



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 11, 2023

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 2023. **That request has been approved.**

However, as noted in the **Comments and Recommendations** section below, the District expended public funds on apparently disallowed purchases, had multiple apparent instances of noncompliance with State statute, and multiple control deficiencies. While the fiscal year 2023 audit waiver request has been approved, **the District must provide to our office a formal, detailed corrective action plan to ensure District funds are protected from misuse, loss, and theft. The corrective action plan must include the District's planned course of action to resolve the issues noted below in this letter. If the corrective action plan is not submitted timely or is deemed to be inadequate, the APA will require a financial audit or attestation to be performed at the expense of the District.**

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

Comments and Recommendations

1. Purchase of Alcohol

While reviewing the District's bank statements for fiscal year 2023, the APA noted the following check written to the Franklin Country Club in the amount of \$2,195.35, which included a purchase for alcohol of \$534:

FRANKLIN RURAL FIRE PROT DIST
FVFD BENEVOLENCE TRUST FUND
1 FRANKLIN, NE 68920

DATE 3-6-2023

PAY TO THE ORDER OF Franklin Country Club \$ 2,195.³⁵/₁₀₀

Two thousand one hundred ninety five and 35/100 DOLLARS (US)

Cornerstone BANK

ISSUED 2023 Budget

1963 3219535 3/6/2023

This check was issued from the Franklin Volunteer Fire Department’s (Department) Benevolence Trust Fund bank account, the activity for which was submitted with the District’s audit waiver request and included in the District’s budget document.

Interestingly, despite being what appears to be separate entities, the Department’s Benevolence Trust Fund bank account is held under the District’s Federal tax identification number. The intent of doing so – as well as submitting the account activity with the District’s audit waiver request and including it in the District’s budget document – appears to have been to treat those monies as District funds.

Further, the APA traced transfers of funds from the District’s General Fund bank account, which receives property tax revenues, to the Department’s General Fund bank account and from there to the Department’s Benevolence Trust Fund bank account. Based on these transfers, the Department’s Benevolence Trust Fund bank account likely contains public funds that have been commingled with the non-public funds therein.

According to the District, the \$2,195.35 check at issue was payment for food and beverages at the annual banquet held by the Department. The APA reviewed supporting documentation for this purchase and noted that \$534 appears to have been for alcoholic beverages, as shown below:

Quantity	Description	Rate	Amount
1	Bar	534.00	534.00
1	Chicken	15.00	15.00
18	Steaks	20.00	360.00
40	Prime Rib	25.00	1,000.00
1	Suggested Gratuity of 15%	286.35	286.35

The Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. §§ 13-2201 to 13-2204 (Reissue 2022), specifies the 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 rural or suburban fire protection districts, among numerous other public entities, by both subsections (2) and (3) of Neb. Rev. Stat. § 13-2202 (Reissue 2022).

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 subject to the Act to purchase, among other things, only nonalcoholic beverages.

Good internal controls require procedures to ensure that all District expenditures are allowable and appropriate, which necessarily precludes the purchase of alcohol with public funds. Without such procedures, there is an increased risk for not only noncompliance with State statute but also loss, misuse, or theft of District 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 December 27, 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 District implement procedures to ensure all District expenditures are allowable and appropriate, which necessarily precludes the purchase of alcohol with public funds.

District Response: The Franklin Rural Fire District doesn’t condone the purchase of alcohol and will enhance training and internal controls. The Board plans to hold a meeting and explain statute to all Board Members and Volunteers. The Board will contact the Certified Public Accountant and have her help address this matter with the Board and Volunteers.

Additionally, the Fire Chief has always been under the assumption that funds in the Benevolence account were not included in the budget. However, the Board had an oversight and has included this account with the budget because it held the same tax id number. The Board is going to obtain a separate Tax ID number for the Benevolence account.

The Board will address this problem by working with the Certified Public Accountant. This being said, the budget will have a discrepancy with Transfers out not matching transfers in to rectify this issue. The Certified Public Accountant will also provide training on what is allowed to be in the Benevolence account and clearly explain that taxpayer funds are not allowed in that account.

2. Cash Withdrawal

On August 19, 2022, the District made a cash withdrawal in the amount of \$3,500 from the Department’s Benevolence Trust Fund bank account.

