



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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March 20, 2024

Ryan Pavel, Chairperson
Village of Richland
205 Tilden Street
Richland, NE 68601

Dear Chairperson Pavel:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Village of Richland (Village) 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 the audit waiver should be allowed or further audit work would be required, the APA noted certain internal control or compliance matters, or other operational issues, within the Village.

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

Comments and Recommendations

1. Utility Billing and Collection Procedures

The Village lacked appropriate procedures for its utility billing and collection process. During the last four fiscal years, the Village deposited the following amounts into its Sewer account for its utility operations:

	FY20	FY21	FY22	FY23
October	\$ 340.00	\$ -	\$ -	\$ -
November	100.00	-	-	-
December	190.00	-	-	-
January	5,780.00	4,960.00	878.80	-
February	1,075.00	2,130.00	-	5,574.70
March	-	740.00	6,277.74	-
April	-	130.00	-	-
May	700.00	440.00	-	-
June	1,780.00	140.00	-	-
July	160.00	310.00	-	-
August	150.00	786.60	-	-
September	270.00	-	-	-
Total	\$ 10,545.00	\$ 9,636.60	\$ 7,156.54	\$ 5,574.70

According to the interim Village Clerk (Clerk), no utility billing records were found, including a listing of customers, after the former Clerk left her position on September 19, 2023. In addition, utility rates were not set by ordinance, as required by statute. Due to the lack of records and utility rates not being set by ordinance, Village officials were uncertain which customers had been charged for utilities. Based on prior payment billing stubs, customers had been charged \$20 per month or \$220 per year for utilities. However, the Village still did not have a listing of current utility customers.

In an attempt to determine the number of Village utility customers, the interim Clerk requested a property list for the Village from the Colfax County Assessor, and a copy of this listing was provided to the APA. Using this listing, the APA estimated that the Village has a total of 55 parcels that would likely have used utility services. Assuming each customer paid the yearly rate of \$220 per year, as noted on the billing stubs from prior payments, the Village should have been collecting approximately \$12,100 per year. Yet, as can be seen from the table above, the amounts actually deposited for utilities were considerably less than this amount for the past four fiscal years.

Furthermore, based on examination of the Village's bank statements, the frequency and number of deposits appear to have decreased steadily since fiscal year 2020. The Village made multiple utility deposits throughout both fiscal years 2020 and 2021. In fiscal year 2022, however, the Village made deposits only during the months of January and March. For fiscal year 2023, the Village made two deposits for the entire year – with both deposits made on the same day in February. Since utility customers have the option of paying monthly, it would be reasonable to assume that the Village collects utility payments throughout the year, which should be deposited in a timely manner. Instead, the former Clerk seems to have been either retaining customer payments in the Village office without making timely deposits or not billing customers for their utility usage.

Neb. Rev. Stat. § 17-925.01 (Reissue 2022) authorizes the Village Board of Trustees (Board) to set its sewer rates by ordinance, as follows:

[T]he mayor and city council or the village board of trustees may establish by ordinance such rates for such sewer service as may be deemed to be fair and reasonable, to be collected from either the owner or the person, firm, or corporation requesting the services at such times, either monthly, quarterly, or otherwise, as may be specified in the ordinance.

In addition, good internal controls require procedures to ensure that all Village utility customers are billed properly, and all municipal receipts are deposited in a timely manner. Without such procedures, there is an increased risk for the loss, misuse, or theft of Village funds.

We recommend the Board implement procedures to ensure the following: 1) all Village utility customers are billed properly, and the correct receipts are collected for the municipal services provided; 2) the Village sets its utility rates by ordinance, as directed by statute; and 3) Village deposits of municipal receipts are made timely.

2. Failure to Remit Federal Taxes

The Internal Revenue Service (IRS) Form 941 is the Employer's Quarterly Federal Tax Return used for reporting and paying employee-related taxes to the Federal government. The Village is required to withhold Federal taxes, including income tax, Social Security tax, and Medicare tax, from compensation paid to municipal employees. Despite continuing to make payments to the United States Treasury, the Village was behind on payments and had not filed all quarterly Form 941s.

