

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

JULY 1, 2019, THROUGH JUNE 30, 2020

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the Auditor of Public Accounts.**

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Issued on August 31, 2020

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

Name	Title
Charles Neumann	Adams County – Secretary/Treasurer
Barbara Harrington	Adams County
Donna Fegler-Daiss	Adams County
Sandra Nejezchleb	Clay County
Nanette Shackelford	Clay County – President
Dick Shaw	Clay County
James Keifer	Nuckolls County
Peggy Meyer	Nuckolls County
Jean Stichka	Nuckolls County
Mirya Hallock	Webster County
Torey Kohmetscher	Webster County
TJ Vance	Webster County
Michael Kleppinger, DDS	Professional Representative
Daniel Brailita, MD	Professional Representative
Lindsay Waechter-Mead, DVM	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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

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, 2020, 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, 2020, 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.

Report on 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 4-6 and 15, 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 August 27, 2020 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.



August 27, 2020

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

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, 2020. 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 increased from \$11,662 to \$79,585, an increase of \$67,923.

	FY 2020	FY 2019
Cash and Cash Equivalents	<u>\$ 79,585</u>	<u>\$ 11,662</u>
Total Assets	<u>\$ 79,585</u>	<u>\$ 11,662</u>
Net Position		
Unrestricted	<u>\$ 79,585</u>	<u>\$ 11,662</u>

Receipts and Disbursements

For the fiscal year ended June 30, 2020, the SHDHD’s total receipts were \$926,727. The SHDHD’s total disbursements were \$858,804, a net change of \$67,923.

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)

	FY 2020	FY 2019
RECEIPTS		
Federal Grants	\$ 590,671	\$ 284,186
State Revenue – LB 692	183,330	183,330
State Revenue – LB 1060	105,458	105,458
State Revenue – LB 657	11,112	11,112
State and Local Grants	29,119	79,320
Charges for Services	224	964
Donations	6,786	6,548
Interest Income	27	67
Miscellaneous	-	227
Total Receipts	926,727	671,212
 DISBURSEMENTS		
Current		
Personnel	621,679	544,077
Operating	174,537	137,798
Supplies	46,109	23,747
Travel	16,479	12,866
Total Disbursements	858,804	718,488
Excess (Deficiency) of Receipts over Disbursements	\$ 67,923	\$ (47,276)

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.
- 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.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

- 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 2019-2020, the SHDHD received \$299,900 from the State of Nebraska to support public health activities. In 2018-2019, the SHDHD received \$299,900 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 2019-2020 was set at \$1,045,234.

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 2019-2020 fiscal year, the SHDHD did not spend over the budget of \$1.04 million that was published on August 28, 2019, to the Hastings Tribune (Hastings). During the 2018-2019 fiscal year, the SHDHD did not spend over the budget of \$1.02 million that was published on September 5, 2018, 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.

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, 2020

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 79,585
Total Assets	<u>\$ 79,585</u>
NET POSITION:	
Unrestricted	\$ 79,585
Total Net Position	<u>\$ 79,585</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, 2020

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements)/ Receipt and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary Government:					
Governmental Activities:					
Health & Social Services	\$ 858,804	\$ 224	\$ 619,790	\$ -	\$ (238,790)
Total Governmental Activities	<u>\$ 858,804</u>	<u>\$ 224</u>	<u>\$ 619,790</u>	<u>\$ -</u>	<u>\$ (238,790)</u>
General Receipts:					
					183,330
					105,458
					11,112
					6,786
					27
					<u>306,713</u>
					67,923
					11,662
					<u>\$ 79,585</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, 2020

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 79,585</u>
TOTAL ASSETS	<u><u>\$ 79,585</u></u>
FUND BALANCE	
Unassigned	<u>\$ 79,585</u>
Total Fund Balance	<u><u>\$ 79,585</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, 2020

