



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 28, 2022

Russ Case, Chairperson
Palmyra Rural Fire District
P.O. Box 155
Douglas, NE 68344

Dear Chairperson Case:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Palmyra 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. Payments to Volunteer Fire Department

During our review of the bank statements accompanying the District's audit waiver request, the APA noted that the District paid \$5,000 to the Douglas Volunteer Fire Department (Department) for EMS services. According to its Clerk, the District pays the Department for providing EMS services; however, the District was unable to provide documentation to support that the funds disbursed were used for allowable expenses.

The Local Government Miscellaneous Expenditure Act (Act), which is found at Neb. Rev. Stat. § 13-2201 et seq. (Reissue 2022), places strict parameters upon certain expenditures of public funds by local governments, including rural and suburban fire protection districts.

Additionally, Neb. Rev. Stat. § 35-901(6) (Reissue 2016) requires the expenditure of all public funds by the Department to be approved by the "taxing authority supporting" it, namely the District, and properly published, as follows:

All expenditures of public funds as defined in the Nebraska Budget Act for support of a volunteer department or its purposes shall be submitted as claims, approved by the taxing authority supporting such department or its purposes, and published as required by law. All such claims shall be properly itemized for proposed expenditure or reimbursement for costs already incurred and paid except as may be otherwise permitted pursuant to section 35-106.

According to Neb. Rev. Stat. § 13-503(7) (Reissue 2022) of the Nebraska Budget Act, the term "public funds" means "all money, including nontax money, used in the operation and functions of governing bodies." Any public funds received by the Department attach to the District to which it belongs – and, therefore, may be assumed to be used for the operation and function of that governing political subdivision. Consequently, such funds are subject to both the requirements of the Act and § 35-901(6).

Furthermore, good internal controls require procedures to ensure that any expenditure of funds by the District, whether directly or through a designated recipient thereof, is not only for a statutorily allowable purpose but also in accordance with the underlying objective of that disbursement. Thus, when a volunteer fire department – or, for that matter, any other entity or person – receives such funds, the District should have procedures for documenting their appropriate use.

Without such procedures, there is an increased risk for the improper, if not prohibited, use of District funds.

We recommend the District implement procedures for documenting the expenditure of public funds by it, whether directly or otherwise, to ensure the proper use of those monies.

2. Payments Not Approved

The APA obtained a copy of the November 11, 2021, meeting minutes for the Board of Directors (Board) of the District. Those minutes fail to reflect the Board’s approval of two District expenditures, totaling \$749. These expenditures are detailed in the following table:

Check Number	Check Date	Name/Vendor	Amount
2735	10/11/2021	Sandry Fire Supply	\$ 585
2735	10/25/2021	Casey’s Business Card	\$ 164
Total			\$ 749

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.

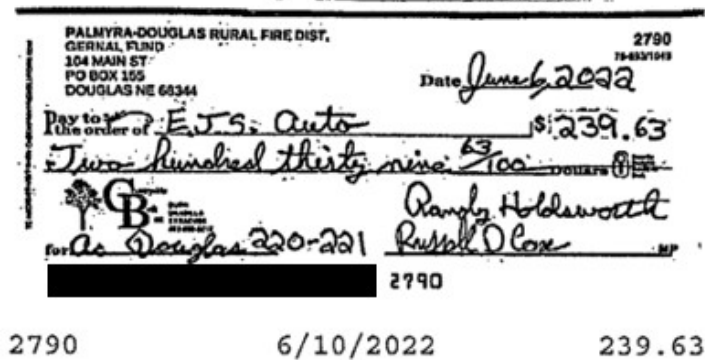
Without such procedures, there is an increased risk for not only failure to comply with State statute but also loss or misuse of public funds.

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 13, 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 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.

3. Lack of Dual Authorized Signatures

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 47 District checks written during the examination period contained the signature of an individual that is not a member of the Board. An example of such checks is 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 13, 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.

4. Expenditures in Excess of Budget

For the fiscal year ended June 30, 2022, actual expenditures exceeded the adopted budget by \$135,512. No amendment was filed with our office for these additional expenditures.

Neb. Rev. Stat. § 13-510 (Reissue 2022) states, in relevant part, the following:

No expenditure during any fiscal year or biennial period shall be made in excess of the amounts indicated in the adopted budget statement, except as authorized in section 13-511, or by state law. Any officer or officers of any governing body who obligates funds contrary to the provisions of this section shall be guilty of a Class V misdemeanor.

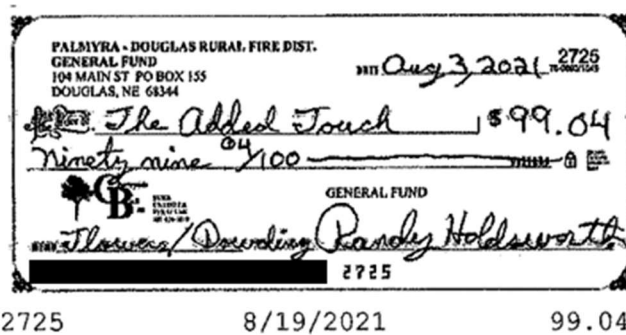
Neb. Rev. Stat. § 13-511 (Reissue 2022) sets out the procedures for amending the adopted budget accordingly.

When expenditures are made in excess of the amounts budgeted, with no appropriation adjustments by the Board to address those excesses, the District is noncompliant with State statute, further increasing the risk for loss and/or misuse of funds.

We recommend the Board implement procedures to monitor closely its budget status on an ongoing basis to avoid incurring expenditures in excess of the amount budgeted, and amend the budget as necessary.

5. Potentially Disallowed Purchase

Our review of the bank statements obtained from the District’s audit waiver request revealed that the District made one payment in the amount of \$99 to The Added Touch for flowers on August 3, 2021. This purchase was made from the District’s checking account, which contained property tax revenues. A copy of this check is shown below.



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. 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.

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

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Avery", with a long horizontal flourish extending to the right.

Mark Avery, CPA
Assistant Deputy Auditor