

**AUDIT REPORT
OF
SOUTH HEARTLAND DISTRICT
HEALTH DEPARTMENT**

JULY 1, 2018, THROUGH JUNE 30, 2019

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the Auditor of Public Accounts.**

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Issued on September 9, 2019

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

Name	Title
Nanette Shackelford	Clay County – President
Charles Neumann	Adams County
Judy Reimer	Adams County
Donna Fegler-Daiss	Adams County
Eric Samuelson	Clay County
Sandra Nejezchleb	Clay County
James Keifer	Nuckolls County
Peggy Meyer	Nuckolls County
Lonnie Knehans	Webster County
Miryia Hallock	Webster County
Torey Kohmetscher	Webster County
Michael Kleppinger	Professional Representative
Daniel Brailita	Professional Representative
Lindsay Waechter-Mead	Professional Representative

South Heartland District Health Department Executive Management

Name	Title
Michele Bever	Director
Joe Streufert	Finance/Operations Manager

South Heartland District Health Department
606 N. Minnesota Ave., Suite 2
Hastings, NE 68901
www.southheartlandhealth.org



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State Auditor

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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

INDEPENDENT AUDITOR'S REPORT

South Heartland District Health Department
Hastings, Nebraska

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities and major fund of the South Heartland District Health Department (SHDHD), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of the SHDHD's primary government, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the SHDHD's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SHDHD's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and the major fund of the SHDHD, as of June 30, 2019, and the respective changes in cash-basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matters – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole, which collectively comprise the SHDHD's basic financial statements. The Management Discussion and Analysis, and the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund, on pages 4-7 and 17, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Management Discussion and Analysis and the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019 on our consideration of the SHDHD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and considering the SHDHD's internal control over financial reporting and compliance.



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor
Lincoln, Nebraska

September 6, 2019

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Heartland District Health Department's (SHDHD) annual audit report presents our discussion and analysis of the SHDHD's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the SHDHD's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The SHDHD is completing this audit report in compliance with the provisions of Statement No. 34 of the Governmental Accounting Standards Board *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 establishes standards for external financial reporting for all State and Local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net assets into three components: (a) invested in capital assets, net of related debt; (b) restricted; (c) unrestricted.

This annual report consists of three parts: (1) Management's Discussion and Analysis (this section); (2) Basic Financial Statements – Cash Basis; and (3) Supplemental Schedules.

The accompanying basic financial statements have been prepared on the cash basis of accounting. Accordingly, the financial statements and supplemental schedules are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data about the financial statements and the SHDHD's commitments and contingencies that are not reported in the cash basis financial statements. The statements are followed by a section of Supplementary Information that further explains and supports the information in the financial statements.

FINANCIAL HIGHLIGHTS

Book Balances

The SHDHD's total cash available decreased from \$58,938 to \$11,662, or a decrease of \$47,276.

	FY 2019	FY 2018
Cash and Cash Equivalents	\$ 11,662	\$ 58,938
Total Assets	<u>\$ 11,662</u>	<u>\$ 58,938</u>
Net Position		
Unrestricted	<u>\$ 11,662</u>	<u>\$ 58,938</u>

Receipts and Disbursements

For the fiscal year ended June 30, 2019, the SHDHD's total receipts were \$671,212. The SHDHD's total disbursements were \$718,488, a net change of -\$47,276.

Below is information from the Statement of Cash Basis Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund:

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

	FY19	FY18
RECEIPTS		
Federal Grants	\$ 284,186	\$ 385,652
State Revenue – LB 692	183,330	183,330
State Revenue – LB 1060	105,458	105,458
State Revenue – LB 657	11,112	11,111
State and Local Grants	79,320	37,721
Charges for Services	964	5,120
Donations	6,548	1,142
Interest Income	67	25
Miscellaneous	227	5,185
Total Receipts	671,212	734,744

DISBURSEMENTS

Current		
Personnel	544,077	559,374
Operating	137,798	153,553
Supplies	23,747	21,191
Travel	12,866	18,883
Total Disbursements	718,488	753,001
Excess (Deficiency) of Receipts over Disbursements	<u>\$ (47,276)</u>	<u>\$ (18,257)</u>

FINANCIAL ANALYSIS OF THE SHDHD AS A WHOLE

Federal and State Grant Funding

Federal and State grant revenue is received by the SHDHD to administer Federal and State programs and grants. These funds support, for the most part, the program/grant activities.

