MANAGEMENT LETTERS FOR THE EDUCATIONAL SERVICE UNITS (ESU's) EVALUATION OF TRAVEL POLICIES AND TRAVEL DISBURSEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2000 OR AUGUST 31, 2000 AND FOR THE PERIOD JULY 1, 2000 OR SEPTEMBER 1, 2000 THROUGH APRIL 30, 2001

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August 20, 2001

Rodney Garwood, Administrator
Educational Service Unit #1
211 10th St.
Wakefield, NE 68784-5014

Dear Mr. Garwood:

We performed an evaluation of the travel disbursements of Educational Service Unit #1 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #1 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example, the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Continued)

- Sales to the State of Nebraska and its agencies are exempt from Nebraska Sales tax. The ESU staff communicated to us that at times sales tax on hotels/motels may be paid, and the ESU did not have a written policy to avoid paying this tax.

  > To avoid paying sales tax on lodging we recommend the ESU establish a written policy to have all hotel/motel lodging charges direct billed to the ESU, a tax-exempt entity, versus having the employee pay the bill and, therefore, paying the sales tax through reimbursement to the employee.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional." The ESU did not have a written policy on when meal expenses incurred on one-day travel may be reimbursed.

  > We recommend the ESU Board develop a written policy on meal expense reimbursements for one-day travel.

- During our review of the Board policies, we noted the policies addressed who and how many people would be expected to attend District, State, and National conferences. However, the policies could be improved or expanded by including and considering the same factors the Board considers in the purchase of other goods or services. That is, whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

  > We recommend the Board develop additional written policies on attendance at conferences. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

ESU's Response: Additional clarification or expansion of these policies will be taken to the Board for consideration.

Many hotel/motels do not offer direct bill as an option. In our experience, the paperwork required to obtain a direct billing for a one time stay, is more costly than the taxes incurred. We have taken steps to secure a listing of hotels to be used by employees in cities where we often stay and have secured direct bill status with them.

2. <u>Travel Receipts</u>

During a test of transactions, we noted certain lodging payments were not supported by invoices in the amount of $957 for a trip related to a conference in Florida.

2. <u>Travel Receipts</u> (Concluded)

Good business practice and internal controls would require original invoices to support all payments.

Based on discussion with the ESU administrator, the original invoices were misplaced.

When original invoices were not received there is a greater risk of an improper payment.

> We recommend the Board obtain original invoices for all payments. No payment should be made without a vendor invoice. If they are lost, then duplicate invoices from the vendor should be obtained, with documentation that they are duplicates and the circumstances in which they were obtained.

ESU's Response: We attempt to have all original invoices prior to payment for internal controls. The particular invoice noted in the draft is, much to my chagrin, my responsibility. I was at the meeting and picked up the invoice and signed for payment via credit card. I can not explain the absence of this invoice, but assure you that we will attempt to make sure that this will not occur in the future. In my opinion, this is probably a very rare exception but I do realize that this is a lame excuse.

For cost control purposes, ESU #1 retains only one credit card which is used exclusively by the Administrator for expenses that can not be handled through purchase orders or direct bills. We do not feel expanding the use of credit cards by other employees is a good idea for our particular agency.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Michael Ough, Administrator
Educational Service Unit #2
2320 N. Colorado, Box 649
Fremont, NE 68026-0649

Dear Mr. Ough:

We performed an evaluation of the travel disbursements of Educational Service Unit #2 for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #2 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example, the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Concluded)

- Sales to the State of Nebraska and its agencies are exempt from Nebraska Sales tax. The ESU staff communicated to us that at times sales tax on hotels/motels may be paid, and the ESU did not have a written policy to avoid paying this tax.

  > To avoid paying sales tax on lodging we recommend the ESU establish a written policy to have all hotel/motel lodging charges direct billed to the ESU, a tax-exempt entity, versus having the employee pay the bill and, therefore, paying the sales tax through reimbursement to the employee.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional." Although the ESU has a written policy on meals claimed for reimbursement or if the reimbursement is taxable income for one-day travel, the policy does not clearly indicate when meal expenses incurred on one-day travel may be reimbursed.

  > We recommend the ESU Board revise their written policy to more clearly define when meal expenses incurred on one-day travel may be reimbursed, and if the reimbursement is taxable income.

- Per discussion with the ESU administrator, the ESU did not have a written policy on when personal long distance telephone calls (while in travel status) would be reimbursed.

  > We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.

- During our review of Board travel policies, we noted the policies covered professional development travel for certain staff but it did not address professional development travel for administrative staff and Board members. For example, the Board did not have written policies on the number of Board members and administrative staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many Board members and administrative staff should attend any one conference. We believe the factors to consider, the same as in the purchase of goods or services, are whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

  > We recommend the Board develop written policies on who, and how many Board members and administrative staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

2. Vehicle Travel Logs

From discussion with the ESU administrator, the ESU owned two vehicles, but there were no mileage logs kept on vehicle use, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicles were used for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle and a supervisor review of the log be done on a regular basis to ensure the vehicle is used only for ESU business. When logs are not kept there is a greater risk that miles driven may not be for ESU business.

> We recommend a log be developed. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. Personal Travel Expenses

Neb. Rev. Stat. Section 13-2204, R.R.S. 1997, does not allow the expenditure of public funds to pay for any expenses incurred by a spouse of an official, employee or volunteer unless the spouse is also an official, employee, or volunteer of the local government. In addition, Neb. Rev. Stat. Section 13-2203(1), R.R.S. 1997, regarding local government miscellaneous expenditures, allows for the expenditure of public funds only for the payment or reimbursement of actual and necessary expenses incurred. Section 13-2203(2) allows for the payment for beverages which are non-alcoholic only.

At times, spouses of ESU Board members or staff traveled with the Board member or staff when they attended conferences. The travel expenses of the spouse are to be paid by the Board member or staff. During our testing of the ESU's travel disbursements we noted:

- The travel expenses of the spouse are paid by the ESU and then reimbursed by the Board member or staff. Thus the expenses and the receipts are recorded on the ESU records.
- Two meals for the spouse of a Board member were not reimbursed in the amount of $56.16.
- A board member was over-reimbursed in the amount of $6.67.
- Flowers were purchased for a board member in the hospital for $16.91.

Personal expenses are not an allowable expense of the ESU and good business practice would require the ESU to not run personal expenses through ESU books.

The ESU paid for personal expenses. In addition, by paying for and then requesting personal expenses to be reimbursed, the ESU was recording personal expense transactions through the ESU records. Personal expense transactions should not be recorded in the ESU records.

> We recommend the ESU not run personal expenses through the records of the ESU. In addition, we recommend the Board member reimburse the personal expenses noted above.

4. Supporting Documentation

From our test of travel documents of the ESU, we noted two instances where employees attended a conference but an agenda or some other documentation supporting the purpose of attendance at the conference, and the date of the conference, was not on file.

Good business practice and internal control would require this type of supporting documentation be obtained and maintained to support the business purpose of the conference, the conference registration expense, and the dates the conference was held to support employee-related travel expenses.

When adequate supporting documentation is not obtained or maintained there is a greater risk of improper disbursements.

> We recommend the ESU maintain adequate documentation for each conference attended, such as an agenda or some other documentation supporting the purpose of attendance at the conference, the conference registration expenses, and the date the conference was held.

5. Purpose Of Travel

From our review of travel documents of the ESU, we noted one instance where the purpose for mileage driven was not supported by documentation. The total expense not supported was $249.55, or 805 miles.

Good business practice and internal control would require supporting documentation be obtained and maintained to support reimbursement for mileage incurred on ESU business. When adequate supporting documentation is not obtained or maintained there is a greater risk of improper payments.

> We recommend the ESU maintain adequate documentation to support all mileage reimbursed was for ESU business.

ESU's Response: I have received the "draft" letter from Don Dunlap with recommendations that come from his May 23rd visit at Educational Service Unit No. 2. This four-page letter offers suggestions for travel policies that our ESU will consider (we are currently revising our policy manual).

Also, the letter notes a couple of board member travel disbursements that were questionable. We are reviewing the specific ones noted in the letter.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Gil Kettelhut, Administrator
Educational Service Unit #3
6949 S. 110th St.
Omaha, NE 68128-5722

Dear Mr. Kettelhut:

We performed an evaluation of the travel disbursements of Educational Service Unit #3 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 3 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example, the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Continued)

- Sales to the State of Nebraska and its agencies are exempt from Nebraska Sales tax. The ESU staff communicated to us that at times sales tax on hotels/motels may be paid, and the ESU did not have a written policy to avoid paying this tax.

  To avoid paying sales tax on lodging we recommend the ESU establish a written policy to have all hotel/motel lodging charges direct billed to the ESU, a tax-exempt entity, versus having the employee pay the bill and, therefore, paying the sales tax through reimbursement to the employee.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional." The ESU did not have a written policy on when meal expenses incurred on one-day travel may be reimbursed.

  We recommend the ESU Board develop a written policy on meal expenses reimbursed on one-day travel.

- Per discussion with the ESU assistant administrator, the ESU does not have a written policy on when personal long distance telephone calls (while in travel status) would be reimbursed.

  We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.

