



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 29, 2021

Lavon Olson, Chairperson
Alma Rural Fire District
P.O. Box 680
Alma, NE 68920

Dear Chairperson Olson:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Alma Rural Fire District (District) for the fiscal year ending 2021. **That request has been approved.**

While performing, pursuant to Neb. Rev. Stat. § 84-304 (2021 Neb. Laws, LB 528, § 51), the preliminary examination necessary to determine whether further audit work would be required or the audit waiver should be allowed, the APA noted certain internal control or compliance matters, or other operational issues, within the District.

The following information is intended to improve internal controls or result in other operational efficiencies.

Comments and Recommendations

1. Brokerage Account Investments

The APA obtained the monthly statements for the District's bank and investment accounts from its fiscal year 2021 audit waiver request. From those statements, the APA noted two brokerage accounts, with a combined balance of \$84,708 as of June 30, 2021, held at Stone Wealth Management. Because these accounts include stock ownership in multiple private corporations, the District's investments therein appear to conflict with the following constitutional and statutory provisions.

To start, Article XI, § 1, of the Nebraska State Constitution provides, in relevant part, the following:

No city, county, town, precinct, municipality, or other subdivision of the state shall ever become a subscriber to the capital stock, or owner of such stock, or any portion or interest therein of any railroad, or private corporation, or association

Furthermore, Neb. Rev. Stat. § 77-2341(1) (Reissue 2018) reads as follows:

Whenever any county, city, village, or other governmental subdivision, other than a school district, of the State of Nebraska has accumulated a surplus of any fund in excess of its current needs or has accumulated a sinking fund for the payment of its bonds and the money in such sinking fund exceeds the amount necessary to pay the principal and interest of any such bonds which become due during the current year, the governing body of such county, city, village, or other governmental subdivision may invest any such surplus in excess of current needs or such excess in its sinking fund in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made. The state investment officer shall upon request furnish a copy of current authorized investment guidelines of the Nebraska Investment Council.

The Nebraska Attorney General has stated, in an Attorney General opinion, the following regarding investments held by political subdivisions:

Section 77-2341 allows state political subdivisions to invest securities which the Nebraska Investment Council's investment guidelines authorize. The Investment Council's guidelines authorize direct investment in U.S. Government obligations

* * * *

The Constitution's language [Article XI, § 1] certainly prohibits a county from investing in a mutual fund when the portfolio includes stock, but it does not specifically address the issue of mutual funds solely comprise of U.S. Government obligations.

Op. Att'y Gen. No. 95041 (May 15, 1995). Though addressing county hospital investments, the opinion's reference to Article XI, § 1, is applicable also to other political subdivisions, including Districts.

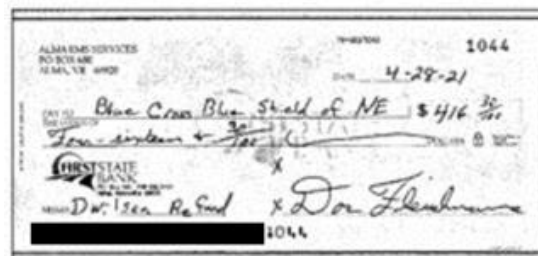
The Nebraska Investment Council does not have a policy or any other guidelines that outline the types of investments political subdivisions are allowed to invest in. As a result, political subdivisions would be restricted to investments strictly permitted by Nebraska law.

Good internal controls require procedures to ensure that District funds are not invested in stocks but held instead in accounts or assets permitted by law. Without such procedures, there is an increased risk of not only failure to comply with applicable constitutional and statutory provisions but also loss of District funds due to decreases in stock values.

We recommend the implementation of procedures to ensure all balances held by the District are in accounts or assets permitted by Nebraska law.

2. Lack of Dual Signatures

The APA obtained the monthly statements for the District's bank accounts from its fiscal year 2021 audit waiver request. From those statements, the APA noted that all District checks written during the examination period contained only one signature. An example of such checks is shown below.



Check 1044, Amount \$416.30 On 5/5/2021

Nebraska law requires both the Secretary-Treasurer and the President of the District to sign all checks approved by the Board. In particular, Neb. Rev. Stat. § 35-511 (Reissue 2016) states that those checks “shall bear the signature of the secretary-treasurer and the countersignature of the president of such district.”

In addition, good internal controls and sound accounting practices require procedures to ensure that District checks contain the statutorily required endorsements.

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

A similar issue was identified by the APA in a prior review and was disclosed to the District in the APA’s letter dated November 2, 2020, which can be found on the APA’s website. However, it does not appear this issue was corrected after the APA’s notification.

We recommend the Board implement procedures to require dual signatures, from both the Secretary-Treasurer and the President, on all District checks, as required by law.

3. Scholarships

Our review of the bank statements obtained from the District’s audit waiver request revealed four payments, totaling \$1,000, that were written during the fiscal year for scholarships. The following table summarizes these payments.

Date	Check Number	Check Memo	Amount
11/09/20	1043	Scholarship 2020	\$ 250
7/15/20	2697	2020 Scholarship	\$ 250
7/15/20	2698	2020 Scholarship	\$ 250
09/05/20	2695	2020 Scholarship	\$ 250
		Total	\$ 1,000

The Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. § 13-2201 (Reissue 2012) et seq., specifies various expenditures, aside from those otherwise authorized by law, that constitute allowable uses of public funds by designated political subdivisions. The provisions of the Act are made applicable to Districts, among numerous other public entities, by both subsections (2) and (3) of Neb. Rev. Stat. § 13-2202 (Cum. Supp. 2020).

Neb. Rev. Stat. § 13-2203 (Cum. Supp. 2020) of the Act enumerates the miscellaneous expenditures permitted by governing bodies of local governments. Payments for scholarships are not found among that select statutory list of permissible expenditures. As a result, such disbursements must be considered disallowed by law.

On September 17, 1993, the Nebraska Accountability and Disclosure Commission adopted a document entitled “A Guideline to the Use of Public Funds by Cities and Villages – Revised” (Guideline). The Guideline addresses a number of different scenarios involving the expenditure of public funds. Though issued almost three decades ago, the Guideline remains relevant to various Nebraska public entities, including Districts.

Good internal control requires procedures to ensure compliance with the provisions of the Act.

Without such procedures, there is an increased risk for not only noncompliance with applicable statutory requirements but also loss or misuse of District funds.

We recommend the Board implement procedures to ensure all District purchases are allowable under State statute, including the provisions of the Act.

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The preliminary planning work that resulted in this letter was designed primarily on a test basis and, therefore, may not bring to light all existing weaknesses in the District’s policies or procedures. Nevertheless, our objective is to use the knowledge gained during the performance of that preliminary planning work to make comments and suggestions that we hope will prove useful to the District.

This communication is intended solely for the information and use of the District and its management. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions, please contact **Dakota Christensen** at **402-499-8702** or **dakota.christensen@nebraska.gov**.

Sincerely,

A handwritten signature in black ink that reads "Mark Avery". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Mark Avery, CPA
Assistant Deputy Auditor