	<u>General Fund</u>
RECEIPTS	
Federal Grants	\$ 590,671
State Revenue - LB 692	183,330
State Revenue - LB 1060	105,458
State Revenue - LB 657	11,112
State and Local Grants	29,119
Charges for Services	224
Donations	6,786
Interest Income	27
Total Receipts	926,727
DISBURSEMENTS	
Current:	
Personnel	621,679
Operating	174,537
Supplies	46,109
Travel	16,479
Total Disbursements	858,804
Excess of Disbursements Over Receipts	67,923
Cash Basis Fund Balance - Beginning	11,662
Cash Basis Fund Balance - Ending	\$ 79,585

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, 2020

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.

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, and Interest Income.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

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.

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.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Concluded)

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.

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, 2020, all of the SHDHD’s deposits with financial institutions were fully insured.

The book balance of the SHDHD’s accounts, at June 30, 2020, consisted of the following:

Checking	\$ 74,718
Money Market	4,867
	\$ 79,585

The bank balances of all funds totaled \$106,915.

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, 2020, the SHDHD received \$272,000. The interest rate on the outstanding principal balance is 4%. The SHDHD paid off the line of credit during the fiscal year. The following represents the short-term debt activity for the year ended June 30, 2020 (all activity throughout the year):

Description	Beginning Balance	Draws	Repayments	Ending Balance
Line of Credit	\$ -	\$ 272,000	\$ 272,000	\$ -

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Concluded)

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, Supp. 2019) 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 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, 2020, 11 employees contributed \$22,147, and the SHDHD contributed \$33,220.

5. Related Party Transactions

The SHDHD has certain 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 is 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, 2020, Mary Lanning Healthcare paid the SHDHD \$3,916. In addition, the SHDHD paid Mary Lanning Healthcare \$3,217.

6. Coronavirus Emergency Funding

In March 2020, the Legislature approved an \$83.6 million appropriation from the Governor’s Emergency Cash Fund to aid in carrying out the goals of the Governor’s Emergency Program related to the COVID-19 pandemic. From April to June 2020, the State provided \$6.8 million in funding to local health departments. The SHDHD received and spent the following amounts during fiscal year 2020:

COVID-19 Receipts/Disbursements (March - June 2020)			
Description	Receipts	Disbursements	Difference
Staffing/Personnel	\$ 209,823.48	\$ 170,670.75	\$ 39,152.73
Supplies	\$ 42,660.00	\$ 37,999.53	\$ 4,660.47
Services	\$ 9,650.00	\$ 8,415.50	\$ 1,234.50
Totals	\$ 262,133.48	\$ 217,085.78	\$ 45,047.70

Note: The receipts included above do not include the \$7,415 for indirect costs.

Subsequent to June 30, the State made a journal entry to record the local health department emergency funding to the Federal CARES Act, making these Federal funds.

7. Subsequent Events

The SHDHD has evaluated subsequent events from the balance sheet date through August 27, 2020, the date at which the financial statements were available to be issued. The APA noted that the SHDHD received another infusion of COVID-19 funding – \$152,138.47 for direct costs and \$9,553.16 for indirect costs.

**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, 2020

	<u>Budget</u> <u>(Original & Final)</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable/</u> <u>(Unfavorable)</u>
RECEIPTS			
Federal Grants	\$ 431,971	\$ 590,671	\$ 158,700
State Revenue LB - 692	181,739	183,330	1,591
State Revenue LB - 1060	105,458	105,458	-
State Revenue LB - 657	11,112	11,112	-
State & Local Grants	314,954	36,156	(278,798)
Total Receipts	1,045,234	926,727	(118,507)
 DISBURSEMENTS			
Personnel	537,204	621,679	(84,475)
Operating	187,067	174,537	12,530
Supplies	33,303	46,109	(12,806)
Travel	37,660	16,479	21,181
Unsecured Grants	250,000	-	250,000
Total Disbursements	1,045,234	858,804	186,430
Deficiency of Receipts Over Disbursements		67,923	
Fund Balance, Beginning of Year		11,662	
Fund Balance, End of Year		\$ 79,585	

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, 2020

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

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
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, 2020, and the related notes to the financial statements, which collectively comprise the SHDHD's basic financial statements, and have issued our report thereon dated August 27, 2020. 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 Number 2, 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.



