

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

JULY 1, 2020, THROUGH JUNE 30, 2021

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the Auditor of Public Accounts.**

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Issued on October 12, 2021

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
Timothy Blecha, MD	Professional Representative
Lindsay Waechter-Mead, DVM	Professional Representative

South Heartland District Health Department Executive Management

Name	Title
Michele Bever, PhD, MPH	Executive Director
Kelly Derby, MBA	Finance and 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, 2021, and the related notes to the financial statements, which collectively comprise the SHDHD's basic financial statements, 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, 2021, 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's Discussion and Analysis, the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund, and the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, on pages 4-6, 16, and 18, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Management's Discussion and Analysis, 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.

The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021 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, and 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* in considering the SHDHD's internal control over financial reporting and compliance.



October 7, 2021

Craig Kubicek, CPA, CFE
Deputy State 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, 2021. 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) Supplementary Information.

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 \$79,585 to \$73,561, a decrease of \$6,024.

	<u>FY 2021</u>	<u>FY 2020</u>
Cash and Cash Equivalents	<u>\$ 73,561</u>	<u>\$ 79,585</u>
Total Assets	<u>\$ 73,561</u>	<u>\$ 79,585</u>
Net Position		
Unrestricted	<u>\$ 73,561</u>	<u>\$ 79,585</u>

Receipts and Disbursements

For the fiscal year ended June 30, 2021, the SHDHD’s total receipts were \$1,346,918. The SHDHD’s total disbursements were \$1,352,942, a net change of \$6,024.

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 2021	FY 2020
RECEIPTS		
Federal Grants	\$ 751,481	\$ 590,671
State Revenue – LB 692	183,330	183,330
State Revenue – LB 1060	105,458	105,458
State Revenue – LB 1008 COVID	105,263	-
State Revenue – LB 1008 General	83,334	-
State Revenue – LB 1198	49,584	-
State Revenue – LB 657	11,111	11,112
State and Local Grants	44,728	29,119
Charges for Services	546	224
Donations	11,247	6,786
Interest Income	61	27
Miscellaneous	775	-
Total Receipts	1,346,918	926,727
 DISBURSEMENTS		
Current		
Personnel	952,433	621,679
Operating	337,893	174,537
Supplies	57,486	46,109
Travel	5,130	16,479
Total Disbursements	1,352,942	858,804
Excess (Deficiency) of Receipts over Disbursements	\$ (6,024)	\$ 67,923

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

(Continued)

- 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.
- LB 1008 (2020) – Appropriated \$2 million for public health departments for Covid-19 related expenses. This amount was split between 19 health departments, providing \$105,263 to each. Also provided \$1.5 million to local health departments for critical health services aid to be distributed equally among 18 public health departments, providing \$83,333 to each.
- LB 1198 (2020) – This is funding related to aid in carrying out the goals of the Governor's emergency program related to Covid-19. The Legislature transferred \$83,619,600 to the Governor's emergency cash fund for this purpose. The SHDHD was advised to use this funding for the indirect costs related to their Federal Coronavirus Relief Funding (CRF) as indirect costs were not allowed to be charged to Federal funds.

In 2020-2021, the SHDHD received \$299,899 from the State of Nebraska to support public health activities. In 2019-2020, the SHDHD received \$299,900 from the State of Nebraska to support public health activities. Additionally, the SHDHD received \$238,181 from the State of Nebraska to support expenses related to the on-going Covid-19 pandemic.

General Fund Budgetary Highlights

The SHDHD's proposed budget for the operation of the SHDHD for 2020-2021 was set at \$1,579,357.

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 2020-2021 fiscal year, the SHDHD did not spend over the budget of \$1.58 million that was published on August 26, 2020, to the Hastings Tribune, among various other publications. 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, in the Hastings Tribune.

