



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Steve Brott, Mayor
City of Chappell
757 2nd Street
Chappell, NE 69129

Dear Mr. Brott:

As you may know, the Nebraska Auditor of Public Accounts (APA) has received concerns regarding the Clerk of Deuel County's (County) apparently improper use of a U.S. Bank credit card belonging to the County to make purchases for, or on behalf of, the City of Chappell (City), which the Clerk/Administrator of that municipality later reimbursed with public funds.

Responding thereto, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. In doing so, the APA requested specific financial records and other relevant documentation from the City. Based on the outcome of this preliminary planning work, including an analysis of the information obtained, the APA has determined that a separate financial audit or attestation is unnecessary at this time.

Nevertheless, during the course of the preliminary planning work, the APA noted a certain issue that merits corrective action.

Background Information

The City is a city of the second class located in the County. The City Council (Council) is the governing body that exercises financial accountability and control over activities relevant to the operations of the City. Council members are elected by the public and have broad decision-making authority, including the power to levy taxes and to designate management, the ability to exert significant influence over all City operations, and the primary responsibility for related fiscal matters. The following timeline details significant events and the APA's correspondence with the City related thereto:

- On May 20, 2022, the APA received the fiscal year 2021 audit report for the County. Included within the report was the "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," dated April 13, 2022. The report contained a finding, where the County Clerk, Polly Olson, made questionable purchases with a U.S. Bank credit card belonging to the County. Among the issues noted were checks that were paid to U.S. Bank by the City.
- On June 14, 2022, the County Clerk, was arrested and charged with three counts of theft by unlawful taking for allegedly using the County's credit card to make more than \$18,000 in personal purchases at various retail stores.
- On June 15, 2022, the APA was contacted to analyze payments that the City Clerk/Administrator, Ashlea Bauer, made to U.S. Bank to reimburse charges made with the County's credit card for, or on behalf of, the City. The APA created a summary of the credit card charges and correlative reimbursement payments. The APA also requested additional documentation from the City to support the individual credit card charges for which the reimbursements were made.

The following comment and recommendation, which has been discussed with the appropriate members of the City and its management, is intended to improve internal control or result in other operating efficiencies.

Comment and Recommendation

Use of County Credit Card for City Purchases

As previously explained, the County had a U.S. Bank credit card that was under the control of the County Clerk, Polly Olson. Based upon the documentation obtained, however, the County Clerk appears to have used that credit card to make purchases for, or on behalf of, the City. It should be noted that, according to City officials, the County Clerk was the Co-Coordinator for the City’s Ambulance Department (Department). More interesting yet, the City Clerk/Administrator, Ashlea Bauer, is the daughter of the County Clerk.

When the County Clerk purchased items for the City with the County’s credit card, a check was paid directly to U.S. Bank to reimburse the County, in effect, for the cost of the expenditures made on the City’s behalf.

Neb. Rev. Stat. § 13-610 (Reissue 2012) sets out the requirements to which a political subdivision must adhere in order to establish a purchasing card program. Subsection (2) of that statute says the following:

Any political subdivision may utilize its purchasing card program for the purchase of goods and services for and on behalf of the political subdivision.

(Emphasis added.) A political subdivision’s purchasing card may be used only to make purchases for that specific governmental entity. Nowhere in § 13-610 – or, for that matter, in any other State statute with which the APA is familiar – is one political subdivision authorized to utilize its own purchasing card program on behalf of, or for the purpose of benefitting, another governmental entity.

Such apparent lack of authority is determinative in light of the Nebraska Supreme Court’s observations regarding the “the nature of a political subdivision of Nebraska,” as shown below:

Political subdivisions “are purely entities of legislative creation. They do not exist independent of some action of the legislative department of government bringing them into being. All the powers which they can possess are derived from the creator. Unlike natural persons they can exercise no power except such as has been expressly delegated to them, or such as may be inferred from some express delegated power essential to give effect to that power.” Metropolitan Utilities Dist. v. City of Omaha, 171 Neb. 609, 614, 107 N.W.2d 397, 401 (1961) . . . Traditionally, Nebraska has required strict construction regarding the authority granted to a political subdivision. See Metropolitan Utilities Dist. v. City of Omaha, supra.

Nebraska League of Sav. and Loan Associations v. Johnson, 215 Neb. 19, 24, 337 N.W.2d 114, 117 (1983).

The APA noted that, from January 2019 through March 2021, the City made 14 reimbursement payments, totaling \$4,752.11, to U.S. Bank. Those payments are shown in the following table:

Reimbursement Check #	Check Date	Council Approval Date	Payee	Clear Date	Amount
23788	1/7/2019	N/A	U.S. Bank	1/23/2019	\$ 308.24
23835	1/14/2019	N/A	U.S. Bank	1/23/2019	\$ 240.00
24097	5/5/2019	N/A	U.S. Bank	5/30/2019	\$ 222.65
24319	7/1/2019	7/1/2019	U.S. Bank	7/12/2019	\$ 105.80
24622	10/11/2019	N/A	U.S. Bank	11/7/2019	\$ 172.00
25081	4/16/2020	N/A	U.S. Bank	5/12/2020	\$ 316.04
25206	6/1/2020	N/A	U.S. Bank	6/10/2020	\$ 600.86
25283	7/2/2020	7/6/2020	U.S. Bank	7/28/2020	\$ 240.00
25542	9/14/2020	N/A	U.S. Bank	10/14/2020	\$ 200.00
25633	10/13/2020	N/A	U.S. Bank	11/5/2020	\$ 230.61

Reimbursement Check #	Check Date	Council Approval Date	Payee	Clear Date	Amount
25794	12/10/2020	N/A	U.S. Bank	1/14/2021	\$ 258.05
25887	1/21/2021	N/A	U.S. Bank	2/17/2021	\$ 307.90
25963	3/1/2021	N/A	U.S. Bank	3/10/2021	\$ 1,205.96
25995	3/3/2021	N/A	U.S. Bank	4/13/2021	\$ 344.00
Total					\$ 4,752.11

The 14 reimbursement payments are related to 17 individual charges which are listed in the table below:

Reimbursement Check #	Transaction Date	Vendor	Amount
23788	1/7/2019	Amazon	\$ 308.24
23835	1/14/2019	UNL Agronomy Hort	\$ 80.00
	1/14/2019	UNL Agronomy Hort	\$ 80.00
	1/14/2019	UNL Agronomy Hort	\$ 80.00
24097	5/7/2019	Amazon	\$ 222.65
24319	6/25/2019	IN Lexamo, INC DBA Holl	\$ 105.80
24622	10/11/2019	ACS WEB Orders	\$ 172.00
25081	3/25/2020	Amazon	\$ 316.04
25206	5/27/2020	Chikepod.com	\$ 600.86
25283	7/1/2020	BLT Heat Trsfr Whse	\$ 240.00
25542	9/12/2020	Event Manage Solution	\$ 200.00
25633	10/12/2020	Jiffy Shirts.com US L.P.	\$ 230.61
25794	12/5/2020	Hobby Lobby	\$ 249.08
	12/8/2020	Michaels Lincoln, NE	\$ 8.97
25887	1/20/2021	World Point Ecc incorporate	\$ 307.90
25995	3/3/2021	World Point Ecc incorporate	\$ 344.00
25963	3/6/2021	On Deck Sports	\$ 1,205.96
Total			\$ 4,752.11

In analyzing such charges, the APA identified several issues, including one questionable charge, payment of unapproved claims, lack of dual signatures, and payment of sales taxes.

Questionable Charge

As explained above, a political subdivision lacks the requisite statutory authority to utilize its own purchasing card program on behalf of, or for the purpose of benefitting, another governmental entity. Consequently, all purchases examined by the APA are questionable in nature. However, as summarized in the chart above, \$240 was charged to BLT Heat Trsfr Whse. The order was shipped and billed to the County courthouse, and included five colors of five-yard heat transfer vinyl rolls, for a total of 25 yards.

According to the City, this heat transfer vinyl was purchased, along with shirts, for the municipal Ambulance Department, which requested that the City Clerk/Administrator make shirts for its members.

The APA noted that the City Council approved the reimbursement payment during its meeting on July 6, 2020. Nevertheless, the City lacks the heat press machinery required to affix the vinyl transfer material to the shirts. The City Clerk/Administrator does own such a machine, and she purportedly used it to create the Ambulance Department shirts. As a result, the heat transfer vinyl rolls were entrusted to the City Clerk/Administrator's custody and control without any appreciable oversight to ensure that those materials were used only for a proper public purpose.

Expending public funds on materials that are all but worthless to the City without the utilization of machinery owned only by the City Clerk/Administrator or some other private citizen creates an opportunity for the misuse of that public property for personal gain.

Good internal control requires procedures to ensure that City funds are expended to purchase items that the City can either utilize itself or otherwise ensure are used for an exclusively public purpose. Without such procedures, there is an increased risk for the loss or misuse of City funds or property.

Payment of Unapproved Claims

The APA noted that 12 reimbursement payments, totaling \$4,406.31, were paid but not included on the claims listing to be approved by the Council, which are shown below.

Reimbursement Check #	Check Date	Council Approval Date	Payee	Clear Date	Amount
23788	1/7/2019	N/A	U.S. Bank	1/23/2019	\$ 308.24
23835	1/14/2019	N/A	U.S. Bank	1/23/2019	\$ 240.00
24097	5/5/2019	N/A	U.S. Bank	5/30/2019	\$ 222.65
24622	10/11/2019	N/A	U.S. Bank	11/7/2019	\$ 172.00
25081	4/16/2020	N/A	U.S. Bank	5/12/2020	\$ 316.04
25206	6/1/2020	N/A	U.S. Bank	6/10/2020	\$ 600.86
25542	9/14/2020	N/A	U.S. Bank	10/14/2020	\$ 200.00
25633	10/13/2020	N/A	U.S. Bank	11/5/2020	\$ 230.61
25794	12/10/2020	N/A	U.S. Bank	1/14/2021	\$ 258.05
25887	1/21/2021	N/A	U.S. Bank	2/17/2021	\$ 307.90
25963	3/1/2021	N/A	U.S. Bank	3/10/2021	\$ 1,205.96
25995	3/3/2021	N/A	U.S. Bank	4/13/2021	\$ 344.00
Total					\$ 4,406.31

Per discussion with City officials, these payments were made between Council meetings and are called “also rans.” The payments are recorded in a Microsoft Excel file and presented to the Council during the subsequent meeting. However, the Council does not actually take any action to approve these payments. Moreover, the City was only able to provide the documentation proving it was shown to the Council for only 5 of the 12 payments.

Neb. Rev. Stat. § 17-614(1) (Supp. 2021) sets out the proper method for the appropriation or payment of money by the City, as follows:

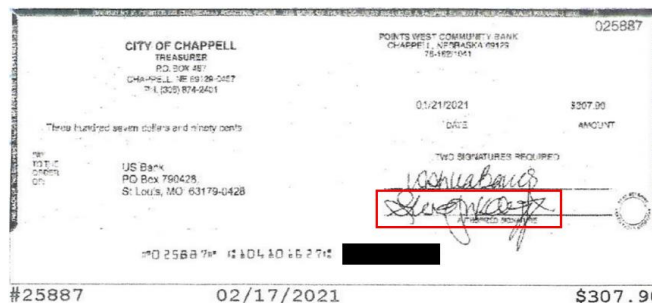
All ordinances and resolutions or orders for the appropriation or payment of money shall require for their passage or adoption the concurrence of a majority of all members elected to the city council in a city of the second class or village board of trustees.

(Emphasis added.) Good internal control requires procedures to ensure that all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved. Without such procedures, there is an increased risk for the loss or misuse of City funds.

Lack of Dual Signatures

The APA obtained the check images for the City’s payments to U.S. Bank as reimbursements for the County credit card charges. From these images, the APA noted that 5 of the 14 checks did not contain the dual countersignature required by State statute.

The five checks at issue contained the signatures of the City Clerk/Administrator and City Treasurer, not those of the City Clerk/Administrator and City Mayor. An example of such checks is shown below:



Per discussion with City officials, the standard municipal practice has been to have the City Treasurer and the Mayor sign checks issued for claims approved by the Council during its meetings. For checks issued between Council meetings, the City Treasurer and City Clerk/Administrator have typically served as signatories.

Neb. Rev. Stat. § 17-711 (Cum. Supp. 2020) requires checks issued by cities of the second class, such as the City, to be signed by both the Mayor and the City Clerk/Administrator, as follows:

All warrants drawn upon the city treasurer of a city of the second class or village treasurer must be signed by the mayor or chairperson of the village board of trustees and countersigned by the city clerk or village clerk, stating the particular fund to which the same is chargeable, the person to whom payable, and for what particular object. No money shall be otherwise paid than upon such warrants so drawn. Each warrant shall specify the amount included in the adopted budget statement for such fund upon which it is drawn and the amount already expended of such fund.

(Emphasis added.) Good internal control and sound accounting practices require procedures to ensure that City checks contain the statutorily required endorsements. Without such procedures, there is an increased risk of not only failure to comply with State statute but also the loss or misuse of City funds.

Payment of Sales Taxes

The APA noted that the City reimbursed the County for a total of \$204.75 in sales taxes that were incorrectly paid at the time the U.S. Bank credit card charges were originally made, as summarized below.

Check #	Amount	Sales Tax Paid
23788	\$ 308.24	\$ 21.50
24097	\$ 222.65	\$ 15.48
25081	\$ 316.04	\$ 22.06
25633	\$ 230.61	\$ 16.07
25887	\$ 307.90	\$ 21.50
25963	\$ 1,205.96	\$ 84.14
25995	\$ 344.00	\$ 24.00
Totals	\$ 2,935.40	\$ 204.75

Per Neb. Rev. Stat. § 77-2704.15(1)(a) (2022 Neb. Laws, LB 800, § 343), purchases made by the State or other specified public entities are exempt from sales tax, as follows:

Sales and use taxes shall not be imposed on the gross receipts from the sale, lease, or rental of and the storage, use, or other consumption in this state of purchases by the state, including public educational institutions recognized or established under the provisions of Chapter 85, or by any . . . city

Good internal control requires procedures to ensure that the City does not pay State sales taxes on any municipal purchases. Without such procedures, there is an increased risk for the loss of City funds.

We recommend the City refrain from making proxy purchases through credit cards issued to other political subdivisions. Instead, the City may wish to consider implementing its own purchasing card program, as provided by § 13-610. We also recommend the City implement procedures to ensure the following:

- City funds are used for a public purpose;
- All claims are approved by the Council prior to payment and are adequately documented in the meeting minutes of the month in which they are approved;
- All City checks are signed by both the Mayor and City Clerk/Administrator, as required by law; and
- State sales taxes are not paid on any municipal purchases.

City Response: The City of Chappell is in receipt of your draft letter. We have reviewed your comments and recommendations. To ensure good internal controls for the City of Chappell, the following changes will be made immediately. The City will not use any credit cards through another political subdivision. The City will also change the procedure when paying claims. The claims will only be paid after approval of the Council and will always be placed in the minutes. There won't be any claims paid between meetings. All the checks will be signed by the City Clerk and the City Mayor. The City will also be sure to not pay sales tax on the purchases and use vendors that accept our tax exempt form.

* * * * *

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use the knowledge gained during our work to make comments and suggestions that we hope will be useful to the City.

Draft copies of this letter were furnished to the City to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time.

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

If you have any questions regarding the above information, please contact our office.

Audit Staff Working on this Examination:

Craig Kubicek, CPA, CFE – Deputy Auditor
Mason Culver – Auditor-In-Charge

Sincerely,



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