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

August 27, 2020



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

August 27, 2020

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, 2020, and have issued our report thereon dated August 27, 2020. 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

Similar to the prior audit, 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 they were adjusted by the SHDHD:

Original Financial Statement Account	Adjusted Financial Statement Account	Amount	APA Notes
State and Local Grants Receipts	Federal Grants Receipts	\$ 269,549	The SHDHD recorded its COVID-19 receipts as State and Local Grant receipts, as the funds were initially paid using the Governor's Emergency Cash Funds. However, after the end of the fiscal year, the State made a journal entry to record those funds to the Federal CARES act funds. Therefore, the COVID-19 funds should be classified as Federal funds.
State and Local Grants Receipts	Federal Grants Receipts	\$ 12,153	The SHDHD also incorrectly recorded a number of other receipts to State and Local Grants that were actually Federal grants. These included grants for the Central States Center for Agricultural Safety and Health, Building Healthy Families, Community Health Workers, and the Whole School, Whole Community, Whole Child funds. A similar issue was noted in the prior audit.
Federal Grant Receipts	State and Local Grants Receipts	\$ 5,172	Two receipts from the State of Nebraska were from State funds, but they were recorded in the SHDHD's accounting system as Federal Grants receipts. These grants are a mix of Federal and State funding and include the Every Woman Matters and Walkable Communities grants. A similar issue was noted in the prior audit.

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.

Good internal control requires procedures to ensure that receipts and disbursements are recorded properly 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.

This was a finding in the prior audit.

We recommend the SHDHD implement procedures to ensure that receipts and disbursements are recorded properly 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.

SHDHD Response:

Issue 1 – \$269,549 adjustment: South Heartland District Health Department was unaware of the journal entry made by the state switching the source of the funds from state to federal. Numerous requests were made by Dr. Bever and other health department directors to the state for clarification of the funding source. The state was not able to provide an answer to those requests. SHDHD will continue to work with DHHS and DAS to ensure that the department understands the source of funds being provided to us so we can ensure proper coding within our accounting system.

Issues 2 and 3: South Heartland District Health Department will continue to work with DHHS and DAS to gain a full understanding of the funding sources behind the grants and subawards provided to us. This will ensure proper coding within our accounting system.

2. Internal Control Issues

The SHDHD lacked adequate internal controls over various aspects of its accounting processes. The APA noted the following control issues:

Issue	Description
Payroll Deduction Support	One of three employees tested lacked documentation to support a \$150 contribution to her Health Savings Account. The form on file indicated the deduction was to be \$134. One of three employees tested lacked documentation to indicate she had opted out of the health insurance program to support the cash in lieu amount received. This was a prior audit finding.
Lack of Board President Approval Prior to Disbursement of Funds	Nebraska statute does not allow the disbursement of funds prior to the approval of vouchers by the Director and the President of the Board. The SHDHD made payments prior to Board President approval.
Improper Grant Charges	<p>The SHDHD claimed \$368.49 more than the expenses incurred for the Lead Surveillance program for the period October 1, 2019, to January 3, 2020. The total direct and indirect costs were \$4,851.77; however, the SHDHD claimed and was reimbursed \$5,220.26</p> <p>The SHDHD inappropriately included \$136.75 in previously claimed indirect costs in its February 2020 reimbursement request related to the 2019-2020 Health Resources and Services Administration (HRSA) grant.</p> <p>The SHDHD charged a \$467.03 airline ticket to the same HRSA grant. However, the trip was canceled. The airline gave the SHDHD a credit for the ticket. Because the cost was not specifically incurred for the HRSA grant, the ticket should not have been charged to the grant.</p>