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, 2021

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 73,561</u>
Total Assets	<u><u>\$ 73,561</u></u>
NET POSITION:	
Unrestricted	<u>\$ 73,561</u>
Total Net Position	<u><u>\$ 73,561</u></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, 2021

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements)/ Receipt and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Health & Social Services	\$ 1,352,942	\$ 546	\$ 796,209	\$ (556,187)
Total Governmental Activities	<u>\$ 1,352,942</u>	<u>\$ 546</u>	<u>\$ 796,209</u>	<u>\$ (556,187)</u>
General Receipts:				
				105,263
				83,334
				183,330
				105,458
				49,584
				11,111
				11,247
				61
				775
			Total General Receipts	<u>550,163</u>
			Change in Net Position	(6,024)
			Net Position - Beginning of year	<u>79,585</u>
			Net Position - End of year	<u><u>\$ 73,561</u></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, 2021

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 73,561
TOTAL ASSETS	\$ 73,561
FUND BALANCE	
Unassigned	\$ 73,561
Total Fund Balance	\$ 73,561

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, 2021

	General Fund
RECEIPTS	
Federal Grants	\$ 751,481
State and Local Grants	44,728
State Revenue - LB 1008 COVID	105,263
State Revenue - LB 1008 General	83,334
State Revenue - LB 692	183,330
State Revenue - LB 1060	105,458
State Revenue - LB 1198	49,584
State Revenue - LB 657	11,111
Charges for Services	546
Donations	11,247
Interest Income	61
Miscellaneous	775
Total Receipts	1,346,918
 DISBURSEMENTS	
Current:	
Personnel	952,433
Operating	337,893
Program Expenses	57,486
Travel	5,130
Total Disbursements	1,352,942
Excess of Disbursements Over Receipts	(6,024)
Cash Basis Fund Balance - Beginning	79,585
Cash Basis Fund Balance - Ending	\$ 73,561

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, 2021

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 utilized in the accounting system 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 joint governmental entity formed pursuant to the Interlocal Cooperation Act, the SHDHD is exempt from sales and use taxes.

The financial statements include all funds of the SHDHD that are not legally separate. The SHDHD has also considered all potential component units for which it is financially accountable, as well as other organizations that are either fiscally dependent on the SHDHD or maintain a significant relationship with the SHDHD, such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the SHDHD to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the SHDHD. The SHDHD is also considered financially accountable if an organization is fiscally dependent on and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the SHDHD regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

As required by Generally Accepted Accounting Principles (GAAP), these financial statements present the SHDHD (the primary government). No component units were identified.

B. Basis of Presentation

Government-Wide Financial Statements. The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis 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 – Cash Basis 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 – Cash Basis 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 1008 Covid (2020), LB 1008 General (2020), LB 692 (2001), LB 1060 (2006), LB 1198 (2020), and LB 657 (2015)), Donations, Interest Income, and Miscellaneous.

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 accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the SHDHD are maintained and the government-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis. Receipts are recognized when received, and disbursements are recognized when warrants are paid. This differs from governmental GAAP, which requires the government-wide and fiduciary fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recorded when earned, and disbursements are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used, as described above. This differs from governmental GAAP, which requires governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recognized as soon as they are both measurable and available. Receipts are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Disbursements are generally recorded when a liability is incurred, as under accrual accounting. However, disbursements related to compensated absences claims, and judgments are recorded only when payment is due.

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.

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, 2021, all of the SHDHD's deposits with financial institutions were fully insured.

The book balance of the SHDHD's accounts, at June 30, 2021, consisted of the following:

Checking	\$	68,811
Money Market		4,682
Cash on Hand		68
		<hr/>
	\$	73,561

The bank balances of all funds totaled \$103,565.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Concluded)

3. **Retirement Plan (Plan)**

The SHDHD contributes to a multiple-employer plan (Plan) administered by the Nebraska 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. 2020) 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.

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, 2021, 16 employees contributed \$28,990, and the SHDHD contributed \$43,485.

4. **Contingencies and Commitments**

The SHDHD is exposed to various risks of loss related to the following: 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 cover the risk of loss and believes adequate coverage exists for potential exposures.

There were no significant reductions in insurance coverage from the prior-year coverage, and the SHDHD did not incur any expenses that exceeded the coverage amount for the year ended June 30, 2021.