- Commuting expenses are defined by the Internal Revenue Service as those expenses incurred in traveling from one's residence to one's regular place of employment and one's regular place of employment to one's residence, no matter how often this occurs during a day. These are considered personal expenses and are, therefore, unallowable. Expenses incurred in traveling from one's residence to a temporary work location are not considered commuting expenses and are reimbursable. The ESU Board does not have a written policy on commuting.

  We recommend the Board develop a written policy in this area.

- The ESU Board's written policy is to reimburse for actual meal expenses incurred (receipts are required). The policy for staff meals is a maximum of $40 per day and what is reasonable. However, there is no maximum limit set for Board members.

  We recommend the Board establish policies for reimbursing meals for Board members which includes setting a maximum limit amount.

- The Board policies do not identify home bases for employees. This is needed to calculate the starting point for calculating mileage reimbursement. Per discussion with the assistant administrator, the ESU home bases (regular places of employment) included the ESU office, and several pre-school locations.

1. Travel Policies (Concluded)

We recommend this information be part of the ESU Board's written policies.

- Spouses of Board members or staff often accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for the expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be run through the records of the ESU.

  We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Logs

From discussion with the ESU assistant administrator, the ESU owned 28 vehicles (21 of these were used for driver education only), but there were no mileage logs kept on the vehicle usage, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicles were used for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle, and a supervisor review of the log be done on a regular basis to ensure the vehicle was used only for ESU business. When logs are not kept there is a greater risk that miles driven may not be for ESU business.

We recommend a log be developed. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. Travel Disbursements

During our test of travel disbursement documentation for the ESU, we noted the following:

- The original restaurant receipts were not always obtained when a credit card was used to pay for the meal. Credit card receipts show no detail in regard to the meal purchased. The ESU policy was to pay for actual meal expenses supported by receipts. (Examples-noted: Check # 30855, conference in New Orleans, and travel to Orlando, Check # 29506.)

  We recommend original restaurant receipts be required for reimbursement for all meals.

3. <u>Travel Disbursements</u> (Continued)

- The purpose of trips in which one employee received mileage reimbursement were not identified on the mileage reimbursement form (paid to an employee on check # 28362, in October, 1999). The standard mileage reimbursement form does not request this information. In addition, the form did not have start and stop times on it. Without this information it is more difficult to determine whether mileage was for ESU business. In addition, for additional control over expenses, if the start and stop time would have been required, it could have been used as a cross-check against the employee's time sheet, other travel documents, and if applicable, to the employee's service document.

  We recommend the form be modified to require documentation for the purpose, and the start and stop times of the trip.

- On a mileage reimbursement document (check # 32748 for a physical therapist) we noted the mileage to the same location identified on the form was different. There was no indication on the form to explain the difference. Per discussion with staff, it was determined the reason for the difference was because the physical therapist may have made different stops for home visits, and may have had a different number of stops on any given day. Supporting documentation for mileage reimbursed should support the mileage driven for ESU business. Without detailed information on the location and number of stops it is more difficult to determine whether mileage was for ESU business.

  We recommend, when the circumstances as noted above apply, the form be completed by the employee to include the names and locations of the children visited, in the order they were visited. In this manner the number and location of the visits could more readily be compared to the mileage noted as driven to determine whether the mileage was reasonable and necessary for ESU business.

- For a conference attended by Board members and staff in Orlando, Florida, four Board members reimbursed the ESU for a total of $1,075 for personal travel expenses. However, documentation could not be found to support this amount. Without supporting documentation it is not possible to determine that all personal expenses incurred have been reimbursed.

  We recommend supporting documentation be kept on all transactions. We also recommend the ESU staff work with the Board members and their records to ensure all personal expenses were reimbursed.

- During our review of a trip taken by six Board members, the administrator, the assistant administrator, and four department heads to a conference in Marco Island, Florida in December, 1999 we noted the following:

3. <u>Travel Disbursements</u> (Continued)

a. Six board members and six employees attended the conference at a cost in excess of $16,000. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, are whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

   We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

b. The 12 people who attended the conference rented five vehicles. The total cost of these vehicles was paid by the ESU. We question the need for this many vehicles for 12 people. The need for this number of vehicles may have been because the spouses of some of the Board and staff traveled with them. If this is the case, additional vehicle rental costs are personal expenses, and should be reimbursed by the Board member or staff.

   We recommend the Board review this situation. The appropriate Board members or staff should pay all personal costs.

c. One receipt for meal expenses included both the Board member and the spouse. The total amount was $81.41. The Board member requested reimbursement for $61 for this one meal. The receipt did not detail the meal costs (there was no supporting documentation on what was purchased and which costs related to the Board member or spouse). In addition, we believe the meal costs of $61 for one meal was excessive.

   We recommend, as noted above in Comment and Recommendation number 1, that meal limits be established for Board members. In addition, supporting documentation for meals should include detailed receipts noting the costs associated with each individual.

d. An "Employee Mileage and Report Claim" was not filled out as stated in the policy for two Board members. A plain piece of paper was used instead.

   We recommend the proper form be completed as required by Board policy.

3. <u>Travel Disbursements</u> (Continued)

e. A Board member and his spouse chose to extend this trip for personal purposes. The airline ticket cost for them was more than if they had flown with the other Board members and staff attending the conference. The difference between the tickets ($67) was not reimbursed. These additional costs are personal expenses.

We recommend the ESU request reimbursement for these personal expenses.

f. A Board member rented a car and requested reimbursement for portions of the rental car costs. He requested 5 days reimbursement, where the other Board members and staff rentals were only used 4 days. We believe the additional rental costs were personal costs. In addition, one Board member's plane departed later than the other Board members and staff. The Board member stayed an extra night at the Marriott. The other Board members and staff moved to a Comfort Suites, a hotel closer to the airport due to their early flight. The cost at Comfort Suites was less than half the Marriott cost, where the conference was held ($70.85 vs. $158.05). We believe these additional costs are personal costs.

We recommend these additional personal costs for the vehicle rental and hotel be reimbursed to the ESU.

- During our review of a trip taken by eight Board members and the administrator, who attended a conference in Orlando, Florida in March and April, 2000, we noted the following:

a. See this Comment and Recommendation above regarding the Marco Island, Florida trip, and factors to consider regarding who, and how many staff should attend any one conference.

b. Nine people attended the conference and they rented three mini vans. The total cost of these vehicles was paid by the ESU. We question the need for this many vehicles for nine people. The need for this number of vehicles may have been because the spouses of some of the Board members and staff traveled with them. If this is the case, additional vehicle rental costs were personal expenses and should be reimbursed by the Board member or staff.

We recommend the Board review this situation. The appropriate Board members or staff should pay all personal costs.

c. A Board member and his spouse chose to extend this trip for personal purposes. The airline ticket cost for them was more than if they had flown with the other Board members and staff attending the conference. The difference between the tickets ($43.99) was not reimbursed. These additional costs are personal expenses.

We recommend the ESU request reimbursement for these personal expenses.

3. <u>Travel Disbursements</u> (Continued)

d. In testing expenses of the administrator, which were charged on the ESU's credit card, we noted four of four meal expenses were not supported by detailed receipts.

> We recommend supporting documentation be obtained and maintained for all travel expenses incurred.

- In review of a Board member's mileage reimbursement form, we could not always determine a start or stop place for the mileage (mileage reimbursed on a document dated August 2000). When start or stop places are not clearly identified, there is more risk that mileage reimbursements may not be for ESU business.

> We recommend the mileage reimbursement form clearly identify start and stop locations.

- In review of travel expense for a staff person attending a conference in New Orleans starting March 25, 2000, we noted the staff person flew to New Orleans on March 23, 2000. This is a full day before the conference started. Per discussion with the assistant administrator, the reason the staff person went to New Orleans before the conference started was because she attended a pre-conference meeting. Additional travel expenses were incurred because of the additional day of travel. However, the ESU had no documentation to support this statement. If documentation for all travel expenses are not kept, expenses are not supported and there is greater risk of inappropriate expenses being incurred.

> We recommend supporting documentation be obtained and maintained for all travel expenses incurred.

ESU's Response: Your office has requested comments, or notations, of any possible errors concerning your office's review of Travel Policies and Travel Disbursements for Educational Service Unit #3. I believe that personnel in my office discussed these matters with your personnel during the review of our records, but I thank you for the chance to put our comments in writing.

Most of your recommendations concern the need for Board policies on a number of matters. As the administrator of Educational Service Unit #3 I will present your findings and recommendations to the ESU #3 Board of Education for their review, considerations, and any official action the Board of Education might wish to take.

In addition, some recommendations concern administrative procedures. We will carefully review all your recommendations and respond appropriately when and if at all possible.

Furthermore your office's requests for reimbursements for certain items pertaining to travel will be put forth to the Board of Education and the individual board member(s) in question.

3. <u>Travel Disbursements</u> (Continued)

Below are our responses to some of the items noted in your report that we would like to add further clarification:

1. Travel Policies

"Sales to the State of Nebraska …" (page 2 of your letter).

> *Many out of state hotels/motels will not do direct billing, and except for Administrative Team, staff members do not have ESU credit cards.*

"Per discussion with the ESU assistant administrator, the ESU does not have a written policy on when personal long …" (page 2 of your letter).

> *ESU #3 does have a practice that one telephone call is permitted (to call home and let family members know of their arrival) unless special circumstances warrant another call, but it is not in writing.*

"The Board policies do not identify home basis for employees …" (page 2 of your letter).