State Funding

As a district health department formed under LB 692 (2001), the SHDHD receives funding from the State of Nebraska to support public health activities. State funds include the following:

- LB 692 (2001) – Nebraska Health Care Cash Fund to support the district health departments for the establishment, management, and operation of the health department and its core public health functions. Core public health functions include assessment and policy development, prevention of illness and disease, and assurance of services, including public health nursing, health education, and environmental health services.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- LB 1060 (2006) – Appropriations for local health departments. At the SHDHD, these funds support the operation of the health department as focused primarily on the essential services of surveillance and assessment, performance management, environmental health, and addressing health disparities.
- LB 657 (2015) – Additional Nebraska Health Care Cash Fund for state aid for public health departments. These funds are currently being used by the SHDHD to support performance improvement activities.

In 2018-2019, the SHDHD received \$299,900 from the State of Nebraska to support public health activities. In 2017-2018, the SHDHD received \$299,899 from the State of Nebraska to support public health activities.

General Fund Budgetary Highlights

The SHDHD's proposed budget for the operation of the SHDHD for 2018-2019 was set at \$1,023,619.

When preparing the proposed budget, the SHDHD allows for fluctuations in Federal and State program/grant activity throughout the year. For this reason, during the 2018-2019 fiscal year, the SHDHD did not spend over the budget of \$1.02 million that was provided on September 5, 2018, to the Hastings Tribune (Hastings). During the 2017-2018 fiscal year, the SHDHD did not spend over the budget of \$1.06 million that was published on August 25, 2017, in the Hastings Tribune (Hastings).

Interlocal Agreements

The SHDHD was formed in November 2001 through signed resolutions adopting an interlocal agreement between the three counties of Adams, Nuckolls, and Webster in Nebraska, so that all persons residing in these counties would have access to public health services.

LB 692 (2001) allowed for the establishment of interlocal agreements between counties for the establishment of a local public health department, if at least three contiguous counties are involved and the counties have a total of at least thirty thousand residents.

In 2002, the SHDHD expanded to four counties with the addition of Clay County. In December 2008 – January 2009, all four counties signed a revised 2008 interlocal agreement, in order to meet the requirements for tax-exempt status required by State statute. This interlocal agreement outlined the organization of the district and the powers and management of the district health department.

The 2008 interlocal agreement states the following:

The DISTRICT HEALTH DEPARTMENT shall be funded by state and federal grants, private foundations, donations and other monies for which the DISTRICT HEALTH DEPARTMENT is eligible. Funds obtained from all sources shall be used to maintain and operate the DISTRICT HEALTH DEPARTMENT, including funding of the salaries of the necessary personnel. The Board of Directors, established in accordance with Neb.Rev.Stat. §§ [sic] 71-1630, shall establish and maintain the annual budget of the DISTRICT HEALTH DEPARTMENT.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

Contacting the SHDHD's Financial Management

This financial report is designed to provide the public with a general overview of the SHDHD's finances and to demonstrate the SHDHD's accountability for the money with which it is entrusted. If you have any questions about this report or need additional information, contact Dr. Michele Bever, PHD, MPH, Executive Director, South Heartland District Health Department, 606 N Minnesota Ave, Suite 2, Hastings, NE 68901. The SHDHD's phone number is (402) 462-6211, the fax number is (402) 462-6219, and the website is located at www.southheartlandhealth.org.

**SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF NET POSITION – CASH BASIS**

June 30, 2019

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 11,662
Total Assets	<u>\$ 11,662</u>
NET POSITION:	
Unrestricted	\$ 11,662
Total Net Position	<u>\$ 11,662</u>

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

STATEMENT OF ACTIVITIES – CASH BASIS

For the Fiscal Year Ended June 30, 2019

Functions/Programs	Program Receipts			Net (Disbursements)/ Receipt and Changes in Net Position	
	Disbursements	Charges for Services	Operating Grants and Contributions		
Primary Government:					
Governmental Activities:					
Health & Social Services	\$ 718,488	\$ 964	\$ 363,506	\$ (354,018)	
Total Governmental Activities	<u>\$ 718,488</u>	<u>\$ 964</u>	<u>\$ 363,506</u>	<u>\$ (354,018)</u>	
General Receipts:					
State Revenue - LB 692				183,330	
State Revenue - LB 1060				105,458	
State Revenue - LB 657				11,112	
Donations				6,548	
Interest Income				67	
Miscellaneous				227	
Total General Receipts				<u>306,742</u>	
Change in Net Position				(47,276)	
Net Position - Beginning of Year				<u>58,938</u>	
Net Position - Ending of Year				<u>\$ 11,662</u>	

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND

June 30, 2019

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 11,662</u>
Total Assets	<u><u>\$ 11,662</u></u>
 FUND BALANCE	
Unassigned	<u>\$ 11,662</u>
Total Fund Balance	<u><u>\$ 11,662</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2019

	<u>General Fund</u>
RECEIPTS	
Federal Grants	\$ 284,186
State Revenue - LB 692	183,330
State Revenue - LB 1060	105,458
State Revenue - LB 657	11,112
State and Local Grants	79,320
Charges for Services	964
Donations	6,548
Interest Income	67
Miscellaneous	227
Total Receipts	<u>671,212</u>
DISBURSEMENTS	
Current:	
Personnel	544,077
Operating	137,798
Supplies	23,747
Travel	12,866
Total Disbursements	<u>718,488</u>
Deficiency of Receipts Over Disbursements	(47,276)
Cash Basis Fund Balance - Beginning	<u>58,938</u>
Cash Basis Fund Balance - Ending	<u>\$ 11,662</u>

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2019

1. Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the South Heartland District Health Department (SHDHD) in Hastings, Nebraska.

A. Reporting Entity

The SHDHD is a local health department established under and governed by the laws of the State of Nebraska. The SHDHD provides public health services to the residents of Adams, Clay, Nuckolls, and Webster counties in Nebraska. As a political subdivision of the State, the SHDHD is exempt from sales and use taxes.

The financial reporting entity consists of the SHDHD.

In determining the financial reporting entity, the SHDHD complies with the provisions of GASB Statement Number 61, and it has considered potential component units (traditionally separate reporting entities) for which the SHDHD may be financially accountable and, as such, should be included within the SHDHD's financial statements. The SHDHD is financially accountable if it appoints a voting majority of the organization's governing body and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the SHDHD. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on these criteria, the SHDHD did not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements. The Statement of Net Position and Statement of Activities display information about the activities of the SHDHD and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the SHDHD. The SHDHD reports governmental activities only. Governmental activities generally are financed through intergovernmental revenues.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following category:

Unrestricted. This category represents resources that do not have constraints externally imposed on net asset use by creditors, grantors, or contributors, or imposed by law through constitutional provisions or enabling legislation. Unrestricted resources often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General revenues include all other receipts properly not included as program receipts. The SHDHD reported the following general receipts: State Revenue (LB 692 (2001), LB 1060 (2006), and LB 657 (2015)), Donations, Interest Income, and Miscellaneous Income.

Fund Financial Statements. The fund financial statements provide information about the SHDHD's funds. GAAP requires separate statements by fund category – governmental, proprietary, and fiduciary. The SHDHD has only the Governmental Fund category. An emphasis is placed on major funds within the governmental category. Major funds are funds whose receipts, disbursements, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental funds and at least 5 percent of the aggregate amount for all governmental funds. Any other fund may be reported as a major fund if the SHDHD's officials believe that fund is particularly important to the financial statement users.

The SHDHD reports the following types of governmental funds:

General Fund. This is the SHDHD's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

The SHDHD designates fund balances as follows:

Unassigned. Those funds that are not restricted, committed, or assigned for a specific purpose.

C. **Measurement Focus, Basis of Accounting**

The SHDHD prepares its financial statements on the cash basis, which is in conformity with the accounting practices prescribed or permitted by the State of Nebraska; consequently, these statements represent a summary of the cash activity of the various funds of the SHDHD and do not include certain transactions that would be included if the SHDHD prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

D. Cash and Cash Equivalents

The SHDHD cash and cash equivalents are considered to be cash on hand and demand deposits.