As noted in the previous comment, that Department account is held under the District’s Federal tax identification number, and its activity was not only submitted with the District’s audit waiver request but also included in the District’s budget document. The intent of doing so appears to have been to treat those monies as District funds.

According to the District, the Department hosts an annual golf tournament fundraiser, and the \$3,500 in cash withdrawn from the Department’s Benevolence Trust Fund bank account was awarded as prize money to the winners.

By withdrawing cash, the District increases its risk of unrecoverable loss of funds due to fraud or theft. Also increased is the risk of withdrawals being made without the approval of the District Board (Board) because the payment of cash does not require any signatures.

Furthermore, Neb. Rev. Stat. § 13-2203 (Reissue 2022) of the Act enumerates the miscellaneous expenditures permitted by governing bodies of local governments, including rural or suburban fire protection districts. Payments of prize money are not found among that select statutory list of permissible expenditures. Consequently, not being expressly permitted under the Act – or, to the best of our knowledge, elsewhere in State statute – the use of public funds as prize money must be presumed disallowed by law.

Good internal controls require procedures to ensure that District cash is adequately safeguarded, and all expenditures of public funds are lawful. Without such procedures, there is an increased risk for not only noncompliance with applicable State statutes but also loss, misuse, or theft of District funds.

We recommend the Board implement procedures to ensure District cash is adequately safeguarded, and all District expenditures are allowable under State statute, including applicable provisions of the Act.

District Response: The Franklin Rural Fire District will implement procedures to ensure cash is not withdrawn. As well as getting a separate tax ID number for the Benevolent account and providing additional training as stated above about what the benevolent account is allowed to do.

3. Other Potentially Disallowed Purchases

The APA noted also that the District made five payments, totaling \$1,315, that appear to be for flowers and donations. Those payments are detailed below:

Date	Name/Vendor	Amount	Description
7/7/2022	Franklin FFA	\$ 500	Donation for Welding Ventilation Project
7/7/2022	Franklin FFA	500	Donation for Welding Ventilation Project
9/17/2022	Hildreth Volunteer Fire Department	200	Donation for Golf Fundraiser
11/2/2022	Flowers N More	75	Flowers/Balloons for a Birthday Party
5/3/2023	Flowers N More	40	Flowers
Total		\$ 1,315	

Three of these checks were issued from the District's EMS Benevolence Trust Fund bank account, the activity for which was submitted with the District's audit waiver request and included in the District's budget document.

Interestingly, despite being what appears to be separate entities, the EMS Benevolence Trust Fund bank account is held under the District's Federal tax identification number. The intent of doing so – as well as submitting the account activity with the District's audit waiver request and including it in the District's budget document – appears to have been to treat those monies as District funds.

The other two payments were made from the Department's Benevolence Trust Fund bank account. As noted previously, that account is held under the District's Federal tax identification number, and its activity was not only submitted with the District's audit waiver request but also included in the District's budget document appearing to treat those monies as District funds.

Donations and purchases of flowers – whether for funerals, memorials, or other personal occasions – are not found among the select statutory list of permissible expenditures, as outlined in Section 13-2203.

Consequently, not being expressly permitted under the Act – or, to the best of our knowledge, elsewhere in State statute – the use of public funds to pay for the donations and flower purchases addressed herein must be presumed disallowed by law.

Good internal controls require procedures to ensure that all expenditures of public funds are lawful. Without such procedures, there is an increased risk for not only noncompliance with applicable State statutes but also loss or misuse of District 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 December 27, 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 District Board implement procedures to ensure all District expenditures are allowable under State statute, including applicable provisions of the Act.

District Response: The Franklin Rural Fire District doesn't allow taxpayer funds to be used for donations or flowers. This problem will be rectified by separating the EMS and Fire Benevolent accounts to its own Federal Tax ID. This is an oversight of the department that will be rectified. The Benevolent accounts have been included incorrectly on past budgets as those accounts were incorrectly titled with the Departments Tax ID. Additionally, training will be done for the entire department about what expenditures are lawful and allowable.