Short Term Debt

The SHDHD obtained a Promissory Note from Heritage Bank in the amount of \$100,000, which was dated January 12, 2021. The agreement expires on September 30, 2021. The line of credit was not used until after the end of the fiscal year, on July 22, 2021, when an \$8,000 disbursement was made to the SHDHD.

5. **Related Party Transactions**

The SHDHD has certain receipt and disbursement transactions with Mary Lanning Healthcare. The Director of SHDHD is also a member of the Board of Trustees for Mary Lanning Healthcare. One of Mary Lanning Healthcare's locations is a building that shares a wall with SHDHD's building, on the same campus with SHDHD, and for which SHDHD owns all of the parking lots and grounds outside of the footprint of the building occupied by Mary Lanning Healthcare. The two entities share the costs of maintenance of the grounds (e.g., lawn maintenance/snow removal) as well as trash service, and SHDHD contracts with Mary Lanning Healthcare for cleaning services. Mary Lanning Healthcare also provides support for projects/programmatic activities the SHDHD conducts. For the fiscal year ended June 30, 2021, Mary Lanning Healthcare paid the SHDHD \$2,174. In addition, the SHDHD paid Mary Lanning Healthcare \$35,229.

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

For the Fiscal Year Ended June 30, 2021

	Budget (Original & Final)	Actual	Variance Favorable/ (Unfavorable)
RECEIPTS			
Federal Grants	\$ 356,987	\$ 751,481	\$ 394,494
State Revenue LB - 1060	105,458	105,458	-
State Revenue LB - 657	11,111	11,111	-
State Revenue LB - 692	183,330	183,330	-
State Revenue LB - 1008 General	83,333	83,334	1
State Revenue LB - 1008 COVID	-	105,263	105,263
State Revenue LB - 1198 COVID Indirect	-	49,584	49,584
State & Local Grants	835,188	44,728	(790,460)
Charges for Service	1,400	546	(854)
Donations	2,500	11,247	8,747
Interest Income	50	61	11
Miscellaneous	-	775	775
Total Receipts	1,579,357	1,346,918	(232,439)
DISBURSEMENTS			
Personnel	596,841	952,433	(355,592)
Operating	173,108	337,893	(164,785)
Program Expenses	33,844	57,486	(23,642)
Travel	25,053	5,130	19,923
Unsecured Grants	750,000	-	750,000
Miscellaneous	511	-	511
Total Disbursements	1,579,357	1,352,942	226,415
Deficiency of Receipts Over Disbursements		(6,024)	
Fund Balance, Beginning of Year		79,585	
Fund Balance, End of Year		\$ 73,561	

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, 2021

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.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Environmental Protection Agency, U.S			
Nebraska Department of Health and Human Services			
State Indoor Radon Program	66.032	20K100739928/ 21K100739928	\$ 494
Total U.S. Environmental Protection Agency			<u>494</u>
Health and Human Services, U.S. Department of			
Rural Health Network Development Planning Grant Program	93.912		2,221
Nebraska Department of Health and Human Services			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)			
Aligned Cooperative Agreements Cluster:			
Public Health Emergency Preparedness	93.069	19NU90TP9220391PHEP	84,525
Injury Prevention and Control Research and State and Community Based Programs	93.136	19NU17CE924983OPCE	10,427
Childhood Lead Poisoning Prevention Projects	93.197	17NUE2EH001364 19NH23IP922589/ 19NH23IP922589C3	1,931
Nebraska Immunization & Vaccines for Children Programs	93.268	19NH23IP922589C3	113,611
Enhanced Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	19NU50CK000547C4	24,225
WISEWOMAN	93.436	18NU58DP006645	1,555
Cooperative Agreement for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.898	17NU58DP006278 19NB01OT009288B/ 20NB01OT009344B	1,329
Preventive Health and Health Services Block Grant	93.991	20NB01OT009344B	23,578
Title V MCH Block Grant	93.994	20B04MC33851	28,700
University of Nebraska Medical Center			
Central States Center for Agricultural Safety and Health	93.262	5U54OH010162-09-00	3,520
Total U.S. Department of Health and Human Services			<u>295,622</u>
Treasury, Department of			
Military Department			
Coronavirus Relief Fund	* 21.019		584,889
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 881,005</u></u>