According to the IRS, the Village, as of October 30, 2023, had overdue taxes for the 2nd quarter of 2021, totaling \$409.09, which included \$45.37 in failure-to-pay penalties and interest charges. Upon examination of reports from the Village's accounting system, QuickBooks, this failure to pay appears to have been due to the former Clerk writing a check to the United States Treasury and then voiding that check without issuing a replacement. In addition, the Village had not filed the quarterly Form 941 and had an unpaid balance for the 4th quarter of 2022, as of January 1, 2024. A notice issued to the Village by the IRS showed that the Village owed \$103.07 in failure-to-pay and failure-to-file penalties, as well as interest charges, for this period.

The interim Clerk informed the APA that these late taxes had been paid as of January 2024. Based on the Village's QuickBooks records, however, three other checks appear to have been written to the United States Treasury during fiscal year 2023 but remained uncleared as of September 30, 2023.

IRS Publication 15 (2024), Circular E, “Employer’s Tax Guide,” states the following, in relevant part:

Form 941. *If you paid wages subject to federal income tax withholding (including withholding on sick pay and supplemental unemployment benefits) or social security and Medicare taxes, you must file Form 941 quarterly even if you have no taxes to report, unless you filed a final return, you receive an IRS notification that you’re eligible to file Form 944, or the exceptions discussed later apply.*

* * * *

Penalties. *For each whole or part month a return isn’t filed when required, there is a failure-to-file (FTF) penalty of 5% of the unpaid tax due with that return. The maximum penalty is generally 25% of the tax due. Also, for each whole or part month the tax is paid late, there is a failure-to-pay (FTP) penalty of 0.5% per month of the amount of tax. For individual filers only, the FTP penalty is reduced from 0.5% per month to 0.25% per month if an installment agreement is in effect. You must have filed your return on or before the due date of the return to qualify for the reduced penalty. The maximum amount of the FTP penalty is also 25% of the tax due. If both penalties apply in any month, the FTF penalty is reduced by the amount of the FTP penalty. The penalties won’t be charged if you have reasonable cause for failing to file or pay. If you receive a penalty notice, you can provide an explanation of why you believe reasonable cause exists.*

Note. *In addition to any penalties, interest accrues from the due date of the tax on any unpaid balance.*

Good internal control requires procedures to ensure that Federal taxes withheld from compensation paid to municipal employees are submitted timely, along with the corresponding Form 941s, to the IRS, as required by Federal law.

Without such procedures, there is an increased risk for not only loss or misuse of Village funds but also violation of Federal law, resulting in the possible liability of the Village and/or its employees.

We recommend the Board implement procedures to ensure municipal employee taxes are remitted timely, along with the Form 941s, to the IRS, as required by Federal law.

3. Credit Card Issues

During fiscal year 2023, two municipal purchasing cards were used to make purchases, totaling \$219.39. The APA identified the following issues with the Village’s credit card procedures:

Lack of Formal Credit Card Policies

The Village lacked a written purchasing card policy that not only specified allowable purchases and authorized users but also outlined procedures for safeguarding Village assets when using a municipal credit card.

Neb. Rev. Stat. § 13-610 (Reissue 2022) provides, in relevant part, the following requirements for a political subdivision’s 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.) Ensuring that Village purchasing cards are used only for authorized purposes, or the privilege of their use is properly suspended, as required by law, it is difficult, if not impossible, without formal municipal guidelines or, as referenced in statute, “rules and regulations adopted and promulgated by the political subdivision” to establish the parameters for such legitimate use.

Good internal control requires written guidelines for the proper use of the Village’s purchasing cards, including formal designation of both the authorized users and the allowable uses thereof.

Lack of Adequate Documentation

During our testing of municipal credit card charges, we noted that the Village lacked sufficient documentation for all credit card purchases, including missing credit card statements, invoices, and receipts.