4. Lack of Purchasing Card Policy and Adequate Supporting Documentation

While reviewing the District's bank statements, the APA noted multiple debit card transactions, totaling \$3,768, throughout fiscal year 2023. The debit card was used mainly for purchases of fuel or other expenses while traveling to fires or rescue calls outside of the District, and for online purchases.

Additionally, the APA requested supporting documentation for one debit card purchase made on March 13, 2023, at Margaritas Mexican Restaurant in Kearney, NE, in the amount of \$124. This purchase was made from the EMS General Fund bank account. The District provided the debit card slip associated with this purchase; however, the District was unable to provide an itemized receipt to show what was purchased.

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. Also increased is the risk of payments being made without the approval of the District Board because debit card expenditures do not require dual signatures.

When asked, the District was unable to provide a copy of a formal policy with guidelines, such as allowable purchases and authorized personnel, for the proper use of its purchasing card. The District did provide the minutes for the November 16, 2023, Board meeting, during which a daily purchasing limit was approved; however, that particular restriction does not constitute a comprehensive policy.

Neb. Rev. Stat. § 13-610 (Reissue 2022) provides, in relevant part, the following requirements for 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.

(Emphasis added.) As noted above, State law requires an itemized receipt for all purchases made with a political subdivision’s purchasing card.

No less importantly, § 13-610(4) references “rules and regulations adopted and promulgated by the political subdivision,” and subsection (6) of that statute refers to “any unauthorized use as determined by the governing body.” Both of those provisions make clear the need for a comprehensive policy to define the appropriate use of a political subdivision’s purchasing card.

Additionally, good internal controls require the implementation of a formal policy with guidelines, including allowable purchases and authorized personnel, for the proper use of a governmental purchasing card. Among other things, that policy should require an itemized receipt for all purchasing card expenditures. Without such policy, there is an increased risk for not only loss, theft, or misuse of District funds but also noncompliance with State statute.

A similar issue was identified by the APA in a prior review and was disclosed to the District in the APA’s letter dated December 27, 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 District implement a formal policy with guidelines, including allowable purchases and authorized personnel, for the proper use of its purchasing card. Among other things, that policy should require an itemized receipt for all purchasing card expenditures.

District Response: The Franklin Rural Fire District will address the lack of a debit card policy. The Board will put together a policy that requires itemized receipts for ALL debit card transactions, authorized personnel to utilize the debit card, and limits on debit card purchases in case of incidentals such as fuel for equipment on mutual aid calls or emergency situations that are not planned.

5. Lack of Policy Regarding Items of Value

The APA noted that the District made two purchases, totaling \$3,447, for gifts to be presented to volunteers at the Department and EMS annual banquets. Details of these purchases are shown below:

Date	Name/Vendor	Amount	Description
1/12/2023	Etsy	\$ 1,722	Personalized Cutting Boards
1/27/2023	Reimbursement to Individual	1,725	Personalized Cups and Blankets Purchased from Etsy
Total		\$ 3,447	

Section 13-2203(3) of the Act allows for the expenditure of public funds to purchase “items of value,” as follows:

In addition to other expenditures authorized by law, each governing body may approve:

* * * *

(3) The expenditure of public funds for plaques, certificates of achievement, or items of value awarded to elected or appointed officials, employees, or volunteers, including persons serving on local government boards or commissions. Before making any such expenditure, the governing body shall, by official action after a public hearing, establish a uniform policy which sets a dollar limit on the value of any plaque, certificate of achievement, or item of value to be awarded. Such policy, following its initial adoption, shall not be amended or altered more than once in any twelve-month period.

(Emphasis added.) While the purchases detailed in the above table appear to have been allowable, the District was unable to provide documentation to show that it had established “a uniform policy” for placing “a dollar limit on the value of any plaque, certificate of achievement, or item of value to be awarded,” as required by § 13-2203(3).

Good internal controls require a “uniform policy” for the District’s purchase of “items of value” to be given as awards under the Act. Without such policy, there is an increased risk for not only loss or misuse of District funds but also noncompliance with State law.

We recommend the implementation of a “uniform policy” for the District’s purchase of “items of value” to be given as awards under the Act.