> *ESU #3 is currently working on this item as it relates to Negotiations with certificated staff members.*

"Spouses of Board members or staff often accompanied …" (page 3 of your letter).

> *ESU #3 often get discounted airfare rates for board members and staff when including their spouses and therefore increasing the number of travelers. A possible solution is to ask board and staff to pay their spouses fare directly to the travel agency and include those checks when we write the ESU check.*

3. Travel Disbursements

"The original restaurant receipts were not …" (page 3 of your letter).

> *ESU #3 attempts to do this, but some restaurants have refused to provide individual receipts with a large group of people.*

"During our review of a trip taken by six board members … Florida" (page 4 … 6 of your letter).

> *b. ESU #3 also took a staff member from another ESU and equipment for presentations.*

> *f. All board members and staff were scheduled to stay in the convention hotel through that last night. However, some staff and board members decided to relocate closer to the airport so as not to have to get up so early on the day of departure. The one member with the later flight stayed where we were all going to be since he did not have an early flight.*

3. <u>Travel Disbursements</u> (Continued)

"In review of travel expense for a staff member …" (page 7 of your letter)

> *The staff member in question did go in one day early because she served on a committee that met before the conference. That meeting was not shown on the conference agenda because it was not for all participants. NSBA could not provide us with documentation when we called to ask for it because it had been over a year ago.*

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Jon Fisher, Administrator
Educational Service Unit # 4
919 16th Street, P.O. Box 310
Auburn, NE 68305-0310

Dear Mr. Fisher:

We performed an evaluation of the travel disbursements of Educational Service Unit # 4 for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 4 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Written Policy</u>

- The ESU did not have any written policy to document the reason or amount for a $25 per trip per diem paid to the secretary of the Board.

Sound business practice requires documentation for all payments made to employees and Board members.

Per diems may not be consistently paid if there is no written policy.

> We recommend the ESU Board establish a written policy to document the reason and amount of any per diems paid to employees or Board members.

- On occasion, spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences. The Board had no written policy to allow the expenses of spouses of Board member or staff to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be run through the records of the ESU.

1. <u>Written Policy</u> (Concluded)

> We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. <u>Travel Disbursements</u>

During our review of a trip taken by five Board members and the administrator to a conference in Las Vegas, Nevada in December, 2000, we noted the following:

Five board members and the administrator attended the conference at a cost of approximately $9,282. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, are whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

3. <u>Vehicle Travel Logs</u>

From discussion with the ESU Accountant, the ESU owned five vehicles, but there were no mileage logs kept on vehicle usage, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicles were used for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle and a supervisory review of the log be done on a regular basis to ensure the vehicle is used only for ESU business.

When logs are not kept there is a greater risk that miles driven may not be for ESU business.

> We recommend a log be prepared for all ESU-owned vehicles. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. <u>Vehicle Travel Logs</u> (Concluded)

ESU's Response: I am in receipt of the draft copy of the advisory letter for the Educational Service Units Evaluation of Travel Policies and Disbursements. I appreciate the report and suggestions made by your office. I have included brief comments and responses to recommendations specific to ESU #4.

Please recognize that, at this time, I have not shared the results of your office's report with the ESU #4 Board of Education or staff. The process of sharing, specifically addressing the report and determining a course of action will be given prominent attention as time and schedules allow. Several recommendations relate to the need for identified policies and procedures on several matters. Together we will determine action regarding the policy recommendations.

At this time, I cannot speak of our final decisions or of the final resolutions of the questions raised. I will suggest we work through each suggestion, determine the course of action, and involve all individuals needed.

Additionally, I offer the following comments to some of the items identified:

- *Recommendation regarding per diem amount paid to the board secretary – This has been a course of action at ESU #4 for several years. I believe this can be addressed when the board reorganizes this year; the board members realize this arrangement and are supportive of current practice.*

- *Recommendation regarding board member attendance at the annual national convention – I believe ESU #4 is very fortunate that we have strong attendance at such meetings. We do discuss attendance, determine sessions to attend, and coordinate sessions with our own goals and directions. ESU #4, as well as our board, has benefited from attendance at the annual conference. The need for an informative, prepared board of education is critical to our success. A similar process is utilized regarding staff attendance at regional and national meetings.*

- *Recommendation regarding travel logs – Soon after the visit by your office, staff vehicle logs were developed and are in place. We now have procedures reflecting the recommendations for all vehicles. Vehicles used at NCECBVI, because they are used to transport students, have been "logged" monthly.*

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Al Schneider, Administrator
Educational Service Unit #5
900 W Court Street
Beatrice, NE 68310-3526

Dear Mr. Schneider:

We performed an evaluation of the travel disbursements of Educational Service Unit #5 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #5 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation we noted the ESU has no written policies. The ESU did have unwritten travel policies. The following are suggestions for a starting point to developing written travel policies. This list should not be considered all-inclusive. We noted the following:

- Written policies of the ESU did not exist to address when a specific meal would be reimbursed. For example the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

1. <u>Travel Policies</u> (Continued)

We recommend the ESU Board develop written policies on when specific meals will be reimbursed.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional." The ESU did not have a written policy on when meal expenses incurred on one-day travel may be reimbursed. There was no policy stating a limit to the amount a meal would be reimbursed or if receipts would be required.

We recommend the ESU Board develop a written policy on meal expenses reimbursed on one-day travel.

- Per discussion with the ESU bookkeeper, the ESU did not have a written policy on when personal long distance telephone calls (while in travel status) would be reimbursed.

We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.

- Commuting expenses are defined by the Internal Revenue Service as those expenses incurred in traveling from one's residence to one's regular place of employment and one's regular place of employment to one's residence, no matter how often this occurs during a day. These are considered personal expenses and are, therefore, unallowable. Expenses incurred in traveling from one's residence to a temporary work location are not considered commuting expenses and are reimbursable. The ESU Board does not have a written policy on commuting.

We recommend the Board develop a written policy in this area.

- The Board had no written policies for mileage reimbursement amounts for personal vehicle usage. The Board had no written policies for lodging reimbursement requirements. The Board had no written policies for conference reimbursable expenses.

We recommend the Board develop written policies in these areas.

- The Board policies do not identify home bases for employees. This is needed to calculate the starting point for calculating mileage reimbursement.

We recommend this information be part of the ESU Board's policies.

1. Travel Policies (Concluded)

- On occasion, spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences. The Board had no written policy to allow the expenses of spouses of Board members or staff to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be run through the records of the ESU.

> We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Logs

From discussion with the ESU Bookkeeper, the ESU owned four vehicles, but there were no mileage logs kept on one of the four vehicles used, as this vehicle was permanently assigned to one individual. The travel logs for the other vehicles were inadequately kept. For the month tested, the Aero-Star van had 13 unaccounted miles, and the Dodge van had 395 unaccounted miles.

Good business practice would require a log be prepared by the user of the vehicle and a supervisor review of the log be done on a regular basis to ensure the vehicle is used only for ESU business.

When logs are not kept there is a greater risk that miles driven may not be for ESU business.

> We recommend a log be prepared for all ESU-owned vehicles. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. Travel Disbursements

During our test of travel disbursement documentation for the ESU, we noted the following:

- One individual was not always identifying the purpose of trips in which mileage reimbursements were received. The standard mileage reimbursement form does request this information, and for most instances we tested the employees utilized this column. In addition, the form does not request start and stop times. Without this information, it is more difficult to determine mileage is for ESU business. In addition, for additional control over expenses, if the start and stop time would have been required, it could have been used as a cross-check against the employee's time sheet, other travel documents, and if applicable, to the employee's service document.

3. <u>Travel Disbursements</u> (Concluded)

> We recommend individuals be required to complete all columns the reimbursement forms. We further recommend the form be modified to require columns for the documentation for start and stop times of the trip.

- In five instances where the auditor recalculated the mileage reported on the reimbursement documents the mileage appeared to be overstated. There was no explanation on the form why the mileage appeared to be high. Per discussion with staff, it was determined the reason for the apparent overstatement was because some employees may have made different stops for home visits or to several schools, and may have had a different number of stops on any given day. Supporting documentation for mileage reimbursed should support the mileage driven for ESU business. Without detailed information on the location and number of stops it is more difficult to determine whether mileage was for ESU business.

> We recommend, when the circumstances as noted above apply, the form be completed by the employee to include the names and locations of the children visited, in the order they were visited. In this manner the number and location of the visits could more readily be compared to the mileage noted as driven to determine whether the mileage was reasonable and necessary for ESU business.

- During our review of a trip taken by six Board members and the administrator to a conference in Las Vegas, Nevada in December, 2000, we noted the following:

  Six board members and the administrator attended the conference at a cost of approximately $10,075. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, is whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

Draft copies of this letter were furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. The ESU declined to respond.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Larry Lindquist, Administrator
Educational Service Unit #6
210 5th Street, P.O. Box 748
Milford, NE 68405-0748

Dear Mr. Lindquist:

We performed an evaluation of the travel disbursements of Educational Service Unit #6 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 6 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example, the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. Travel Policies (Concluded)

- Per discussion with the ESU Accountant, the ESU did not have a written policy on when personal long distance telephone calls (while in travel status) would be reimbursed.

  We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.

- Commuting expenses are defined by the Internal Revenue Service as those expenses incurred in traveling from one's residence to one's regular place of employment and one's regular place of employment to one's residence, no matter how often this occurs during a day. These are considered personal expenses and are, therefore, unallowable. Expenses incurred in traveling from one's residence to a temporary work location are not considered commuting expenses and are reimbursable. The ESU Board does not have a written policy on commuting.

  We recommend the Board develop a written policy in this area.

- Spouses of Board members or staff often accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be processed through the records of the ESU.

  We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Logs

From discussion with the ESU Accountant, the ESU owned five vehicles, but there were no mileage logs kept on four of the five vehicles' usage, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicle, were used for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle and a supervisor review of the log be done on a regular basis to ensure the vehicle is used only for ESU business. When logs are not kept there is a greater risk that miles driven may not be for ESU business.

We recommend a log be prepared for all ESU-owned vehicles. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. Travel Disbursements

During our test of travel disbursement documentation for the ESU, we noted the following:

- We noted one instance where two receipts were not attached to the credit card bill and expense voucher. Credit card receipts show no detail in regard to the purchases. The ESU policy was to pay for actual meal and other expenses supported by receipts. Without documentation of all travel expenses, it is not possible to determine whether expense vouchers for reimbursements are correct. The lack of documentation attached to an expense voucher increases the risk that errors or irregularities may go undetected.

  > We recommend original receipts be required for reimbursement for any expenses.

- The purposes of trips in which employees received mileage reimbursements were not always identified on the mileage reimbursement form. The standard mileage reimbursement form requests this information. However, for most instances we tested the employee wrote the destination, but not the purpose. In addition, the form did not have start and stop times on it. Without this information it is more difficult to determine whether mileage was for ESU business. In addition, for additional control over expenses, if the start and stop time would have been required, it could have been used as a cross-check against the employee's time sheet, and other travel documents.

  > We recommend the form be modified to require documentation for the purpose, and the start and stop times of the trip.

- On some mileage reimbursement documents, we noted the mileage to the same location identified on the form was different. There was no indication on the form to explain the difference. Supporting documentation for mileage reimbursed should support the mileage driven for ESU business.

  > We recommend, when the circumstances as noted above apply, the form be completed by the employee to include the names and locations of the children visited, in the order they were visited. In this manner the number and location of the visits could more readily be compared to the mileage noted as driven to determine whether the mileage was reasonable and necessary for ESU business.

- During our review of a trip taken by three Board members, the administrator, and two department heads to a conference in Las Vegas, Nevada in December, 2000, we noted the following: Three board members and three employees attended the conference at a cost of approximately $5,185. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, are whether the costs

3. <u>Travel Disbursements</u> (Concluded)

are reasonable and necessary for the ESU. Other than costs, the board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

ESU's Response:

1. Travel Policies

- *Written policies of the ESU did not address when a specific meal would be reimbursed.*
  Response: ESU #6 will improve and expand our travel policies dealing with issues on specific meal reimbursements.

- *We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.*
  Response: ESU #6 currently requires all employees to identify any personal calls and reimburse ESU #6 for these calls. This will be added to our travel policies.

- *We recommend the Board develop a written policy in this area – Commuting.*
  Response: Because of the uniqueness with multiple worksites, individual agreements must be made with some employees concerning what is considered home base.

- *We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.*
  Response: ESU #6 will develop a policy addressing this to show spousal and personal expense will not be paid through ESU's general fund.

2. Vehicle Travel Logs

- *We recommend a log be prepared for all ESU –owned vehicles…*
  Response: ESU #6 has already created vehicle travel logs for all of our vehicles.

3. Travel Disbursements

- *We recommend original receipts be required for reimbursement for any expenses . . .*
  Response: ESU #6 has already developed an administrative policy stating that all credit card charges must be backed with an original receipt. Any charges that do not have a receipt will be paid by the employee. Any expense $5.00 or more claimed on an expenditure report by an employee will not be reimbursed to the individual without the original receipt attached.

- *We recommend the form be modified to require documentation for the purpose, and the start and stop times of the trip.*
  Response: We have revised our travel and expense voucher to address the purpose of the trip.

- *We recommend, when the circumstances as noted above apply, the form be completed by the employee to include the names and locations of the children visited, in the order they were visited . . .*
  Response: The revised travel and expense voucher referred to above will be used by the special education staff. It is a breach of SPED confidentiality to list children or parent names on such a form. Mileage will vary to certain sites because of the number of contacts.

- *We recommend the Board develop written policies on whom, and how many Board members and staff attend any one conference . . .*
  Response: ESU #6 adheres to the statute dealing with reimbursement of expenses for Board members for meeting attendance and for professional development. ESU #6 board are elected and have the necessary duty to become knowledgeable about the office they hold. ESU #6 does have board members and staff report on the meetings they attended to further educate others. (reference to letter from Gil Kettelhut, ESUAA President)

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Norman Ronell, Administrator
Educational Service Unit #7
2657 44th Ave.
Columbus, NE 68601-8537

Dear Mr. Ronell:

We performed an evaluation of the travel disbursements of Educational Service Unit #7 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 7 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example, the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. Travel Policies (Concluded)

- Spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be processed through the records of the ESU.

> We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Log

From discussion with the ESU administrator, the ESU owned one vehicle and a mileage log was kept on the vehicle use; however, there was no documentation the log was reviewed by management to ensure mileage was reasonable and the vehicle was used for ESU business only.

Good business practice and internal control would require documentation that the log had been reviewed on regular basis to ensure the vehicle is used only for ESU business. When logs are not reviewed by management on a regular basis there is a greater risk that miles driven may not be for ESU business.

> We recommend the administrator or other management personnel review the log on a regular basis, and that a manager's signature on the log documents such review.

3. Conference Expenses

Five Board members and the administrator attended a national conference in Las Vegas, Nevada at a cost of $8,608.47. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, are whether the costs are reasonable and necessary for the ESU. Other than costs, the board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the ESU Board re-evaluate their training needs and justify the expense and the number of people it sends to one conference.

4. Supporting Documentation

From our test of travel documents of the ESU, we noted one instance where an employee attended a conference and an agenda or some other documentation supporting the reason for attending the conference, and the date of the conference, was not on file.

Good business practice and internal control would require this type of supporting documentation be obtained and maintained to support the business purpose of the conference and the date the conference was held to support employee related travel expenses.

When adequate supporting documentation is not obtained or maintained there is a greater risk of improper disbursements.

> We recommend the ESU maintain adequate documentation for each conference attended, such as an agenda or some other documentation supporting the reason for attending the conference and the date the conference was held.

ESU's Response: The recommendations from your office have been received and are being addressed. The recommendations concerning direct payment of spousal expenses, periodic review by administrative staff of vehicle travel logs, and the inclusion of supporting documentation for meeting agendas with travel requests have already been implemented. The comments regarding written policies for specific meal reimbursement, and reevaluating ESU Board Member training needs along with justification of the related expenses will be addressed through board policy review.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Randy Peck, Administrator
Educational Service Unit #8
106 W. Third, P.O. Box 89
Neligh, NE 68756-0089

Dear Mr. Peck:

We performed an evaluation of the travel disbursements of Educational Service Unit #8 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 8 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when specific meals would be reimbursed. For example the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Continued)

- Sales to the State of Nebraska and its agencies are exempt from Nebraska Sales tax. The ESU staff communicated to us that at times sales tax on hotels/motels may be paid, and the ESU did not have a written policy to avoid paying this tax.

  > To avoid paying sales tax on lodging we recommend the ESU establish a written policy to have all hotel/motel lodging charges direct billed to the ESU, a tax-exempt entity, versus having the employee pay the bill and, therefore, paying the sales tax through reimbursement to the employee.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional." The ESU did not have a written policy on when meal expenses incurred on one-day travel may be reimbursed.

  > We recommend the ESU Board develop a written policy on meal expense reimbursements on one-day travel.

- Spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences. The Board's written policy was "If the Board member elects to take a guest to a convention, all of the expenses for the guest will be the responsibility of the individual Board member." The policy did not address whether or not the Board allowed the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. Per discussion with the bookkeeper, personal expenses on occasion are processed through the records of the ESU.

  > We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

- During our review of the Board's travel policies, we noted the policies addressed how many people would be expected to attend District, State, and National conferences. However, the policies could be improved or expanded in this area by including and considering the same factors the Board considers in the purchase of other goods or services. That is, whether the costs of attending conferences are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

  > We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

2. Vehicle Travel Logs

From discussion with ESU administrator, the ESU owned six vehicles, but there were no mileage logs kept on the vehicle usage, nor were there any other monitoring procedures in place to ensure mileage was reasonable and for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle and a supervisor review of the log be done on a regular basis to ensure vehicle is used only for ESU business. When logs are not kept there is a greater risk that miles driven may not be for ESU business.

> We recommend a log be developed. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by their signature on the log.