Issue	Description
Incorrect Journal Entry Amount	The SHDHD made an error on a journal entry to move costs to its indirect cost pool. The indirect costs for LB 692 (2001) funds were calculated to be \$13,975.79, but the journal entry moved only \$13,795.79 to the indirect cost pool, which is a difference of \$180.
No Meal Reimbursement Policy	The SHDHD lacked a written employee expense reimbursement policy. IRS guidance requires an accountable plan so that the reimbursements are not taxable income to the employee.
Segregation of Duties over Receipts	The SHDHD lacked an adequate segregation of duties over its receipt processing, as two individuals were authorized to process the transactions in the accounting system, which does not allow for a proper segregation of duties. This was a prior finding.

Neb. Rev. Stat. § 71-1634(1) (Reissue 2018) states the following:

No funds shall be disbursed except upon vouchers approved by the director of health and the president of the board of health of a county or district health department. In the absence of the health director, the president and the vice president or, in his or her absence, the secretary are authorized to approve such vouchers before any funds are disbursed. In the absence of the president, the health director and the vice president or, in his or her absence, the secretary are authorized to approve such vouchers before any funds are disbursed. In the absence of both president and health director, the vice president and the secretary are authorized to approve such vouchers before any funds are disbursed.

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. Good internal control also requires procedures to ensure deductions from pay are adequately supported, reimbursements from grants are adequately supported by actual expenses incurred, and accounting entries are accurate.

Without adequate internal control procedures, there is an increased risk for the loss or misuse of SHDHD’s funds and an increased risk that grant funding requests could be inaccurate and overstated.

We recommend the SHDHD implement procedures to ensure the following:

- Payroll deductions from employees’ pay are adequately supported and accurate;
- The Board President approves all voucher prior to the disbursement of funds;
- All grant funding requests are adequately reviewed to ensure the charges claimed for reimbursement are allowable and supported;
- Journal entries and other transactions in the accounting system are reviewed properly to ensure their accuracy;
- A formally approved employee expense reimbursement policy is implemented; and
- 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 receipted 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.

SHDHD Response:

Payroll Deduction Support: South Heartland District Health Department does have employees sign a contribution form for their HSA contributions annually, however, we failed to have an employee sign a new form for a final catch-up to meet their annual maximum allowable contribution limit. Any changes in contributions will now require the employee to sign a new contribution form.

As our insurance company did not require any documentation from employees choosing not to enroll in health, vision or dental plans, we did not have documented declinations of coverage. Going forward, at open enrollment, SHDHD will have all employees complete the declination of coverage portion of the insurance applications to have as a record in their employment file.

Improper Grant Charges: The overcharge to the Lead Surveillance grant was due to a clerical error when completing the invoice. SHDHD is still working within that grant and will make a correction to the final invoice to rectify this error.

The \$136.75 error was caught by SHDHD prior to the audit and was corrected on the March 2020 HRSA report and reimbursement request.

SHDHD was unsure as to how to rectify the airline ticket charge prior to the audit. The department will take the recommendation of the State Auditor's office to correct these types of issues by creating a journal entry to move funds from an appropriate source back to the grant as the service for the charge was never provided.

Incorrect Journal Entry Amount: This was a transposition error made by the department. A review process is already in place and the department will continue to follow that process and review transactions more closely to ensure accuracy.

No Meal Reimbursement Policy: South Heartland District Health Department currently has a Quality Improvement/Performance Management initiative to review and revise all existing policies and fill in any policy gaps that exist. The department has noted this deficiency and will create Meal Reimbursement Policy to include in our employee handbook

Segregation of Duties over Receipts: South Heartland District Health Department is aware of this deficiency. However, due to the small staff size of the department, having proper dual-control and other separation of duty protocols in place remains a difficult task for us. We will continue to evaluate our abilities to make changes to this process.

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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,



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor