



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Rodney Steinkruger, Chairperson
Franklin Rural Fire District
1710 F Road
Riverton, NE 68972

Dear Chairperson Steinkruger:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Franklin Rural Fire District (District) for the fiscal year ending 2022. **That request has been approved.**

While performing, pursuant to Neb. Rev. Stat. § 84-304 (Cum. Supp. 2022), the preliminary examination necessary to determine whether further audit work would be required or the audit waiver should be allowed, the APA noted certain internal control or compliance matters, or other operational issues, within the District.

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

Comments and Recommendations

1. Lack of Purchasing Card Policy

During the review of the bank statements obtained from the District's audit waiver request, it was noted there were multiple debit card transactions throughout the fiscal year 2022, totaling \$4,428. The debit card was mainly used for purchases of fuel and other expenses while traveling to fires outside of the District, and for online purchases.

With the use of a debit card, the District increases its risk of unrecoverable loss of funds due to fraud because debit cards do not provide as much fraud protection as a credit card or other purchasing cards. The District also increases its risk of payments being made without Board approval because the debit card does not require dual signatures. The District was unable to provide a copy of a purchasing card policy outlining procedures for safeguarding District assets when using the District card, including such allowable purchases and authorized individuals.

Neb. Rev. Stat. § 13-610 (Reissue 2022) provides, in relevant part, the following requirements regarding a purchasing card program:

(1) A political subdivision, through its governing body, may create its own purchasing card program. The governing body shall determine the type of purchasing card or cards utilized in the purchasing card program and shall approve or disapprove those persons who will be assigned a purchasing card. Under the direction of its governing body, any political subdivision may contract with one or more financial institutions, card-issuing banks, credit card companies, charge card companies, debit card companies, or third-party merchant banks capable of operating the purchasing card program on behalf of the political subdivision. Expenses associated with the political subdivision's purchasing card program shall be considered, for purposes of this section, as an administrative or operational expense.

* * * *

(4) An itemized receipt for purposes of tracking expenditures shall accompany all purchasing card purchases. In the event that a receipt does not accompany such a purchase, purchasing card privileges shall be temporarily or permanently suspended in accordance with rules and regulations adopted and promulgated by the political subdivision.

* * * *

(6) No officer or employee of a political subdivision shall use a political subdivision purchasing card for any unauthorized use as determined by the governing body.

Good internal control procedures require adequate controls over the District’s purchasing card, including an approved card policy that outlines procedures for the allowable use of the District card and authorized users.

Without such procedures there is an increased risk of loss, theft, or misuse of District funds.

We recommend the District implement adequate controls over the District’s purchasing card, including an approved card policy that outlines procedures for the allowable use of the District card and authorized users.

2. Potentially Disallowed Purchases

Our review of the bank statements obtained from the District’s audit waiver request revealed that the District made seven payments, totaling \$4,452, that appear to be for flowers and donations. These payments are detailed below:

| Date | Name/Vendor | Amount | Description |
|--------------|--------------------------|-----------------|-------------------|
| 10/21/2021 | Leland Wentworth Benefit | \$ 1,000 | Donation |
| 10/22/2021 | Leland Wentworth | \$ 1,000 | Donation |
| 11/8/2021 | Flowers N More | \$ 90 | \$90 for flowers |
| 12/1/2021 | Pat Pritchard | \$ 1,000 | Donation |
| 12/1/2021 | Pat Pritchard | \$ 1,000 | Donation |
| 2/9/2022 | Flowers N More | \$ 170 | \$170 for flowers |
| 3/28/2022 | Franklin Post Prom | \$ 50 | Donation |
| Total | | \$ 4,310 | |

The Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. § 13-2201 (Reissue 2022) et seq., specifies various expenditures, aside from those otherwise authorized by law, that constitute allowable uses of public funds by designated political subdivisions. The provisions of the Act are made applicable to Districts, among numerous other public entities, by both subsections (2) and (3) of Neb. Rev. Stat. § 13-2202 (Reissue 2022).

Neb. Rev. Stat. § 13-2203 (Reissue 2022) of the Act enumerates the miscellaneous expenditures permitted by governing bodies of local governments. Donations and purchases of flowers – whether for funerals, memorials, or other personal occasions – are not found among that select statutory list of permissible expenditures. As a result, such disbursements must be considered disallowed by law.

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

Regarding the issue of flower and memorial purchases, the Guideline provides the following:

Question #6 – May municipal funds be expended for flowers and memorials for deceased elected officials, employees or their families?

Response – No.

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

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

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

3. Purchase of Alcohol

During the review of the District’s bank statements for fiscal year 2022, the APA noted a debit card purchase at Texas T Bone, a steakhouse in Grand Island, Nebraska, totaling \$501.49.

According to the District, this purchase was for a meal while firefighters were at fire school in Grand Island. The APA obtained a copy of the Texas T Bone receipt associated with this payment, which showed \$26.50 of this purchase was for alcoholic beverages as shown below.

| | | |
|---|--|--|
| TEXAS T-BONE's Logo TEXAS T-BONE FOLLOW 1600 SOUTH LOCUST STREET GRAND ISLAND, NE 68801 +1 308-382-9474 https://www.textastbonesteakhouse.com ORDER 11 - SOUTH GUEST 1 Moscow Mule\$8.00 10 NY/B.W.S\$31.00 Med Rare\$0.00 Mango Habanero\$0.00 Hash Brown\$0.00 2 Extra Throw In\$1.00 1 Extra Cheese\$1.00 2 Extra Dressing\$1.00 GUEST 10 Busch Light\$4.00 Top Sirloin - 8 oz\$20.00 Medium\$0.00 LD BAKE POTATO\$1.50 1 Extra Dressing\$0.50 GUEST 11 14 T-Bone/Fried Shrimp\$32.00 | Medium\$0.00 French Fries\$0.00 1 Extra Throw In\$0.50 ranch GUEST 2 Moscow Mule\$8.00 10 NY/B.W.S\$31.00 Med Rare\$0.00 Mango Habanero\$0.00 Hash Brown\$0.00 1 Extra Throw In\$0.50 1 Extra Dressing\$0.50 GUEST 3 Water\$0.00 24 Porterhouse\$38.00 Med Rare\$0.00 None\$0.00 Hash Brown\$0.00 GUEST 4 Water\$0.00 20 New York\$37.00 Medium\$0.00 None\$0.00 Baked Potato\$0.00 BUTTER\$0.00 2 Extra Throw In\$1.00 1 Extra Dressing\$0.50 GUEST 5 20 Ribeye\$38.00 Medium\$0.00 LD BAKE POTATOS\$1.50 SOUR CREAM\$0.00 2 Extra Throw In\$1.00 1 Extra Dressing\$0.50 None\$0.00 | GUEST 6 20 Ribeye\$38.00 Medium\$0.00 None\$0.00 Baked Potato\$0.00 BUTTER\$0.00 BUTTER\$0.00 1 Extra Dressing\$0.50 GUEST 7 Water\$0.00 15 Ribeye\$32.00 Med Rare\$0.00 None\$0.00 Mashed Potatoes\$0.00 BROWN GRAVY\$0.00 1 Extra Dressing\$0.50 GUEST 8 Captain Morgan\$6.50 ORANGE JUICES\$0.00 Water\$0.00 15 Ribeye\$32.00 Med Rare\$0.00 None\$0.00 Baked Potato\$0.00 Butter & Sour Cream\$0.00 GUEST 9 Water\$0.00 Full Rack\$27.00 French Fries\$0.00 ketchup Subtotal\$394.50 Occupational 1.50% \$5.92 Sales Tax 7.62% \$30.06 |
|---|--|--|

The purchase of alcohol with public funds is prohibited by Neb. Rev. Stat. § 13-2203(2) (Reissue 2022), which permits the governing body of a local government to purchase, among other things, only nonalcoholic beverages.

Good internal controls require procedures to ensure all District expenditures are allowable and appropriate. When such procedures do not exist, there is not only an increased risk of noncompliance with State statute, but also an increased risk of the loss, misuse, or theft of District funds

We recommend the District implement procedures to ensure District funds are not expended for the purchase of alcoholic beverages.

4. Payments Not Approved

The APA obtained a copy of the March 17, 2022, meeting minutes for the Board of Directors (Board) of the District. Those minutes fail to reflect the Board’s approval of any District expenditures made from the EMS bank accounts.

Per Neb. Rev. Stat. § 35-508(4) (Reissue 2016), Boards have the exclusive power to “manage and conduct the business affairs of the district.” Accordingly, any expenditure of District funds requires express Board authorization.

Additionally, Neb. Rev. Stat. § 35-511 (Reissue 2016) provides, in relevant part, the following:

All donations, contributions, bequests, annuities, or borrowed money received by or on behalf of the district shall be deposited with the secretary-treasurer of the district and shall be drawn out only upon proper check. Such check shall be authorized by the board of directors and shall bear the signature of the secretary-treasurer and the countersignature of the president of such district.

(Emphasis added.) Properly discharging the above statutory duties necessarily entails proper financial management, which calls for the Board’s approval of all expenditures of District funds. Such Board approval should be prior to the actual disbursement, if possible, or at the next District Board meeting.

As a public body, moreover, the Board is subject to the provisions of the Open Meetings Act, which is set out at Neb. Rev. Stat. § 84-1407 et seq. (Reissue 2014). In particular, Neb. Rev. Stat. § 84-1413(1) (Cum. Supp. 2022) requires public bodies, including Boards, to “keep minutes of all meetings,” showing, among other things, “the substance of all matters discussed.”

Furthermore, a good internal control plan and sound business practices require procedures to ensure that the Board approves, in a timely fashion, all expenditures and business transactions of the District. Those same procedures should ensure also that the Board documents such approval in its meeting minutes, specifying the name of each payee, the exact amount of any disbursement, and the specific purpose of the payment.

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

We recommend the implementation of procedures to ensure the Board approves, in timely fashion, all expenditures of District funds, and such approval is documented adequately in the Board’s meeting minutes. Such Board approval should be prior to the actual disbursement, if possible, or at the next District Board meeting.

5. Lack of Dual Authorized Signatures and Check Payee

The APA obtained the monthly statements for the District’s bank accounts from its fiscal year 2022 audit waiver request. From those statements, the APA noted that all District checks written from the EMS and Volunteer Fire Department bank accounts during the examination period contained the signatures of individuals that are not members of the District Board. Additionally, it was noted that one check was written during the year with no payee. Examples of such checks are shown below.



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

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

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

A similar issue was identified by the APA in a prior review and was disclosed to the District in the APA’s letter dated January 20, 2022, which can be found on the APA’s website. However, it does not appear this issue was corrected after the APA’s notification.

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

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

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

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

Sincerely,



Mark Avery, CPA
Assistant Deputy Auditor