



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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November 16, 2023

Mickey Solomon, Chairperson
Kilfoil Township Custer County
P.O. Box 22
Merna, NE 68856

Dear Chairperson Solomon:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Kilfoil Township Custer County (Township) for the fiscal year ending 2023. **That request has been approved.**

While performing, pursuant to Neb. Rev. Stat. § 84-304 (Supp. 2023), 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 Township.

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 review of the bank statements obtained from the Township's audit waiver request, it was noted that there were multiple debit card transactions throughout fiscal year 2023, totaling \$1,325. After further inquiry with the Township, the APA was informed that the Township Library utilized a debit card for purchases of books and other expenses.

With the use of a debit card, the Township 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 Township also increases its risk of payments being made without Board approval because the debit card does not require dual signatures. It was noted during the review that the Township did not have a formal purchasing card policy outlining procedures for safeguarding Township assets when using the Township 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 Township's purchasing card, including an approved card policy that outlines procedures for the allowable use of the Township card and authorized users. Without such procedures, there is an increased risk of loss, theft, or misuse of Township funds.

A similar issue was identified by the APA in a prior review and was disclosed to the Township in the APA's letter dated December 28, 2022, which can be found on the APA's website. However, this issue does not appear to have been corrected after the APA's notification.

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

2. Payment of Sales Tax

During review of the Township's debit card transactions for fiscal year 2023, the APA observed the supporting documentation for multiple purchases, totaling \$802, from Amazon and Scholastic. The receipts provided show that the Township paid \$42 in Nebraska sales tax on these purchases.

Neb. Rev. Stat. § 77-2704.15(1)(a) (Supp. 2023) states that purchases made by the State or its political subdivisions 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 county, township . . .

(Emphasis added.) Good internal controls require procedures to ensure that Township funds are not expended for the payment of Nebraska sales tax.

Without such procedures, there is not only an increased risk of noncompliance with State statute, but also an increased risk of the loss, misuse, or theft of Township funds.

We recommend the Township implement procedures to ensure that Township funds are not expended for the payment of Nebraska sales tax.

3. Payments Not Approved

The APA obtained a copy of the May 19, 2023, meeting minutes for the Township Board. Those minutes fail to reflect the Board's approval of any Township expenditures for the Township Cemetery and Township Library bank accounts.

Nebraska law requires the Township Board to approve all claims against the Township. In particular, Neb. Rev. Stat. § 23-255 (Reissue 2022) states the following, in relevant part:

All claims and charges against the town, duly audited and allowed by the town board, shall be paid by order so drawn.

(Emphasis added.) Properly discharging the above statutory duties necessarily entails the Board’s approval of all expenditures of Township funds prior to the actual disbursement.

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 to 84-1414 (Reissue 2014, Cum. Supp. 2022). Per Neb. Rev. Stat. § 84-1413(1) (Cum. Supp. 2022) public bodies, including Township Boards, are required 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 all expenditures and business transactions of the Township prior to payment. 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 all expenditures of Township funds prior to payment, and such approval is documented adequately in the Board’s meeting minutes.

4. Payment of Claims in Excess of Amount Approved

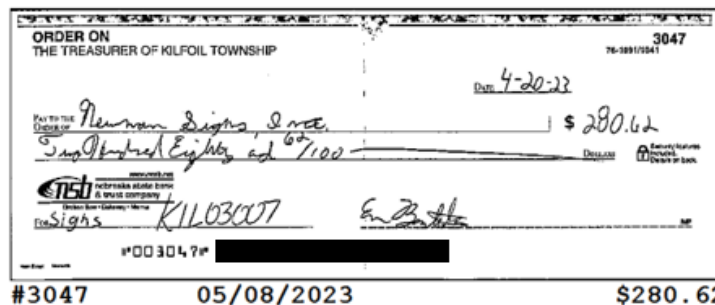
During our comparison of the Township’s bank account details to claims approved by the Board, the APA noted that one check was issued for \$160 more than the amount approved by the Board.

Good internal control requires procedures to ensure that claims are not paid for an amount greater than the amount approved by the Board. Without such procedures, there is an increased risk for the loss or misuse of Township funds.

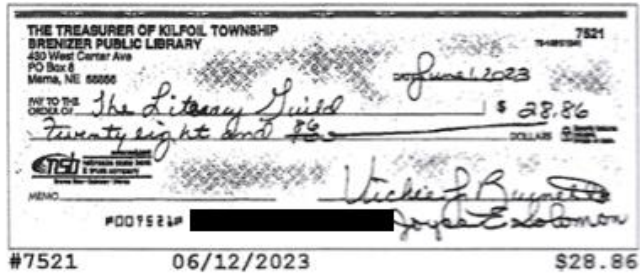
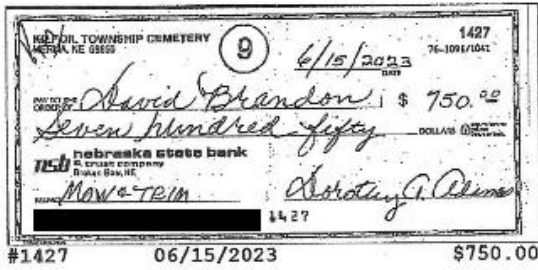
We recommend the Board implement procedures to ensure that claims against the Township are not paid for amounts greater than the amounts approved by the Board.

5. Lack of Dual Authorized Signatures

The APA obtained the monthly statements for the Township’s bank accounts from its fiscal year 2023 audit waiver request. From those statements, the APA noted that one Township check written during the examination period contained only one signature, as shown below.



Additionally, the APA noted that all checks written from the Township Cemetery’s bank account and four checks written from the Township Library’s bank account contained only one signature. Further, all checks from these bank accounts were signed by individuals that are not members of the Township Board. Examples of checks from this bank accounts are shown below.



Nebraska law requires both the Clerk and the Chairperson of the Township Board to sign all checks approved by the Board. In particular, Neb. Rev. Stat. § 23-255 (Reissue 2022) states, in relevant part, the following:

The town clerk shall draw and sign all orders upon the town treasurer for all money to be disbursed by the township, and all warrants upon the county treasurer for money raised for town purposes, or apportioned to the town by the county or state, and present the same to the chairman of the board, to be countersigned by him, and no warrant shall be paid until so countersigned.

(Emphasis added.) In addition, good internal controls and sound accounting practices require procedures to ensure that Township 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 Township in the APA’s letter dated December 28, 2022, which can be found on the APA’s website. However, this issue does not appear to have been corrected after the APA’s notification.

We recommend the Board implement procedures to require dual signatures, from both the Clerk and the Chairperson, on all Township 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 Township’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 Township.

This communication is intended solely for the information and use of the Township 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