3. Lack of Supporting Documentation

In our review of 13 selected transactions we noted five that did not have adequate documentation. We noted the following:

1. Check #18093 was for $2,269.44. $794.30 was for administrative travel expenses, plane tickets for assistant administrator and the administrator. No documentation was on file at the ESU for the conference attended, or for plane tickets purchased.
2. Check #19773 was for $2,693.73, for various conferences and meetings attended by the administrator and the related expenses for meals and lodging. We tested one transaction related to this amount. There was no supporting documentation on file at the ESU for this transaction.
3. Check #20501 was for $2,305.51. Check #1076 was written on the revolving checking account by the administrator. However, there was no supporting documentation such as hotel receipt, meal receipts, or conference agenda on file with the ESU to support this amount.
4. Check #21934 was for $223.16. Payment was for a conference. The Board minutes for 10/18/99 did not mention the date or place the conference was held. No other supporting documentation was on file at the ESU, such as a conference agenda or registration.
5. Check #20186 was for $442.32. Payment was for conference expenses. No supporting documentation was on file to support the attendance of the staff at the conference.

Good business practice and internal control would require supporting documentation be obtained and maintained to support all disbursements. When adequate supporting documentation is not obtained or maintained there is a greater risk of improper payments.

> We recommend the ESU maintain adequate documentation for travel disbursements, including original invoices from vendors, conference registrations, etc.

4. Golf Tournament Expenses

Our testing of travel disbursements noted monies were paid from the Revolving Account for golf tournament expenses. The ESU sponsors an annual golf tournament for current and former School Superintendents and Administrators. A participant fee was charged to cover the cost of green fees, prizes, and lunch. The fees were paid to the ESU. The ESU deposited the participant fees into the Revolving Account and paid the expenses of the tournament from this account.

Three checks totaling $1,849.26 were written on the Revolving Account for golf tournament expenses. $1,569.00 in tournament participant fees were deposited in the Revolving Account to cover the tournament expenses. Therefore, $280.26 of the golf tournament expense was not covered by participant fees, and was paid by ESU #8.

Good business practice would require that non-business activities not be processed through the ESU accounts. In addition, the $280.26 was for personal expenses of the golf tournament participants and should not be paid by the ESU.

When non-business or personal transactions are processed through the ESU, the records of the ESU include non-ESU business transactions, which may result in these non-business or personal expenses being paid by the ESU.

> We recommend the golf tournament expenses in the future not be processed through the books of the ESU. We also recommend the Board determine whether the expenses of $280.26 not reimbursed by golf tournament participants should be borne by the taxpayers, or reimbursed in some manner.

ESU's Response: I have received the draft copy of the evaluation your department did of Educational Service Unit #8 regarding travel policies and travel disbursements.

I will present this report in its entirety to our Board of Directors at our next meeting on August 20th. The comments that I am making in this letter are my own and do not necessarily reflect the opinion of our Board of Directors.

It seems somewhat unfair, in my opinion, to ask for a response from each Service Unit by August 3rd when we will not have the opportunity to seek input from our Board. Since many of the recommendations from your department deal with policies that are adopted by Service Unit Boards, shouldn't they have the opportunity to review the report with a chance to respond to your recommendations?

The following are my responses to the items identified in your report:

1. Travel Policies –

- *Our Service Unit is currently revising all of our policies and your recommendation on meal expenses was timely. I believe we were adhering to many of these suggestions, but did not have it stated in policy.*

I do have a concern:

- *Regarding your recommendation on not processing expenses for spouses through ESU records. We have paid for airline tickets for spouses accompanying Board Members or Administrators to a National Conference and then were reimbursed for the cost. In securing the best price for airline tickets it is not always possible or practical to gather individual checks in a timely manner. If the ESU is reimbursed, why is this a problem?*

Auditors' Response: We believe spouse expenses are personal expenses of the individual Board Member, and as such, they should not be processed through the records of the ESU.

2. *Vehicle Travel Logs –*
   We have developed the travel logs as recommended and will put them in place in all ESU #8 owned vehicles beginning in August of 2001.

3. *Lack of Supporting Documentation –*
   Since ESU #8 has no credit cards, we do use our revolving checking account to pay for some travel expenses. The revolving account is kept by the ESU #8 administrator and only that person may write checks on that account. As ESU #8 Administrator, I have not been keeping all the receipts for transactions believing the canceled check was adequate receipt. Since the exit report from your department's audit, I have kept all receipts for checks written on the revolving account.

4. *Golf Tournament Expenses –*
   ESU #8 had hosted a Golf Tournament for administrators, teachers, and support staff for those schools in our seven counties for over 20 years. The cost of this event is usually paid for by entry fees, but does not come out exactly each year. Usually these costs are very close, but in this particular year we had some inclimate weather move in and forced some late cancellations of participants and vendors who normally provide many of our flag prizes as well as entry fees.

I will present this recommendation along with all others in your report to our Board of Directors for their input. We will review how we have handled this Golf Tournament and consider if we will continue hosting this event.

After reviewing this report with our Board of Directors on August 20th, they may have additional comments regarding this report. If so, I will write them down and share them with you.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Mick Loughran, Administrator
Educational Service Unit #9
P.O. Box 2047
Hastings, NE 68902-2047

Dear Mr. Loughran:

We performed an evaluation of the travel disbursements of Educational Service Unit #9 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit # 9 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted the following concerning the ESU's travel policies:

- Spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences or training. The Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date. While it appears spousal expenses were paid by the ESU infrequently, these are personal expenses and should not be processed through the accounting records of the ESU.

  We recommend the ESU Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

1. <u>Travel Policies</u> (Continued)

- The ESU's administrative policy # 76, section 6 states, "Staff members whose home base is the main office, ESU # 9, Hastings, are eligible to claim mileage reimbursement for travel from home to the main office and back home." However, it appears the ESU's practice was that the staff member's home was considered their home base. The Internal Revenue Service defines commuting expenses as those incurred in traveling from one's residence to one's regular place of employment and from one's regular place of employment to one's residence. Therefore, the ESU's practice differed from their written policy.

  We recommend the ESU ensure their practices agree to their written policy and to IRS commuting expense requirements.

- The ESU's administrative policy # 21 allowed meal reimbursements to staff when travel occurs before and after certain times. However, the ESU's claim form used to reimburse meal costs did not include start and stop times. Therefore, we were unable to determine whether all meals claimed for a day were within ESU policy.

  We recommend the ESU ensure start and stop times are included whenever travel expenses are claimed for reimbursement.

- During our evaluation, we noted the ESU Board and staff attended a limited number of conferences. However, in our review of the Board's travel policies, we noted the policies did not address how many people would be expected to attend District, State, and National conferences. The travel policies could be improved or expanded in this area by including and considering the same factors the Board considers in the purchase of other goods or services. That is, whether the costs of attending conferences are reasonable and necessary for the ESU. Other than costs, the Board should consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

  We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

ESU's Response: Enclosed are my comments and responses regarding the draft letter received on travel policies and disbursements.

Travel policies

- *We recommend the ESU board develop a policy that no personal expenses of board members or staff be processed through the records of the ESU.*

1. <u>Travel Policies</u> (Concluded)

Response: You mention that spousal expenses were processed through the records of the ESU infrequently. Our records indicate that this procedure was used twice in the past five years primarily for convenience and assurance of proper air flights and rates. However, we will develop an administrative policy that disallows the practice in the future.

- *We recommend the ESU ensure their practices agree to their written policy and to IRS commuting expense requirements.*

  Response: We are in the process of updating our travel policies. Many of our employees have an office here but are at different job sites throughout the week. We will be contacting our attorney about policy clarifications and IRS requirements.

- *We recommend the ESU ensure start and stop times are included whenever travel expenses are claimed for reimbursement.*

  Response: When the old forms are used up, the new forms will include a start and stop time on them.

- *We recommend the board develop written policies on who and how many board members and staff attend any one conference. In addition, we recommend the board prepare documentation to support the board has considered its policies, and that the cost of sending board members and staff to attend a conference is justified.*

  Response: In the past five years we have only had three board members attend a national conference (one of those was presentor). It is difficult to persuade board members of the importance of attending national meetings when it takes them away from their daily jobs as well as families.

  The reason organizations have policies is somewhere or sometime a situation existed that required a policy. I'm not sure in our situation that a policy needs to be adopted. However, the topic will be on a future agenda for the board's consideration.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Wayne Bell, Administrator
Educational Service Unit #10
P.O. Box 850
Kearney, NE. 68848-0850

Dear Mr. Bell:

We performed an evaluation of the travel disbursements of Educational Service Unit #10 and for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #10 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted the following concerning the ESU's travel policies:

- Spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences or training. The ESU's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date. While it appears spousal expenses were paid by the ESU infrequently, and subsequently reimbursed by the board members, these are personal expenses and should not be run through the accounting records of the ESU.

  We recommend the ESU Board develop a policy where no personal expenses of Board members or staff are processed through the records of the ESU.

1. Travel Policies (Concluded)

- During our evaluation, we noted the ESU Board and staff attended conferences. However, in our review of the Board's travel policies, we noted the policies did not address how many people would be expected to attend District, State, and National conferences. The travel policies could be improved or expanded in this area by including and considering the same factors the Board considers in the purchase of other goods or services. That is, whether the costs of attending conferences are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

2. Vehicle Travel Logs

The ESU owned ten vehicles, of which, six were used mainly for transporting staff, and four were used as delivery vehicles. The ESU did not maintain mileage logs in these vehicles, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicles were used for ESU business only.