District Response: The Franklin Rural Fire District doesn’t have a policy regarding items of value. The Board will no longer allow the expenditure of public funds for plaques, certificates of achievement, or items of value awarded to volunteers. If the volunteers and Board want to present such items they will be done through the benevolent account. The Benevolent account will obtain its own Federal ID number and not comingle any taxpayer funds in that account. The Benevolent account will be separate from the budget.

6. Payments Not Approved

The APA obtained a copy of the minutes for the May 18, 2023, meeting of the District’s Board of Directors. Those minutes fail to reflect the Board’s approval of any expenditures made from the District’s EMS or Sinking Fund 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 appropriate financial management, which calls for the Board’s approval of all expenditures of District funds. Such Board approval should occur 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 to 84-1414 (Reissue 2014, Cum. Supp. 2022). In particular, Neb. Rev. Stat. § 84-1413(1) (Cum. Supp. 2022) requires public bodies, including the Board, to “keep minutes of all meetings,” showing, among other things, “the substance of all matters discussed.”

Furthermore, good internal controls 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.

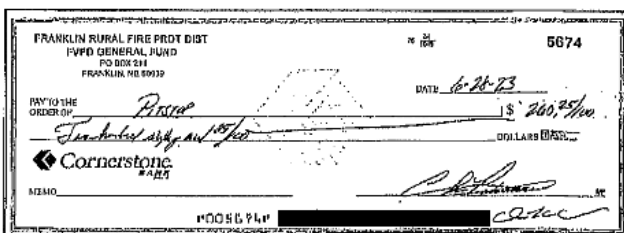
A similar issue was identified by the APA in a prior review and was disclosed to the District in the APA’s letter dated December 27, 2022, which can be found on the APA’s website. However, this issue does not appear to have been corrected after the APA’s notification.

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

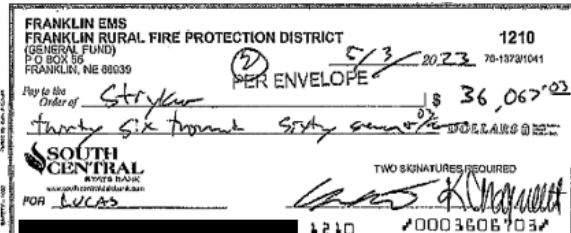
District Response: The Franklin Rural Fire District plans to reiterate to the Board and volunteers that expenditures cannot be spent without prior Board approval. Specifically noting the EMS and Sinking Fund is sure to report expenditures to the Board for timely approval of expenses. The Board will implement procedures to ensure Board approval of all expenditures of District funds occur in a timely manner and that such approval is documented in the Board’s meeting minutes.

7. Lack of Dual Authorized Signatures

The APA obtained the monthly statements for the District’s bank accounts from its fiscal year 2023 audit waiver request. From those statements, the APA noted that all District checks written from the EMS and Department bank accounts during the examination period contained the signatures of individuals who are not members of the District Board. Examples of such checks are shown below:



5674 \$260.25 6/30/2023



1210 7/3/2023 Paid 36067.03

Nebraska law requires both the Secretary-Treasurer and the President of the District to sign all checks approved by the Board of Directors. 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 December 7, 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 Secretary-Treasurer and the President, on all District checks, as required by law.

District Response: The Franklin Rural Fire District will provide additional training that only Board members are allowed to act as a second signor on checks. Going forward both the Secretary-Treasurer and the President of the District will be allowed to sign all checks approved by the Board of Directors. The Board will ensure all public funds are not misused. The Board will also review ALL signature cards to ensure only authorized individuals; Secretary/Treasurer and President; signatures are contained on the card.

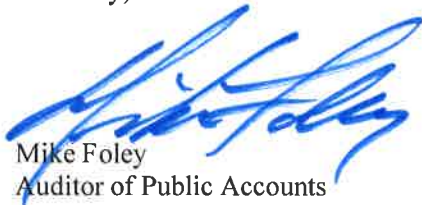
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The preliminary planning work that resulted in this letter was designed primarily on a test basis and, therefore, may not bring to light all existing weaknesses in the District's policies or procedures. Nevertheless, our objective is to use the knowledge 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,



Mike Foley
Auditor of Public Accounts

cc: Brandi Siel, CPA