* Represents Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2021

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the South Heartland District Health Department (SHDHD) under programs of the Federal government for the year ended June 30, 2021, except as noted in Note 2 below. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the SHDHD, it is not intended to and does not present the financial position, changes, or net assets of the SHDHD. The SHDHD's reporting entity is defined in Note 1.A. to the SHDHD's financial statements. Federal awards received directly from Federal agencies, as well as those passed through other government agencies, are included in the Schedule. Unless otherwise noted on the Schedule, all programs are received directly from the respective Federal agency.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The SHDHD has elected to use the 10 percent de minimis indirect cost rate, as allowed under Uniform Guidance, where applicable.

Fixed-Price Contracts – Certain Federal awards programs are reimbursed based on a fixed price for a service and not the actual expenditure made by the SHDHD. Under these circumstances, the amounts shown on the Schedule represent the amount of assistance received from the Federal government, not the amount expended by the SHDHD.

3. Coronavirus Relief Fund

The purpose of the Coronavirus Relief Fund (Fund) is described in the Federal Office of Management and Budget (OMB) 2021 Compliance Supplement, as follows:

The purpose of the Fund is to provide direct payments to State, territorial, tribal, and certain eligible local governments to cover:

- 1. Necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19);*
- 2. Costs that were not accounted for in the government's most recently approved budget as of March 27, 2020; and*
- 3. Costs that were incurred during the period that begins on March 1, 2020; and ends on December 31, 2021.*

The Schedule of Expenditures of Federal Awards reports expenditures of \$584,889 for this program, all of which were incurred in the fiscal year ending June 30, 2021.



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

**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***

INDEPENDENT AUDITOR'S REPORT

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, 2021, and the related notes to the financial statements, which collectively comprise the SHDHD's basic financial statements, and have issued our report thereon dated October 7, 2021. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiency in internal control, Comment and Recommendation Number 1, Internal Control Issues, to be a significant deficiency.

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*.

Additional Items

We also noted certain matters that we reported to the management of the SHDHD in a separate letter dated October 7, 2021.

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.



October 7, 2021

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



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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

South Heartland District Health Department
Hastings, Nebraska

Report on Compliance for Each Major Federal Program

We have audited the South Heartland District Health Department's (SHDHD) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the SHDHD's major Federal program for the year ended June 30, 2021. The SHDHD's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the SHDHD's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the SHDHD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the SHDHD's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the SHDHD complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the SHDHD is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the SHDHD's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the SHDHD's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the SHDHD as of and for the year ended June 30, 2021, and have issued our report thereon dated October 7, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise the basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis, as required by the Uniform Guidance, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole. The report notes the financial statements were prepared on the basis of cash receipts and disbursements.



October 7, 2021

Craig Kubicek, CPA CFE
Deputy State Auditor
Lincoln, Nebraska

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with cash basis of accounting:

Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes None Reported

Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes None Reported

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes None Reported

Significant deficiencies identified? Yes None Reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Major programs: **Coronavirus Relief Fund (CRF): CFDA #21.019**

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee? Yes No

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

Section II – Financial Statement Findings

Finding # 2021-1

- Condition - The SHDHD lacked adequate internal controls over a couple of its accounting process as follows: 1) Lack of Board President Approval Prior to Disbursement of Funds; 2) Segregation of Duties over Receipts; 3) Lack of Documentation; and 4) Expenses charged to more than one program. This is a similar finding from the prior audit.
- Criteria - Neb. Rev. Stat. § 71-1634(1) (Reissue 2018) requires the Board President, or Vice President in his or her absence, is required to approved vouchers before any funds are disbursed. Good internal control includes a plan of organization, procedures and records designed to safeguard assets and provide reliable financial records. A proper segregation of duties also includes a proper segregation of duties over financial processes.
- Context - Payroll and electronic payments have been approved after the disbursement of funds. One person can handle all phases of the receipt of funds without proper oversight. PPE storage was needed immediately and handled by someone unfamiliar with proper documentation requirements. Certain expenses charged to both local grant and federal grant.
- Effect - This lack of internal controls creates a risk for the loss or misuse of SHDHD funds.
- Cause - Failure to update processes after prior audit; employee oversight; improper coding.
- Recommendation - We recommend the SHDHD implement controls to ensure the approval of all vouchers by the Board President prior to payment, that an adequate segregation of duties over the receipts process exists, that proper documentation is on file to support all expenses, and to ensure expenses are charged only to one program.
- View of Officials - *The “certain payments” specified in the finding refer to the payroll of SHDHD, which is approved by the Board President at the bi-monthly Board meetings after payroll is disbursed. Going forward, for each bi-weekly payroll, SHDHD will email a payroll summary along with all paystubs to the Board president for her approval prior to submitting payroll to the bank for electronic funds transfer via ACH.*
- Going forward, funds received via mail or donation box will be recorded upon receipt, and if checks are involved, endorsed, by the Administrative Assistant, and locked in a file cabinet until the Finance Manager can record, on a timely basis, the receipt of funds into QuickBooks. The Finance Assistant will make the deposit at the bank. Once deposited, the Executive Director will review the amount receipted as compared to the amount deposited to ensure that they are the same.*
- The payment of \$35,975 specified in the finding, which lacked documentation in the form of a written agreement, accumulated over 10 months’ time from the start of the pandemic in March 2020. It was for PPE storage, which had to be obtained quickly, given the emergency at hand, and was originally expected to be temporary and minor in scope. The lack of an agreement was an oversight on the part of both parties involved, again, given the emergency. Excepting the uniqueness of the situation, lacking to obtain agreements is not a practice that SHDHD normally engages in. In fact, this is the only known occurrence of such an oversight during the last fiscal year.*

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Concluded)

Section III – Federal Award Findings and Questioned Costs

None Noted



Corrective Action Plan

Fiscal Year End June 30, 2021

The corrective action plan for the findings included in the Schedule of Findings and Questioned Costs are summarized as follows:

Finding 2021-1 Internal Control Issues

Corrective Action Planned:

1. Internal Control Issues

Lack of Board President Approval Prior to Disbursement of Funds

The "certain payments" specified in the finding refer to the payroll of SHDHD, which is approved by the Board President at the bi-monthly Board meetings after payroll is disbursed. Going forward, for each bi-weekly payroll, SHDHD will email a payroll summary along with all paystubs to the Board president for her approval prior to submitting payroll to the bank for electronic funds transfer via ACH.

Segregation of Duties over Receipts

Going forward, funds received via mail or donation box will be recorded upon receipt, and if checks are involved, endorsed, by the Administrative Assistant, and locked in a file cabinet until the Finance Manager can record, on a timely basis, the receipt of funds into QuickBooks. The Finance Assistant will make the deposit at the bank. Once deposited, the Executive Director will review the amount receipted as compared to the amount deposited to ensure that they are the same.

Lack of Documentation

The payment of \$35,975 specified in the finding, which lacked documentation in the form of a written agreement, accumulated over 10 months' time from the start of the pandemic in March 2020. It was for PPE storage, which had to be obtained quickly, given the emergency at hand, and was originally expected to be temporary and minor in scope. The lack of an agreement was an oversight on the part of both parties involved, again, given the emergency. Excepting the uniqueness of the situation, lacking to obtain agreements is not a practice that SHDHD normally engages in. In fact, this is the only known occurrence of such an oversight during the last fiscal year.

Anticipated Completion Date:

We anticipate having all actions completed by the end of October 2021.

Contact:

Kelly Derby, Finance & Operations Manager, SHDHD





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

October 7, 2021

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, 2021, and have issued our report thereon dated October 7, 2021. 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. Internal Control Issues

The SHDHD lacked adequate internal controls over a couple of its accounting processes. The Auditor of Public Accounts (APA) noted the following control issues:

Issue	Description
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. Nevertheless, the SHDHD made certain payments prior to Board President approval.
Segregation of Duties over Receipts	The SHDHD lacked an adequate segregation of duties over its receipt processing. One individual recorded the receipt of funds using a receipt book. The funds were then provided to a second employee who recorded the receipt of the funds into the accounting system and made the deposit. An after-the-fact comparison of the receipt books to the bank statements was not completed to ensure all amounts received were deposited.
Lack of Documentation	The SHDHD failed to obtain a written rental agreement to support payments it made to the Adams County Agricultural Society. The APA tested a \$35,975 payment that consisted mostly of rental fees for the storage and distribution of personal protective equipment (PPE). The SHDHD payment included rent expense from March 2020 to December 2020.

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.

The APA also noted that the SHDHD charged \$3,223 in expenses to two of its programs. The table below shows the expenses that were charged to both the Sunnyside Nursing Home local project and the Maternal and Child Health Federal grant:

Bill Date	Vendor and Memo of Purchase	Amount
3/29/2021	Ruger's Rugrats Daycare - reimbursement for items purchased for MCH	\$ 2,029
3/29/2021	Hastings Family YMCA Preschool - reimbursement for MCH exercise equipment	98
4/19/2021	Flaghouse -S&H - MCH	151
4/19/2021	Flaghouse -CATCH Early Childhood kit	945
Total		\$ 3,223

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; adequate records to support expenses; and procedures to ensure program expenses are charged to only one program.

Without adequate internal control procedures, there is an increased risk for not only the loss or misuse of SHDHD funds but also grant funding requests being inaccurate and overstated.

We recommend the SHDHD implement procedures to ensure the following:

- The Board President approves all vouchers prior to the disbursement of funds;
- 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;
- Proper documentation is obtained to support expenses; and
- Expenses are charged only to one program.

SHDHD's Response:

- *The "certain payments" specified in the finding refer to the payroll of SHDHD, which is approved by the Board President at the bi-monthly Board meetings after payroll is disbursed. Going forward, for each bi-weekly payroll, SHDHD will email a payroll summary along with all paystubs to the Board president for her approval prior to submitting payroll to the bank for electronic funds transfer via ACH.*
- *Going forward, funds received via mail or donation box will be recorded upon receipt, and if checks are involved, endorsed, by the Administrative Assistant, and locked in a file cabinet until the Finance Manager can record, on a timely basis, the receipt of funds into QuickBooks. The Finance Assistant will make the deposit at the bank. Once deposited, the Executive Director will review the amount receipted as compared to the amount deposited to ensure that they are the same.*
- *The payment of \$35,975 specified in the finding, which lacked documentation in the form of a written agreement, accumulated over 10 months' time from the start of the pandemic in March 2020. It was for PPE storage, which had to be obtained quickly, given the emergency at hand, and was originally expected to be temporary and minor in scope. The lack of an agreement was an oversight on the part of both parties involved, again, given the emergency. Excepting the uniqueness of the situation, lacking to obtain agreements is not a practice that SHDHD normally engages in. In fact, this is the only known occurrence of such an oversight during the last fiscal year.*

2. Bonus Payments

Staff Bonuses

In May 2021, the SHDHD Board of Health (Board) approved Board Resolution # 2021-3, which provided a staff Covid-19 bonus for all regular employees, as shown in the image of that Resolution below:

Board of Health
South Heartland District Health Department
Resolution #2021-23

WHEREAS, the South Heartland District Health Department Board of Health, in accordance with Article II, Section 1 General Powers of its Agency Bylaws, manages the business, property and affairs of the Agency; and

WHEREAS, the Board recognizes that SHDHD staff have been supporting response efforts to COVID-19 for an extended period of time and are continuing to meet the ongoing demands of the pandemic as well as maintain many non-COVID public health functions, and that this work effort is taking a toll on the personal lives and mental and physical health of staff members; and

WHEREAS, the Board desires to recognize and express gratitude for staff efforts,

NOW, THEREFORE, BE IT RESOLVED:

The Board of Health recommends a staff COVID-19 bonus for all regular employees (working 32 hours or greater), EXCEPT for the executive director, and for regular part-time employees (20-31 hours) who are in good standing and who have worked above and beyond expectations during the period of July 1, 2020 to April 30, 2021, as determined by the executive director. The executive director is not included in this bonus. The bonus will be effective by May 20, 2021 and will be implemented as follows:

>= 32 hrs = \$2000, adjusted for months worked at this status

20-31 hrs = \$1250, adjusted for months worked at this status

In addition, the Board encourages the executive director and senior leadership to work with staff to identify and implement interventions to address internal 'pandemic response fatigue'.

Nanette Shackelford (handwritten signature)

5/5/2021 (handwritten date)

Signature

Date

Nanette Shackelford, Board President

Ten employees received a total of \$18,200 for the staff bonuses, ranging from \$1,200 to \$2,000 per employee. The bonus payments were made from the SHDHD general fund operations. The language of the Resolution appears to indicate that the bonuses were provided for services already provided. This is problematic under Article III, § 19, the Nebraska Constitution, which provides, in relevant part, the following:

The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into, except that retirement benefits of retired public officers and employees may be adjusted to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement.

(Emphasis added.) According to the Nebraska Supreme Court (Court), this prohibition "applies to the state and to all political subdivisions thereof." Retired City Civilian Employees Club of the City of Omaha v. The City of Omaha Employees' Retirement System et al., 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977).

The Attorney General has also shed additional light on the prohibition in Article III, §19, as follows:

As we stated in Op. Att'y Gen. No. 94064 (August 22, 1994), the purpose of state constitutional provisions such as Art. III, § 19 which prohibit extra compensation to public employees after services are rendered is to prevent payments in the nature of gratuities for past services.

Op. Att'y Gen. No. 95063 (Aug. 10, 1995). In determining whether a violation of Article III, § 19, has occurred, the Court has emphasized the importance of timing in the decision to pay the compensation at issue:

We have said that when the “services” for which compensation is granted are rendered prior to the date on which the terms of compensation are determined, the “benefits awarded are not compensation but are a gratuity.” See Wilson v. Marsh, 162 Neb. 237, 252, 75 N.W.2d 723, 732 (1956). It follows that when the “services” for which compensation is paid are rendered after the date on which the terms of compensation are established, the benefits awarded are not a gratuity.

(Emphasis added.) *City of Omaha v. City of Elkhorn*, 276 Neb. 70, 83, 752 N.W.2d 137, 147 (2008).

Good internal controls require procedures to ensure that any payments made to employees are agreed upon prior to performance of the services for which the compensation is made.

Without such procedures, there is an increased risk for not only serious concerns regarding possible violation of Article III, § 19, of the Nebraska Constitution, due to what appear to be gratuitous payments for services already provided, but also loss or misuse of public funds.

We recommend the SHDHD implement procedures to ensure that any payments made to employees are agreed upon in writing prior to the services performed. Because it addresses a possible constitutional violation, we will forward this finding to the County Attorney for further review.

SHDHD’s Response: The Board of SHDHD sought to reward staff for their dedication and hard work during the pandemic. The functions and activities required of them were unprecedented. After discussions with other health departments about the permissibility and form of such a reward, “bonuses” were paid out. SHDHD has since been advised that the form and language of the payments, as approved by the Board, did not best convey the intent of SHDHD to conform with permissible state law. Future consideration of such payments will be handled differently with more care on the form and language utilized and limitations as set forth by state law. SHDHD will also make inquiry of the Auditor’s Office in the future on such matters prior to proposing and approving any type of payout.

Executive Director Bonus

Like the staff bonus Resolution noted above, the Board also paid a total of \$81,188 to the Executive Director as additional compensation under Board Resolution # 2020-3, shown below:

Board of Health
South Heartland District Health Department
Resolution #2020-3

WHEREAS, the South Heartland District Health Department Board of Health, in accordance with Article II, Section 1 General Powers of its Agency Bylaws, manages the business, property and affairs of the Agency.