Good business practices require a record of vehicle usage be prepared by the user of each vehicle and these records be reviewed on a regular basis by management to ensure vehicle usage is proper.

When logs are not maintained, there is an increased risk of improper usage of ESU vehicles.

> We recommend the ESU develop a log for each of its vehicles. These logs should include information on miles driven, dates driven, start and stop times, purpose of the trip, and signatures of drivers. We also recommend the log be reviewed by management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

ESU's Responses:
General Comments:
Key management personnel were unavailable due to previously scheduled meetings and activities to form comprehensive comments, but the following response should convey the essence of this ESU's thoughts concerning the audit report. This response document as well as the final documents received from your office will be shared with the ESU 10 Board of Directors for future thought and action.

Comments Relevant to Management Letter to ESU 10:
State Auditor's Statement: "the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable and the amount that will be paid."

Comment: ESU 10 does have written travel policies regarding travel. The official Board Policies are as follows:

ESU 10 Board Policy I-B-3, Item 6: Excluding the treasurer, ESU 10 members of the Board shall not receive compensation. They shall receive mileage as set by the Board and actual expenses incurred in attending regular and special meetings or incurred in the performance of official Unit business. The Board may authorize the entire membership or part of it to attend state, regional, or national meetings with actual expenses incurred to be paid from funds so budgeted.

ESU 10 Board Policy III-C-1, Item 2: ESU 10 shall reimburse the Administrator for expenses incurred when he or she represents the Unit on Unit business and when he or she attends meetings for professional improvement.

ESU 10 Board Policy IV-I-1: It shall be the policy of Educational Service Unit No. 10 ("ESU No. 10") to permit and to authorize elected and appointed officials, employees, or volunteers of ESU No. 10 to incur certain expenses authorized by law for travel to and from and attendance at educational workshops, conferences, training programs, official functions, hearings, or meetings subject to the following:

1. *This policy shall pertain to elected and appointed officials and employees of ESU No. 10, or volunteers performing services under the supervision and at the direction of ESU No. 10. This policy shall not pertain to employees incurring mileage expense during the regular course and scope of employment if such mileage is governed by other Board policy, a collective bargaining agreement, or an order from the Commission of Industrial Relations or other competent tribunal.*
2. *No expenditure shall be authorized by the Board for travel to and from and attendance at any educational workshop, conference, training program, official function, hearing or meeting, either within or outside of the boundaries of ESU No. 10 unless the following conditions have been met:*
    a. *A request in writing has been made to the administrator for authority to attend such educational workshop, conference, training program, official function, hearing or meeting.*
    b. *The purpose of the attendance has been concisely described in writing by the requesting party to the administrator and the requesting party shall have submitted in writing to the administrator an estimated cost for travel and attendance relating to the event.*
    c. *The administrator has approved travel and attendance to such events in writing.*
3. *The Board of Education shall at the time of adoption of its budget authorize a total sum for expenditure for actual and necessary expenses incurred by elected and appointed officials, employees, or volunteers of ESU No. 10 to attend such educational workshops, conferences, training programs, official functions, hearings or meetings as may be authorized as above described by the administrator.*

It shall be the policy of ESU No. 10 to annually review the amount budgeted for such travel and attendance at such events and the Board shall annually determine whether such amount should be amended. If the above conditions have been complied with, any elected or appointed official, employee or volunteer of ESU No. 10 shall submit to the administrator an accounting for reimbursement of actual and necessary expenses incurred by such individual to attend an educational workshop, conference, training program, official function, hearing or meeting, and the Board shall consider such claim at its next duly convened Board meeting. If the Board determines that the terms of this policy have been met and if the claims would not cause the budget line item expenditure sum budgeted for such purposes to be exceeded, the Board may authorize reimbursement for registration cost, tuition cost, fees or charges, mileage not to exceed the rate established by the Nebraska Department of Administrative Services for the use of an individual's personal vehicle, or the actual travel expense if travel was authorized by commercial or charter means, meals and lodging at the applicable federal rate, or at actual cost, whichever is less. In no event shall a claim be submitted or approved for any alcoholic beverages.

<u>ESU 10 Board Policy V-D-8, Item 4</u>:

a. From time to time it is desirable for staff to be present at meetings and conferences. Staff may be granted permission for professional travel by the administrator when such activities are of benefit to the staff member and ESU 10. Each request shall be evaluated on its individual merits and in no instance does one decision set a precedent for another decision.

b. The administrator shall establish procedures and forms governing approval of staff travel and the payment of reasonable expenses.

State Auditor's Recommendation: "We recommend the ESU Board develop a policy where no personal expenses of Board members or staff are processed through the records of the ESU."

Comment: Such a policy can be adopted; however, it should be noted that there might be instances where running spouse's expenses through the ESU 10 records with subsequent reimbursement by the board member may be more cost effective to the ESU.

State Auditor's Recommendation: "We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified."

Comment:
First, the recommendation as stated implies that <u>no</u> policies or administrative regulations are in place and that the State Auditor detected specific instances in which, in their opinion, conference attendance was unjustifiable. Those who conducted the on-site audit called no such instances to the attention of ESU 10 personnel, and it is ESU 10's position that no such instances exist.

Such a policy as proposed would unnecessarily limit the Board's ability to exercise the discretion given to it by virtue of being elected officials to review and consider each professional development opportunity on its own merits and to determine based upon that review who and how many Board members and staff might benefit from such conference.

The recommended policy would also unduly restrict the Administrator's ability to make decisions regarding employee professional development between monthly Board meetings, and it is known that nearly all conferences have registration deadlines and that such deadlines do not necessarily correspond with the established Board meeting calendar. For an entity that provides the diversity of services that ESU 10 does, establishing such a policy would amount to micro-management and would negatively impact the Unit's Board and staff members' ability to stay abreast of the most current trends, practices, and delivery systems in education. It would then be the districts served by ESU 10 that would be negatively impacted.

It should also be noted that ESU 10 does have a professional development administrative policy and procedure in place whereby staff members are required to submit a request to travel on non-routine Unit business. The request must include estimated costs and state the intended value of the travel and professional development activity to the Unit. Samples of these professional development request forms were given to representatives of the State Auditor's office.

It should also be noted (in response to the State Auditor's comment ". . . and the ability of the Board members and staff who attended the conference to share information with other Board members and staff") that a section of the monthly Board meeting agenda is routinely specified for Board of Director reports.

It should further be noted that a section of the monthly Board meeting agenda is also routinely specified for a report by the Administrator at which time he reports to the Board on the professional development activities he has attended and those of which he is aware are upcoming. A review of the Unit's minutes and record of written materials provided to Board members to supplement the agenda items would substantiate this practice.

Representatives of the State Auditor's office were also told that the ESU 10 Board had considered the number of Board members who could annually attend a national conference relevant to ESU and/or education issues and had established administrative policy in the form of board action at a meeting. The State Auditor's office representatives indicated it was not necessary to provide them with a copy of the minutes of that meeting. For the record, the most recent action regarding this matter was taken at the November 15, 1999 Board meeting in the form of the following action as recorded in the official minutes:

"At the request of board members at the October 1999 regular meeting, action to amend regulations concerning board member attendance at national conferences had been placed on the agenda. It was moved by Paul Wentworth and seconded by Paula Pfister to include budgeted expenses for up to seven board members to attend a national conference related to education each year beginning with the 2000-01 budget. It was noted that board members would need to indicate early in the year whether or not they planned to attend a conference and, when possible, which conference so that plans for the year could be coordinated. The motion carried by the following roll call vote: Ackles--Yes; Boroff--Yes; Johnson--Yes; Osborn--Yes; Pfister--Yes; Ragan--Not Voting; Ralls--Yes; Vasey--Yes; Wentworth--Yes; and Wrede--Yes."

State Auditor's Recommendation: "We recommend the ESU develop a log for each of its vehicles. These logs should include information on miles driven, dates driven, start and stop times, purpose of the trip, and signatures of drivers. We also recommend the log be reviewed by management personnel on a regular basis, and that such review be documented by a manager's signature on the log."

Comment: ESU 10 accepts the State Auditor's recommendation and plans to develop vehicle logs and administrative policies regarding what is to be included on the logs and how the logs will be reviewed. By accepting the recommendation, however, ESU 10 is not acknowledging any awareness of improper vehicle use in the past.

Summary Comment
ESU 10 welcomes inquiries into its financial operations as the ESU 10 Board and Administration have a high level of confidence in the policies and procedures in place and in practice concerning the funds entrusted to ESU 10 as a governmental subdivision. ESU 10 always strives to respond to such inquiries in an expedient and thorough manner and, in most instances, will provide more information than initially requested.

In the exit interview held between representatives of the State Auditor's office and ESU 10, it was noted that there were some policies and procedures that ESU 10 should review and which ESU 10 agreed should be reviewed. The suggestions made by the auditors during the exit interview dealt mostly with internal documentation procedures. It was also indicated verbally that the State Auditor's representatives noted no fiscal discrepancies or practices of gross mismanagement of funds.

Questions on ESU 10's specific management letter and responses or on any aspect of ESU 10's operations are welcome and should be addressed to Wayne A. Bell, Administrator, Educational Service Unit 10, 76 Plaza Boulevard, PO Box 850, Kearney, NE 68848-0850.

