



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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January 29, 2024

Mike Russman, Chairperson
Village of Farnam
315 Main Street
Farnam, NE 69029

Dear Chairperson Russman:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Village of Farnam (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. Incorrect Tax Withholdings

The APA received a complaint alleging the Village was not properly withholding income taxes on special payments received by the Village maintenance employee.

As a result, the APA inquired with the Village to obtain additional information and documentation. The APA was informed by the Village Clerk that the Village maintenance employee had elected to receive a monthly “insurance stipend” payment of \$1,375 in lieu of electing medical coverage through the Village.

The Village maintenance employee received 12 payments, totaling \$16,500, during fiscal year 2023 for the “insurance stipend.”

Such payments are generally allowable if offered under a “Cafeteria Plan” allowed per Section 125 of the Internal Revenue Code, which gives employees a choice between at least one taxable benefit (e.g., cash-in-lieu payments) and at least one qualified benefit. However, the Village does not have a formal, written Cafeteria Plan, and has also not been withholding payroll taxes from these “insurance stipend” payments, contrary to Internal Revenue Service (IRS) regulations.

The “FAQs for government entities regarding Cafeteria Plans” information (last updated January 3, 2023) on the IRS website states the following, as is relevant:

A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Participants in a cafeteria plan must be permitted to choose among at least one taxable benefit (such as cash) and one qualified benefit.

* * * *

If an employee elects to receive cash instead of any qualified benefit, it is treated as wages subject to all employment taxes.

(Emphasis added.) Good internal controls require procedures to ensure that any taxable benefit (e.g., cash-in-lieu payments) provided by the Village is subject to all employment taxes in the payroll system in accordance with applicable IRS regulations.

We recommend the Village implement procedures to ensure any taxable benefit (e.g., cash-in-lieu payments) provided by the Village is subject to all employment taxes in the payroll system in accordance with applicable IRS regulations.

2. Expenditures in Excess of Budget

For the fiscal year ended September 30, 2023, actual Village expenditures exceeded the adopted budget by \$249,326, which was due to the General, Water, Sewer, and MFO funds exceeding their respective budgets. No amended budget 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 appropriate budget amendment by the Board to address those excesses, the Village is noncompliant with State statute, further increasing the risk for loss and/or misuse of funds.

We recommend the Board implement procedures for monitoring closely its budget status on an ongoing basis to avoid incurring expenditures in excess of the amount budgeted, amending the budget as necessary to accommodate any unforeseen expenses.

3. 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 one Village check written during the examination period contained only one signature, as is shown below.



State statute requires Village checks to be signed by both the Chairperson of the Board of Trustees (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.

4. Payment of Unapproved Claims

During our comparison of the Village’s bank account details to claims approved by the Board, the APA identified the following payments, totaling \$143.14, which were paid but not included on the claims listing to be approved by the Board. Details of the unapproved payments are included in the table below:

Name/Vendor	Check Date	Amount	Check #
Chad Walker	4/12/2023	\$ 41.93	5590
Dawson Public Power District	4/11/2023	101.21	EFT
Total		\$ 143.14	

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.

5. Payment of Claims Prior to Board Approval

During our comparison of the Village’s bank account details to claims approved by the Board, the APA noted that the following checks, totaling \$353.59, were issued before the underlying claims were approved by the Board. The table below provides a summary of the premature payments:

Name/Vendor	Amount	Approval Date	Check Date	Days Paid Before Approval
Dawson County Court	\$ 216.71	4/11/2023	3/20/2023	22
ATC Communications	136.88	4/11/2023	4/5/2023	6
Total		\$ 353.59		

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(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,



Mark Avery, CPA
Assistant Deputy Auditor