursement paid to the District's General Manager in September 2017. The reimbursement, totaling \$184.04, was for 344 miles incurred during August 2017. The General Manager received the full Federal per diem rate for the miles driven at the time, \$.535 per mile.

The District's Personnel Policy No. 16, dated July 27, 2017, states the following:

*On occasion, an employee may be requested by the General Manager or Project Manager, to use his/her personal vehicle for District business. When such personal vehicle is used for District business, the employee will be paid the rate authorized by the Board of Directors, but no less than the Federal Mileage Rate, for the actual miles driven. When district vehicles are available and a personal vehicle use is preferred the rate will be one-half the Federal Mileage Rate for actual miles driven. Use of the District credit card or District charge account for personal vehicle expense is prohibited.*

The APA asked for the documentation needed to determine if a District vehicle had been available at the time of the General Manager's travel in August 2017. According to District staff, however, vehicle mileage logs were not maintained during that period. Thus, documentation to determine not only the availability of a District vehicle but also the proper reimbursement rate was unavailable.

The District has since implemented the use of vehicle mileage logs for its automobiles.

The APA noted also that one District employee is currently being reimbursed for the daily commute between his home and the water treatment plant. When the employee was hired, the District's Office Manager explained, all employees driving to the water treatment plant were reimbursed for commuting due to the poor condition of the road leading to the facility. That policy has since been discontinued; however, being the only remaining worker who was hired under the original policy, the employee continues to be reimbursed for his travel.

In general, the employee has been reimbursed for 23 miles of travel per day, receiving payments totaling \$3,269.88 between July 2017 and September 2018. These miles are included in income for the employee.

The District lacks appropriate authorization, in the form of a contract or policy, to support making travel mileage reimbursement payments to this employee.

Good internal control requires documentation to support District and Project expenses. Without such supporting documentation, there is an increased risk for the loss of misuse of funds.

We recommend maintaining sufficient documentation to support District and Project expenses, including vehicle mileage logs for determining proper travel mileage rates and some form of authorization for reimbursing commuting costs.

*Overall District Response: In response to concerns raised by the Nebraska Auditor of Public Accounts (APA), the Lewis and Clark Natural Resources District (LCNRD) and Cedar Knox Rural Water Project (CKRWP) will be implementing changes based on APA identified recommendations.*

*Changes to be made include, exporting financial information directly from accounting software with the time period printed on the document for board or committee approval; reporting account balances that are readily reconcilable to bank records; and providing sufficient documentation to support reimbursement of LCNRD and CKRWP expenses and to authorize those reimbursements.*

*The LCNRD and CKRWP are dedicated to representing financial activities as comprehensively and transparently as possible. Thank you for providing recommendations to improve those financial activities.*

\* \* \* \* \*

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

Draft copies of this letter were furnished to management of the District and the Committee to provide for an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into the letter.

This communication is intended solely for the information and use of the District and the Committee and their 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,



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