Auditors' Response: The ESU response indicates they do have written policies regarding travel. The auditor agrees with this statement. However, the comment in this management letter identifies those areas where we believe the policies could be improved.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Ron Karr, Administrator
Educational Service Unit #11
P.O. Box 858
Holdrege, NE. 68949-0858

Dear Mr. Karr:

We performed an evaluation of the travel disbursements of Educational Service Unit #11 and for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #11 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted the following concerning the ESU's travel policies:

- Spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences or training. The ESU Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date. While it appears spousal expenses were paid by the ESU infrequently, these are personal expenses and should not be run through the accounting records of the ESU.

  We recommend the ESU Board develop a policy where no personal expenses of Board members or staff are processed through the records of the ESU.

1. Travel Policies (Concluded)

- During our evaluation, we noted the ESU Board and staff attended a limited number of conferences. However, in our review of the Board's travel policies, we noted the policies did not address how many people would be expected to attend District, State, and National conferences. The travel policies could be improved or expanded in this area by including and considering the same factors the Board considers in the purchase of other goods or services. That is, whether the costs of attending conferences are reasonable and necessary for the ESU. Other than costs, the Board should consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

2. Vehicle Travel Logs

The ESU owned two vehicles, one which was used mainly for transporting staff and one which was used for transporting students. The ESU did not maintain mileage logs in these vehicles, nor were there any other monitoring procedures in place to ensure mileage was reasonable and the vehicles were used for ESU business only.

Good business practices require a record of vehicle usage be prepared by the user of each vehicle and these records be reviewed on a regular basis by management to ensure vehicle usage is proper.

When logs are not maintained, there is an increased risk of improper usage of ESU vehicles.

> We recommend the ESU develop a log for each of its vehicles. These logs should include information on miles driven, dates driven, start and stop times, purpose of the trip, and signatures of drivers. We also recommend the log be reviewed by management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. The ESU declined to respond.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Terry Miller, Administrator
Educational Service Unit #13
4215 Avenue I
Scottsbluff, NE 69361-4901

Dear Mr. Miller:

We performed an evaluation of the travel disbursements of Educational Service Unit #13 (ESU) for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #13 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Personal Expenses</u>

Neb. Rev. Stat. Section 13-2204, R.R.S. 1997, does not allow the expenditure of public funds to pay for any expenses incurred by a spouse of an official, employee, or volunteer unless the spouse is also an official, employee, or volunteer of the local government. In addition, Neb. Rev. Stat. Section 13-2203(1), R.R.S. 1997, regarding local government miscellaneous expenditures, allows for the expenditure of public funds only for the payment or reimbursement of actual and necessary expenses incurred.

During our evaluation the following was noted:

- Spouses often accompanied ESU Board members or staff on trips to attend conferences. The Board's unwritten policy was to allow spousal expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. During our evaluation, three instances totaling $117 were noted in which the ESU paid for the meals of spouses when the spouse accompanied ESU Board members or staff to conference sites. These expenditures are personal expenses and should not be run through the records of the ESU.

1. Personal Expenses (Concluded)

- One instance, totaling $64, in which the Administrator, while attending a national conference, purchased two logo sweatshirts from a hotel gift shop using the ESU credit card. These two sweatshirts were gifts to the ESU Administrative Secretary and Business Manager.
- One instance, totaling $20, in which the Administrator paid for greens fees at a local golf course using the ESU credit card. The payment of greens fees was intended as a "treat" for a speaker at an ESU Advisory Council meeting.
- One instance, totaling $21, in which baby clothes and accessories were purchased using the ESU credit card. These items were a gift to an ESU employee upon the birth of a child.

> We recommend the ESU comply with all applicable State Statutes regarding reasonable and necessary expenses. In addition, we recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Travel Policies

Sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, one-day meals, commuting, use of ESU-owned vehicles, conference attendance, allowable reimbursable meal expenses, lodging, mileage, and incidental travel costs.

During our evaluation, it was noted that while the ESU had a travel policy it was not comprehensive enough to include, at a minimum, receipt requirements, allowable and unallowable costs, meal and lodging maximums, and a definition of one-day meals as "occasional" in nature.

> We recommend the ESU Board develop a more comprehensive travel policy which would provide ESU employees with a detailed resource on travel policies, allowable costs, and reimbursement procedures. As part of such a policy revision, the Board should also provide guidelines on what are considered reasonable expenses for meals and lodging as well as refer to the Internal Revenue Service's interpretation of one-day meals as taxable unless they are "occasional" in nature.

3. Vehicle Travel Logs

Sound business practices require that when an entity owns vehicles, detailed travel logs be maintained which accurately and consistently record, at a minimum, the mileage and purpose of all vehicle trips. Additionally, good internal control requires a periodic independent review of such vehicle travel logs by management to ensure the accuracy, consistency, and propriety of trips as recorded.

3. Travel Logs (Concluded)

During our evaluation, it was noted the ESU had twelve ESU-owned vehicles. The ESU's travel logs do not include a purpose for vehicle travel. In addition, trips taken were not, at a minimum, spot-checked for reasonableness.

> We recommend the ESU revise its current vehicle log to include an area for "purpose" or "reason" for travel with ESU-owned vehicles. Additionally, we recommend vehicle logs be, at a minimum, spot-checked for completeness, accuracy, and reasonableness of travel, including the number of miles recorded based on trip destination. The review of the logs should be documented.

4. Lodging Expenditures

Sound business practices require that tax-exempt entities take steps to avoid paying taxes for which it is exempt whenever possible. In addition, sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, whether lodging charges are to include charging of incidentals to rooms, employee payment and/or reimbursement of personal charges, etc. Lastly, sound accounting practices require complete and accurate supporting documentation for all expenditures.

During our evaluation, the following was noted:

- The ESU had six credit cards, which were available for employees to use. Lodging was routinely charged to these ESU credit cards. Such charges typically included state, local, and lodging taxes which were often 10% or more of the total per-night room charge.
- Numerous instances in which incidental lodging expenditures, such as meals, personal long-distance calls, and in one instance, an in-room movie, were directly charged to employees' motel/hotel rooms. Only one partial reimbursement for such incidentals was noted. Additionally, incidental charges, particularly meals, were not adequately described on lodging bills to allow for review of reasonableness of charges incurred.
- Several instances in which employees chose to stay at hotels with lodging rates far in excess of federal maximum rates.
- One instance in which a lodging charge on the ESU credit card was $40 higher than the detailed room charge statement. The ESU was unaware of the variance and had no explanation for its occurrence.

> We recommend the ESU either fill out a FORM 13 (Nebraska Resale or Exempt Sale Certificate) and have employees present it to the lodging establishments, or prepare its own standard tax-exempt form to have employees present to motels/hotels at the time of sign-in to avoid paying unnecessary taxes on employee stays. When drafting such a form, the ESU may want to include citation of applicable Department of Revenue guidelines, the

4. Lodging Expenditures (Concluded)

ESU's Federal Tax Identification Number, name of employee, statement that employee is traveling on ESU business, signature of ESU Director, etc. Additionally, we recommend the Board include in its travel policy instructions on direct charging of non-room charges to lodging bills. If the Board permits employees to charge incidentals directly to their lodging bills, the employees should be required, particularly in the case of meals, to provide the ESU with detailed charge slips so that subsequent review can be made of the propriety of charges for reimbursement. We also recommend the Board, when revising its travel policy, set guidelines on what are considered reasonable expenses for both meals and lodging. For lodging, the government rates and/or most economical rates should be obtained whenever possible. Lastly, we recommend all lodging expenditures be supported with detailed statements which agree to the total lodging charge. If variances exist between the total charge and the detailed statements, the ESU must work to resolve such discrepancies.

5. Conference Attendance And Related Expenses

During our evaluation the following was noted:

- The ESU routinely sent eight of nine Board Members, as well as the Administrator, to national ESU-related conferences. The ESU's total cost of attending the 1999 national conference in Marco Island, Florida was approximately $10,900. The total cost of attending the 2000 national conference in Las Vegas, Nevada was approximately $10,800. In addition, it was noted both the 1999 and 2000 conferences ended on Saturdays with morning brunches. This is a large number of people to attend one conference, at a significant cost. The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, are whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.
- For both conferences, all attendees stayed Saturday night at the conference sites, incurring an additional $1,023 and $819 in lodging and meal costs for the 1999 and 2000 conferences, respectively. No documentation was available to support the reason for this extended stay.
- No receipts were available to support $554 in rental car expenses and $223 in meal expenses charged to the ESU credit card during the 2000 national conference in Las Vegas, Nevada.
- The ESU paid for a lunch meal during the 2000 national conference in Las Vegas, Nevada, for the Administrator and one Board member at a golf course restaurant. The Administrator stated the two were at the golf course to play golf. This transaction occurred on a day in which the conference was in full session.

5. Conference Attendance And Related Expenses (Concluded)

We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. We also recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified. We also recommend the Board review the expenditures related to lodging and car rental as noted above and determine whether these expenses are proper and necessary expenses of the ESU, and not personal expenses of the Board member or staff. If they are determined to be personal expenses, the Board member or staff should reimburse the ESU for those expenses.

6. Credit Card Transactions

Sound accounting practices require complete and accurate supporting documentation for all expenditures. Such documentation must be of sufficient detail to allow for determination of propriety in accordance with all rules, regulations, and policies. In addition, good internal control requires governing Boards be provided with sufficient detail to arrive at informed decisions on expenditure approval.

