



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 11, 2025

Bryan Gotch, Chairperson
Village of Newcastle
510 Annie Street
Newcastle, NE 68757

Dear Chairperson Gotch:

The Nebraska Auditor of Public Accounts (APA) has reviewed the audit waiver request received from the Village of Newcastle (Village) for the fiscal year ending 2024. **That request has been approved.**

However, the Village's amount of disbursements for the fiscal year ending September 30, 2024, exceeded our normal threshold (\$500,000) for granting a waiver of the audit requirement. Disbursements for the fiscal year ended 2024, totaled \$722,268, which exceeds the normal audit waiver threshold. Due to the Village's submission of supporting documentation for one-time, low risk expenditures, that accounted for a significant percentage of the current year's expenditures, we were able to consider for this year, the Village's activity to be low enough to grant the audit waiver request.

However, if the September 30, 2025, fiscal year end disbursements are similar to or greater than the fiscal year 2024's expenditures, or near the budgeted disbursements for fiscal year 2025, an audit of fiscal year end September 30, 2025, may be required. This information is only for your consideration of planning for fiscal year 2025 and forward.

While performing, pursuant to Neb. Rev. Stat. § 84-304 (Reissue 2024), 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.

Comment and Recommendation

Payroll Tax Withholding Issues

During our review of the Village's fiscal year 2024 audit waiver request, the APA examined the Village Clerk's payroll for July 2024. Due to the tax issues summarized below, the Village Clerk was overpaid by \$83.29 for the pay period tested. The following table summarizes the tax withholding errors that resulted in the overpayment at issue:

Income Tax	APA Calculated Withholding	Actual Withholding	(Over)/Under Withheld
Additional Federal Income Taxes	\$ 185.00	\$ 205.00	\$ (20.00)
Social Security Tax	149.83	89.84	59.99
State Income Tax	78.79	35.49	43.30
Total	\$ 413.62	\$ 330.33	\$ 83.29

- Per the Village Clerk, she would periodically change her additional Federal income tax withholding amounts on her monthly paychecks without submitting a new Internal Revenue Service (IRS) Form W-4 to support each change.
- When manually altering her additional Federal income tax withholding for the July 2024 pay period, the Village Clerk’s Social Security withholding was inadvertently withheld at 3.72% instead of the Federal rate of 6.20%. As a result, the Village Clerk had Social Security taxes underwithheld by \$59.99.
- The Village Clerk’s IRS Form W-4 on file at the Village was dated June 1, 2024, and Line 4c, for additional Federal income tax withholdings, had \$185 per pay period. Despite this, the Village Clerk manually changed her monthly withholding to \$205 for July 2024, resulting in a \$20 overwithholding.
- The Village was unable to provide a Nebraska Form W-4N for the Village Clerk to support her State income tax withholding allowances. Consequently, State income taxes were not withheld at the correct rate, resulting in State income taxes being underwithheld by \$43.30.

Internal Revenue Service (IRS) Publication 15 (Circular E), 2024, “Employer’s Tax Guide,” outlines an employer’s responsibility to withhold income taxes based on each employee’s specific circumstances according to the employee’s Form W-4.

Additionally, the “Frequently Asked Questions” section of IRS Publication 963 (Rev. 7-2020), “Federal-State Reference Guide,” states the following, in relevant part, about the employment status of government officials, especially with regard to not only Federal income taxes but also Social Security and Medicare tax withholdings:

For income tax purposes, elected (or elective) and most appointed officials are defined by IRC Section 3401(c) as employees of the public entity they serve (mayors, members of the legislature, county commissioners, city council members and board or commission members). In general, elected and appointed officials will meet the common-law tests to be considered employees. Regardless of the common-law tests, some positions may be defined as employment by state statute. Some fee-basis officials are by law treated as self-employed. An elected or appointed official who is an employee is subject to rules for mandatory Social Security and Medicare unless covered under a Section 218 Agreement or a qualified participant in a retirement system. All officials elected or appointed to their positions after March 31, 1986, are subject to Medicare withholding.

(Emphasis added.) According to the IRS “Employer’s Tax Guide,” moreover, the rate for the employee’s share of Social Security Taxes was 6.20% for 2024. Turning specifically to State income taxes, the “2024 Nebraska Circular EN,” published by the Nebraska Department of Revenue, provides the following, as is relevant:

If you have an office or conduct business in Nebraska and are considered an employer for federal purposes, you must withhold income taxes for Nebraska. This includes payments made to all employees, including nonresidents, for services performed in this state.

* * * *

If a Federal Form W-4 was completed on or after January 1, 2020, the employee must complete the Nebraska Form W-4N to determine the number of income tax withholding allowances because the Nebraska law allows individuals to claim personal exemption credits. If an employee completed a Federal Form W-4 on or after January 1, 2020 but did not complete a Nebraska Form W-4N, the employer must withhold as if the employee was single and claimed no withholding allowances regardless of marital status.

An employee may request that an additional Nebraska income tax withholding amount be withheld by the employer by completing a Nebraska Form W-4N.

(Emphasis added.) Further, good internal controls require procedures to ensure the following: 1) required payroll forms, such as IRS Form W-4 and the Nebraska Form W-4N, are accurate and maintained for subsequent review; and 2) payroll taxes and other deductions are withheld appropriately.

Without such procedures, there an increased risk for not only noncompliance with applicable Federal and State requirements but also potential liability on the part of the Village or its employees if tax withholdings and other deductions are incorrect.

We recommend the Village implement procedures to ensure the following: 1) required payroll forms, such as IRS Form W-4 and Nebraska Form W-4N, are accurate and maintained for subsequent review; and 2) payroll taxes and other deductions are withheld appropriately.

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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