As noted above, § 13-610(4) requires all expenditures with a political subdivision’s purchasing card to be supported by an itemized receipt. Furthermore, good internal control requires procedures to ensure that proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the Village’s purchasing cards.

Payment of Late Fees and Interest

During our review of the Village’s credit card statements, the APA noted that the Village paid a total of \$220.50 in late fees and finance charges to the credit card company. The following table details these charges:

Date	Vendor	Charge	Amount
11/25/2022	First National Bank of Omaha	Late Fee	\$ 35.00
11/29/2022	First National Bank of Omaha	Finance Charge	1.75
12/27/2022	First National Bank of Omaha	Late Fee	35.00
12/28/2022	First National Bank of Omaha	Finance Charge	1.75
1/25/2023	First National Bank of Omaha	Late Fee	35.00
1/27/2023	First National Bank of Omaha	Finance Charge	1.75
2/27/2023	First National Bank of Omaha	Late Fee	35.00
2/27/2023	First National Bank of Omaha	Finance Charge	1.75
4/25/2023	First National Bank of Omaha	Late Fee	35.00
4/26/2023	First National Bank of Omaha	Finance Charge	1.75
5/25/2023	First National Bank of Omaha	Late Fee	35.00
5/26/2023	First National Bank of Omaha	Finance Charge	1.75
Total			\$ 220.50

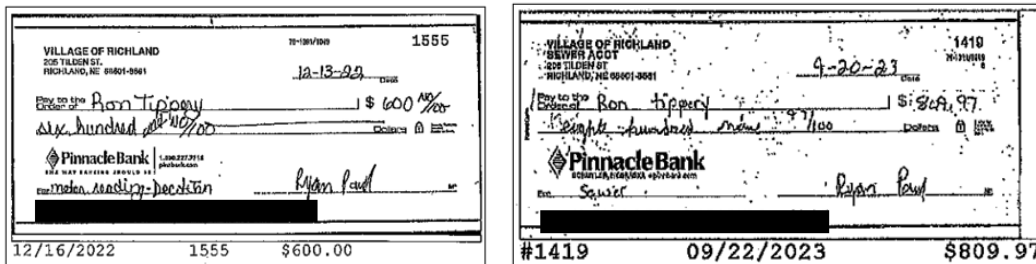
According to credit card statements provided by the Village, both credit cards had zero balances as of June 28, 2023. The interim Clerk informed the APA that both credit cards have since been cancelled.

Good internal control requires procedures to ensure that credit card billings are paid timely to avoid unnecessary interest penalties.

We recommend the Board implement procedures to ensure the following 1) a formal purchasing card policy is implemented to outline procedures for the proper use of the Village’s cards, including the designation of allowable purchases and authorized users; 2) proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the Village’s purchasing cards; and 3) credit card billings are paid timely to avoid unnecessary late fees and charges.

4. Lack of Dual Signatures

The APA obtained the bank statements for the Village’s accounts from its fiscal year 2023 audit waiver request. From these statements, the APA noted that two Village checks, totaling \$1,409.97, written during the examination period contained only one signature. Copies of those checks are shown below:



State statute requires Village checks to be signed by both the Chairperson of the Board and the Village Clerk. Specifically, Neb. Rev. Stat. § 17-711 (Reissue 2022) provides the following:

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 Village 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 and/or misuse of Village funds.

We recommend the Board implement procedures to require dual signatures, from the Board Chairperson and the Village Clerk, on all Village checks, as required by law.

5. Payment of Unapproved Claims

During our comparison of the Village’s bank account details to claims approved by the Board, the APA identified one check, totaling \$342.30, which was paid but not included on the claims listing to be approved by the Board.

Details of the unapproved payment are included in the table below:

Name/Vendor	Check Date	Amount	Check #
United States Treasury	4/11/2023	\$ 342.30	4707

Neb. Rev. Stat. § 17-614(1)(a) (Supp. 2023) sets out the proper method for the appropriation or payment of money by the Village, 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 authorized 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 Village funds.

We recommend the Board implement procedures to ensure all claims are authorized by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

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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 Village'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 Village.

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