E. Capital Assets

Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., buildings, computer hardware, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

F. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the SHDHD funds as paid. Upon termination, employees are paid for any unused vacation. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements and would be recorded in accordance with the SHDHD's policy, which is to recognize the expense and accrued liability when vacation and compensatory leave is earned.

G. Budget Process

The SHDHD is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. Any revisions to the adopted budget of total expenditures to any fund require a public hearing. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow.

2. Deposits

The following disclosures – deposits, including checking accounts, savings accounts, and money market accounts, are all classified as cash or cash and cash equivalents on the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Deposits (Concluded)

Custodial credit risk is the risk that, in the event of a bank failure, the SHDHD's deposits may not be returned to it. As of June 30, 2019, all of the SHDHD's deposits with financial institutions were fully insured.

The bank balance of the SHDHD's accounts, at June 30, 2019, consisted of the following:

Checking	\$ 6,806
Money Market	4,856
	<hr/>
	\$ 11,662

3. Contingencies and Commitments

The SHDHD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SHDHD has purchased commercial insurance to offset these certain risks. There have been no significant reductions in insurance coverage and no settled claims in excess of insurance coverage in any of the past three fiscal years.

Short-Term Debt

The SHDHD established a \$100,000 line of credit in September 2018. During the fiscal year ended June 30, 2019, the SHDHD received \$35,000. The interest rate on the outstanding principal balance is 4%. The SHDHD paid off the line of credit during the fiscal year and also paid \$148 in interest. The following represents the short-term debt activity for the year ended June 30, 2019:

Description	Beginning Balance	Draws	Repayments	Ending Balance
Line of Credit	\$ 0	\$ 35,000	\$ 35,000	\$ 0

4. Retirement Plan (Plan)

The SHDHD contributes to a multiple-employer plan (Plan) administered by the Public Employees Retirement Board in accordance with the provisions of the County Employees Retirement Act. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. The Plan provisions are established under Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2018) and may be amended through legislative action.

Participation in the Plan is required of all full-time employees. Part-time (working less than one-half of the regularly scheduled hours) employees may elect voluntary participation upon reaching age 18.

The SHDHD employees contribute 4.5% of their total compensation. In addition, the SHDHD contributes an amount equal to 150% of the employee's contribution. The contribution rates are established by § 23-2307 and § 23-2308 and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

4. Retirement Plan (Plan) (Concluded)

is fully vested. The employer's account is fully vested after three years of participation in the system or credit for participation in another governmental plan prior to actual contribution to the Plan. Non-vested contributions are forfeited upon termination. Forfeitures are used to cover a portion of the pension plan's administrative expenses. The Plan's financial statements, including pension costs and obligations, are audited annually and can be obtained from the State of Nebraska Public Employees Retirement System.

For the year ended June 30, 2019, 13 employees contributed \$19,477, and the SHDHD contributed \$29,215.

5. Related Party Transactions

The SHDHD routinely has transactions with Mary Lanning Healthcare. The Director of SHDHD is also a Board Member of Mary Lanning Healthcare. One of Mary Lanning Healthcare's locations in the same building as the SHDHD, and the two entities share the costs of maintenance for the building. Mary Lanning Healthcare also provides support for projects the SHDHD conducts. For the fiscal year ended June 30, 2019, Mary Lanning Healthcare paid the SHDHD \$15,522. In addition, the SHDHD paid Mary Lanning Healthcare \$2,101.

6. Subsequent Events

The SHDHD has evaluated subsequent events from the balance sheet date through September 6, 2019, the date at which the financial statements were available to be issued. Nothing of significance was noted.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2019