NOW, THEREFORE, BE IT RESOLVED:

The Board of Health recommends that additional compensation be paid to Michele Bever, Executive Director of the South Heartland District Health Department, for her extensive work with the COVID-19 emergency. Compensation will be paid at 1 and ½ times the Director's current pay rate of \$37.84 (which is equal to \$56.76 per hour) for each hour worked above a baseline each week, determined as the employee's usual, pre-emergency weekly averages (average hours worked over the calendar year prior to the emergency). The Director's baseline for the 2019 calendar year is 51.75 hours per week. This resolution shall be in effect from March 1, 2020 through March 1, 2021 as long as funds are available, unless otherwise extended or revoked by the Board of Health.


Board President Signature

7/1/2020
Date

That resolution, as extended by the subsequent Resolution # 2021-2, provided additional pay to the Executive Director until December 31, 2021. Unlike the staff bonus payments, the extra compensation paid to the Executive Director was made from Federal funds. Therefore, no violation of Article III, § 19, appears to have occurred. However, the APA found that the extra compensation was not included in the wages used to calculate the Executive Director's retirement contribution, and no retirement was withheld from these payments. As mentioned in the Notes to the Financial Statements, SHDHD employees contribute to the County Employees Retirement Plan administered by the Nebraska Public Employees Retirement Systems (NPERS).

Neb. Rev. Stat. § 23-2301(5)(a) (Cum. Supp. 2020) states the following:

Compensation means gross wages or salaries payable to the member for personal services performed during the plan year. Compensation does not include insurance premiums converted into cash payments, reimbursement for expenses incurred, fringe benefits, per diems, or bonuses for services not actually rendered, including, but not limited to, early retirement inducements, cash awards, and severance pay, except for retroactive salary payments paid pursuant to court order, arbitration, or litigation and grievance settlements. Compensation includes overtime pay, member retirement contributions, and amounts contributed by the member to plans under sections 125, 403(b), and 457 of the Internal Revenue Code or any other section of the code which defers or excludes such amounts from income.

The Resolution refers to the payments to the Executive Director as "additional compensation." Consequently, those payments appear to fall within the above definitional language and, therefore, should have had retirement contributions withheld.

The employee contribution is described in Neb. Rev. Stat § 23-2307 (Cum. Supp. 2020), which states, in part, the following:

Each employee who is a member of the retirement system shall pay to the county or have picked up by the county a sum equal to four and one-half percent of his or her compensation for each pay period.

The employer's share of the contribution is set out in Neb. Rev. Stat § 23-2308(2), as follows:

The county clerk shall pay to the board or an entity designated by the board an amount equal to two hundred fifty percent of the amounts deducted from the compensation of employees in accordance with the provisions of section 23-2307, which two hundred fifty percent equals the employees' contributions plus the county's contributions of one hundred fifty percent of the employees' contributions.

Based on these provisions of the County Employees Retirement Act, it appears that \$3,653 should have been withheld from the bonus payment to the Executive Director, and the SHDHD share would have been \$5,480.

Good internal control requires procedures to ensure the proper retirement contribution amounts are withheld from employee wages.

Without such procedures, there is an increased risk of both noncompliance with statute and loss or misuse of funds.

We recommend the SHDHD consult with Nebraska Public Employees Retirement Systems' legal counsel regarding the apparent need to make retirement contributions on the "additional compensation" paid to the Executive Director under Resolutions # 2020-3 and # 2021-2.

SHDHD's Response: The Board of SHDHD sought to reward its Executive Director for her dedication, long hours, and hard work during the pandemic. The functions and activities required of her were unprecedented. After discussions with other health departments about the permissibility and form, a "bonus" was paid out. SHDHD has since been advised that the form and language of the payments, as approved by the Board, did not best convey the intent of SHDHD to provide a bonus but rather is considered to be compensation. Since compensation – as opposed to a bonus – is subject to retirement contributions, SHDHD will work with NPERS to determine whether, and/or to what extent, contributions will need to be paid to the retirement fund for this amount.

* * * * *

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.

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.

Sincerely,



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