	Budget		Actual	Variance Favorable/ (Unfavorable)
	(Original & Final)			
RECEIPTS				
Federal Grants	\$ 807,483		\$ 284,186	\$ (523,297)
State Revenue LB - 692	181,739		183,330	1,591
State Revenue LB - 1060	105,458		105,458	-
State Revenue LB - 657	11,111		11,112	1
State & Local Grants	45,845		79,320	33,475
Other Receipts	-		7,806	7,806
Total Receipts	<u>1,151,636</u>		<u>671,212</u>	<u>(480,424)</u>
DISBURSEMENTS				
Federal Grants	598,554		208,279	390,275
State & Local	37,594		82,392	(44,798)
LB 692	181,739		229,959	(48,220)
LB 1060	105,458		125,011	(19,553)
LB 657	11,111		12,720	(1,609)
1422 (Chronic Disease Prevention) Subaward	89,163		58,971	30,192
Other Disbursements	-		1,156	(1,156)
Total Disbursements	<u>1,023,619</u>		<u>718,488</u>	<u>305,131</u>
Deficiency of Receipts Over Disbursements			(47,276)	
Fund Balance, Beginning of Year			<u>58,938</u>	
Fund Balance, End of Year		\$	<u>11,662</u>	

See the Notes to the Budgetary and Actual Information.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE BUDGETARY AND ACTUAL INFORMATION

For the Fiscal Year Ended June 30, 2019

BUDGETARY COMPARISON SCHEDULE

Basis of Accounting

The accompanying Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund is presented on the cash basis of accounting. This basis is consistent with the basis of accounting used in preparing the basic financial statements.

Budget Process

The SHDHD adopts an annual budget that is approved by the Board of Health. It is prepared in accordance with the basis of accounting utilized by the SHDHD's Governmental Funds. The budget includes the cash on hand at the close of the preceding fiscal year and the anticipated receipts and disbursements. The SHDHD must hold at least one public hearing on the proposed budget. On or before September 20, the SHDHD adopts the budget.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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auditors.nebraska.gov

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

South Heartland District Health Department
Hastings, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of South Heartland District Health Department (SHDHD), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SHDHD's basic financial statements, and have issued our report thereon dated September 6, 2019. The report notes the financial statements were prepared on the basis of cash receipts and disbursements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SHDHD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SHDHD's internal control. Accordingly, we do not express an opinion on the effectiveness of the SHDHD's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the SHDHD's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. During our audit, we identified a deficiency in internal control, described in the accompanying management letter, that we consider to be a material weakness: Comment and Recommendation Number 1, Incorrect Account Coding. We also identified deficiencies in internal control described in the accompanying management letter, that we consider to be significant deficiencies: Comment and Recommendation Numbers 2, Internal Controls over Payroll; and Number 3, Other Internal Control Issues.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SHDHD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SHDHD's Response to Findings

SHDHD's response to the findings identified in our audit are described in the accompanying letter. SHDHD's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the SHDHD's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SHDHD's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 6, 2019

Craig Kubicek, CPA, CFE
Assistant Deputy Auditor
Lincoln, Nebraska



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September 6, 2019

Board of Health
South Heartland District Health Department
Hastings, Nebraska

We have audited the basic financial statements of the South Heartland District Health Department (SHDHD) for the fiscal year ended June 30, 2019, and have issued our report thereon dated September 6, 2019. In planning and performing our audit of the basic financial statements of the SHDHD, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the SHDHD's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. Incorrect Account Coding

The APA identified certain accounting errors made by the SHDHD that resulted in significant and material misstatements. The APA proposed adjustments to the financial statements related to these errors, which the SHDHD agreed to. The following amounts are material or significant misstatements on the Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund and were adjusted by the SHDHD:

Original Financial Statement Account	Adjusted Financial Statement Account	Amount	APA Notes
State and Local Grants Receipts	Federal Grants Receipts	\$ 71,900	A total of 17 receipts from the State of Nebraska were related to the SHDHD's Federal awards, but they were recorded in the accounting system as State receipts.
Supplies Disbursements	Operating Disbursements	\$ 11,574	The SHDHD recorded its disbursements for surveys as Supplies Disbursements in its accounting system, but they should have been categorized as Operating Disbursements.
Federal Grant Receipts	State and Local Grants Receipts	\$ 2,602	Three receipts from the State of Nebraska were from State funds, but they were recorded in the SHDHD's accounting system as Federal Grants receipts.

The SHDHD did not obtain adequate support from the State of Nebraska to determine if these receipts were from Federal or State funds, so the SHDHD did not record all of its State of Nebraska receipts correctly into its accounting system.

Additionally, the SHDHD takes a portion of its State, Federal, and local funds and transfers it into an indirect cost funding source. General administrative expenses are paid from the indirect cost funding source. The SHDHD failed to account for the Federal funds separately from the State and local funds in order to report accurately its total Federal expenditures. Based on the amount of funds transferred into the indirect cost funding source, the APA estimated the State and Federal indirect cost expenditures that were used on the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund.

The tables below summarize the amounts transferred into the indirect cost funding source and the estimate of the State and Federal expenses.

Transferred into Indirect Cost Funding Source (Class)		Estimate of Amount Paid from Indirect Cost Funding Source (Class)	
Funding Source	Amount	Funding Source	Amount
Federal Funds	\$ 26,078	Federal Funds	\$ 16,237
State Funds	\$ 75,947	State Funds	\$ 47,286
Total Funds	\$ 102,025	Total Funds	\$ 63,523

Good internal control requires procedures to ensure that receipts and disbursements are properly recorded in the SHDHD's accounting system for financial statement presentation. Without such procedures, there is an increased risk that the financial statements may be materially misstated.

We recommend the SHDHD implement procedures to ensure that receipts and disbursements are properly recorded in the accounting system for financial statement presentation. This may require requesting further detail from the State of Nebraska to determine if the receipts are from Federal or State funds. We also recommend that the SHDHD implement procedures to track the indirect costs from different funding sources.

SHDHD's Response: We have reviewed our process for coding funds as they are received and have identified how to correctly code these funds in our system. The class codes in our accounting system were updated to include indirect cost codes for both federal and state funds to keep them separate. Grants that receive mixed state and federal funds were also issued separate class codes to properly account for the funds received.

2. Internal Controls over Payroll

The SHDHD lacked adequate internal controls over its payroll processes. The APA tested paychecks to four SHDHD employees and noted the following control issues:

Issue	Description
Employer-Paid Health Benefits Incorrectly Included in Gross Income	The SHDHD contributed \$234 per pay period to employees who elected to participate in the health insurance program. For one employee tested, the employer's health insurance contribution was incorrectly included as gross income. As a result, the SHDHD withheld more Federal, State, and FICA taxes than required. For the one pay period tested, the additional amounts withheld were as follows: Federal Income Tax – \$51; State Income Tax – \$16; Social Security – \$14; and Medicare – \$3.

Issue	Description
Incorrect Allocation of Pay	The SHDHD uses a field in its accounting system, called a “Class,” to record transactions based on the funding source. For example, there are Classes for Federal, State, or local funding sources. The use of this field allows the SHDHD to report appropriately the receipts and disbursements for each funding source. Payroll costs are allocated to the various funding sources using the actual time worked on each funding source documented on the employees’ timesheets. For one employee tested, the amount allocated to each funding source was incorrect. When this salaried employee worked more than 40 hours per week, the SHDHD reduced only one State funding source (LB 692 (2001)) by any hours worked in excess of 40 for the allocation of leave pay, taxes, and retirement. As a result, this funding source was undercharged, and other funding sources, including Federal funds, were overcharged. For the paycheck tested, the effect of this error is as follows for each class: LB692 (2001) – \$(251); LB 1060 (2006) – \$195; Making Connections – \$12; and Whole School, Whole Child, Whole Community Local Coordination – \$28.
Payroll Expenses Not Coded to a Class	For three of the four employees tested, the SHDHD failed to record properly the employer’s share of FICA taxes, totaling \$51, to a Class or funding source in the accounting system. For certain employees who opt out of the SHDHD health insurance plan, a cash-in-lieu benefit of \$234 per pay period is provided. Two of the four employees tested received this benefit amount. The APA noted that one of these payments of the cash-in-lieu was not properly coded to a Class in the accounting system for the period tested.
Payroll Deduction Support	For one employee tested, the SHDHD did not have adequate documentation to support the authorization of a Health Savings Account deduction of \$180 per paycheck.
Timesheet Approval	The Board failed to approve the Director’s timesheet.

IRS Publication 15-B (2018) provides the exclusion rules that apply to fringe benefits and states that the employer’s contribution to the cost of accident or health insurance is not subject to Federal income tax withholding, social security, or Medicare.

Federal regulations govern the charges to Federal awards for salary and wage amounts. Specifically, 45 CFR § 75.430(i)(1) (October 1, 2018) states, in relevant part, the following:

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. The records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

* * * *

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . . ;

* * * *

(vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity

Good internal control requires procedures to ensure the employees’ gross pay agrees to authorized amounts, adequate documentation is maintained to support all deductions from pay, personnel costs, including fringe benefits, are properly allocated to each funding source using actual time worked, and all time worked is properly approved by a supervisor.

Without such procedures, there is an increased risk of incorrect deductions and withholdings being incorrectly withheld, payroll being incorrectly allocated to each funding source, and SHDHD funds being lost or misused.

We recommend the SHDHD implement procedures to ensure the following:

- Gross pay of employees agrees to the amount authorized by the Board;
- Payroll costs are accurately allocated to their various funding sources based on actual time worked;
- Payroll withholdings and deductions from employees' pay are accurate; and
- The Director's time worked is approved by a Board member.

SHDHD's Response: Our payroll deductions were reviewed and corrected for the payroll date as of 8/16/2019. The \$234 stipend for eligible employees who participate in the insurance plan is now correctly identified as employer paid health insurance rather than as gross income.

The Executive Director's time sheets will be reviewed by a board member beginning with the 2019-2020 fiscal year. Leave time for the Executive Director will also be allocated based on actual hours worked.

We are working to correct the error in QuickBooks to code payroll expenses to their appropriate class.

All Employees with a health savings account signed a deduction authorization beginning in January of 2019 and will continue to do so annually at the beginning of each calendar year.

3. Other Internal Control Issues

The APA determined that the SHDHD also lacked adequate internal controls in the following areas:

Issue	Description
Board Monitoring	The SHDHD Board of Health failed to review and approve payroll and vendor disbursements.
Receipts	The SHDHD lacked an adequate segregation of duties over receipts, as one individual was responsible for processing receipts, preparing the deposits to the bank, and reconciling the bank account to the accounting system.
Inadequate Supporting Documentation for Disbursements	During testing, we noted that 4 of 14 disbursements tested lacked adequate supporting documentation, as follows: <ul style="list-style-type: none">• The SHDHD failed to obtain a contract or written agreement documenting information technology services. The disbursement tested was for \$2,055;• The SHDHD failed to obtain documentation that designated when purchased radio ads aired. The SHDHD purchased 285 radio ads during the month of September 2018 for \$1,080;• Two trips by an employee lacked documentation to support the purpose of the travel. The total amount of mileage reimbursed for these two trips was \$109; and• One meal receipt for \$9 was not itemized.

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and to provide reliable financial records. A system of internal control should include a proper segregation of duties, so no one individual is capable of handling all phases of a transaction from beginning to end. When adequate segregation of duties is not possible due to the limited staff size, the governing Board should provide additional monitoring procedures. Good internal control also requires procedures to ensure adequate records support disbursements.

Without adequate internal control procedures, there is an increased risk for the loss or misuse of SHDHD's funds.

We recommend the SHDHD implement proper internal controls to ensure the following:

- The Board appropriately reviews and approves the payroll and vendor payments;
- A proper segregation of duties over the receipt process exists. For example, the daily receipt listing should be compared to the bank deposit by a separate individual to ensure all monies received were deposited. Additionally, the SHDHD should consider having the bank deposit made by someone other than the individual responsible for making the accounting entries and the bank reconciliation; and
- Adequate supporting documentation is maintained to support all disbursements.

SHDHD's Response: Beginning 9/1/2019, the Board of Health is reviewing all payroll and vendor disbursements for the previous two months at each bi-monthly meeting. A board member will then sign off on those disbursements.

With an organization as small as ours, segregation of duties can be a difficult task. We will review our current procedures and determine which staff may be able to assist in these areas.

Through the audit process, SHDHD has learned what adequate documentation standards are for revenues, expenses and journal entries. Procedures will be put in place to ensure that adequate documentation is maintained to support these transactions.

* * * * *

It should be noted this report is critical in nature, as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the SHDHD.

Draft copies of this report were furnished to the SHDHD 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 report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

This report is intended solely for the information and use of the SHDHD, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in blue ink that reads "Craig Kubicek".

Craig Kubicek, CPA, CFE
Assistant Deputy Auditor