During our evaluation, the following was noted:

- A majority of meal purchases made with credit cards did not have sufficient detail for audit purposes. For example, available receipts typically only showed the meal and tip totals. Furthermore, the purpose of purchased meals was not consistently documented. Without detailed information on charges, as well as the purpose of meal purchases the propriety of charges cannot be ensured.
- Several instances in which meal and fuel charges appeared on the credit card statement; however, no invoices were present to support the charges.
- The ESU had six credit cards available for employee use. Travel-related expenditures such as meals, lodging, commercial transportation, and registrations were routinely charged to these ESU credit cards. The monthly credit card charges averaged approximately $2,000. The report presented to the ESU Board for approval of payment, showed these charges in a highly summarized format such as "travel expenses," which was insufficient for the Board to be able to make an informed approval decision.

We recommend all credit card transactions be supported with detailed documentation of charges. For meal expenses, employees need to ensure the receipts they receive include a detailed breakdown of charges. In addition, we recommend the ESU Board, at a minimum, review the detail of all credit card payments prior to approval. Such review could be performed by a Board finance committee, if such exists, by making recommendations to the full Board regarding payments.

ESU's Response: Educational Service Unit No. 13's specific audit report is factual and contains many suggestions to improve and track our financial operation. The administration will work hard to establish policies to address the identified areas of concern. We would appreciate a follow-up visit to document our progress. We will be in contact with the State Auditor's Office to arrange for such a follow-up.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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Robert Hotz, JD
Legal Counsel
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August 20, 2001

Mark Hardy, Administrator
Educational Service Unit #14
P.O. Box 77
Sidney, NE 69162

Dear Mr. Hardy:

We performed an evaluation of the travel disbursements of Educational Service Unit #14 (ESU) for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #14 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

Sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, one-day meals, commuting, use of ESU-owned vehicles, conference attendance, allowable reimbursable meal expenses, lodging, mileage, and incidental travel costs.

- During our review, it was noted the ESU had a very limited three-paragraph travel policy, which basically placed travel and related expenses at the discretion of the Administrator.

  We recommend the ESU Board develop a much more comprehensive travel policy which would provide ESU employees with a detailed resource on travel policies, allowable costs, and reimbursement procedures.

1. Travel Policies (Concluded)

- There was no written policy prohibiting initial payment, and subsequent reimbursement, of expenses for of Board members or staff spouses who might be accompanying ESU Board members or staff to conference locations. Such expenses are personal and should not be run through the records of the ESU. During our evaluation, we did not note any instances in which Board or staff member's spouses accompanied the Board or staff members on trips.

> We recommend a policy be developed that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Logs

Sound business practices require that when an entity owns vehicles, detailed travel logs be maintained which accurately and consistently record, at a minimum, the mileage and purpose of all vehicle trips. Additionally, good internal control requires a periodic independent review of such vehicle travel logs by management to ensure the accuracy, consistency, and propriety of trips as recorded.

During our evaluation, it was noted the ESU had eleven ESU-owned vehicles. However, the ESU did not use any travel logs to maintain accountability over vehicle usage. In the past the ESU had used travel logs; however, the practice was discontinued because employees were not consistently filling out the logs.

> We recommend detailed monthly travel logs be maintained on each ESU-owned vehicle. These logs should have the actual mileage and purpose of such trips clearly and consistently stated on the logs. Furthermore, we recommend the logs be independently reviewed by management for completeness, reasonableness of travel, and accuracy.

3. Lodging Expenditures

Sound business practices require that tax-exempt entities take steps to avoid paying taxes for which it is exempt whenever possible. In addition, sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, whether lodging charges are to include charging of incidentals to rooms, employee payment and/or reimbursement of personal charges, etc. Lastly, sound accounting practices require complete and accurate supporting documentation for all expenditures.

During our evaluation, the following was noted:

- The ESU had seven credit cards issued to employees. Lodging was routinely charged to these ESU credit cards. Such charges typically included state, local, and lodging taxes which were often 10% or more of the total per-night room charge.

3. Lodging Expenditures (Concluded)

- Several instances in which incidental lodging expenditures, such as meals and personal long-distance calls, were directly charged to employees' motel/hotel rooms. For example, one instance was observed in which an employee charged approximately $38 in personal long-distance phone calls to her hotel room and did not personally pay for the charges either directly or through reimbursement. Incidental charges, particularly meals, were not adequately described on lodging bills to allow for review of reasonableness of charges incurred.

> We recommend the ESU either fill out a FORM 13 (Nebraska Resale or Exempt Sale Certificate) and have employees present it to the lodging establishments or prepare its own standard tax-exempt form to have employees present to motels/hotels at the time of sign-in to avoid paying unnecessary taxes on employee stays. When drafting such a form, the ESU may want to include citation of applicable Department of Revenue guidelines, the ESU's Federal Tax Identification Number, name of employee, statement that employee is traveling on ESU business, signature of ESU Director, etc. Additionally, we recommend the Board include in its travel policy instructions on direct charging of non-room charges to lodging bills. If the Board permits employees to charge incidentals directly to their lodging bills, the employees should be required, particularly in the case of meals, to provide the ESU with detailed charge slips so that subsequent review can be made of the propriety of charges for reimbursement.

4. Conference Attendance

During our evaluation, it was noted the ESU sent the Administrator to the 2000 national ESU-related conferences. The total cost of attending the 2000 national conference was approximately $1,300. In addition, it was noted the 2000 conference in Las Vegas, Nevada ended on a Saturday with a 10:15 a.m. brunch. The Administrator stayed Saturday night in Las Vegas, incurring an additional $128 in lodging and meal costs. No documentation was available to support the reason for this extended stay.

The Board did not have written policies on the number of Board members and staff to attend one conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, is whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

4. Conference Attendance (Concluded)

We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. We also recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

In addition, we recommend the Board review the additional $128 charge to lodging and related meal costs as noted above to determine whether these costs were personal costs or not. If they are determined to be personal costs they should be reimbursed to the ESU.

5. Credit Card Transactions

Sound accounting practices require complete and accurate supporting documentation for all expenditures. Such documentation must be of sufficient detail to allow for determination of propriety in accordance with all rules, regulations, and policies. Additionally, sound accounting practices require timely payment of all charges to avoid the incurrence of late charges and finance fees. Lastly, good internal control requires governing Boards be provided with sufficient detail to arrive at informed decisions on expenditure approval.

During our evaluation, the following was noted:

- A majority of meal purchases made on credit cards did not have sufficient detail for audit purposes. For example, available receipts typically only showed the meal and tip totals. Furthermore, the purpose of purchased meals was not consistently documented. Without detailed information on charges as well as purpose of meal purchases the propriety of charges cannot be determined.
- One instance was noted in which a lodging charge of $122 appeared on the credit card statement; however, no itemized lodging bill(s) were present to support the charge.
- One instance was noted in which the ESU did not pay its incurred credit card charges due to loss or misplacement of the monthly credit card statement. The ESU paid the charges based on the unpaid "previous balance" shown on the subsequent month's credit card statement. In addition, the bookkeeper accumulated the detailed charge slips for the period in question in an attempt to support the unpaid charges total; however, the receipts were $63 short of the unpaid "previous balance." No further ESU review of the variance was noted. Additionally, the ESU paid $36 in late charges and finance fees on the missed payment.
- The ESU had seven credit cards issued to employees. Travel-related expenditures such as meals, lodging, commercial transportation, and registrations were routinely charged to these ESU credit cards. The monthly credit card charges averaged $1,000 to $3,000. The report presented to the ESU Board for approval of payment showed these charges summarized by employee as "travel expenses," which was insufficient for the Board to be able to make an informed approval decision.

5. Credit Card Transactions (Concluded)

> We recommend all credit card transactions be supported with detailed documentation of charges. For meal expenses, employees will need to ensure the receipts they receive include a detailed breakdown of charges. In addition, we recommend the ESU make every effort to pay its credit card charges in a timely manner in order to avoid late charges and service fees. Lastly, we strongly recommend the ESU Board, at a minimum, review the detail of all credit card payments prior to approval. A Board finance committee, if such exists, making recommendations to the full Board regarding payments, could perform such review.

6. Administrator's Meal/Mileage Reimbursements

Sound accounting practices require complete and accurate supporting documentation for all expenditures. Such documentation must be of sufficient detail to allow for determination of propriety in accordance with all rules, regulations, and policies. In addition, good internal control requires governing boards review reimbursement claims of administrators because ESU staff would likely not feel comfortable questioning administrators on the propriety of claims submitted.

During our evaluation, we noted the following:

- The Administrator submitted one reimbursement claim for a total of $633. The Administrator did not include any documentation as to the purpose of the expenses incurred, i.e., meetings, conferences, hearings, etc. Additionally, as was noted in Comment and Recommendation #5, a majority of meal purchases made on credit cards did not have sufficient detail for audit purposes. For example, available receipts typically only showed the meal and tip totals. The ESU paid the full reimbursement.
- As part of the previously referenced $633 claim, the Administrator claimed $443 for two round trips; one to Lincoln and one to Omaha. The Administrator stated that he likely took his own vehicle because all eleven ESU-owned vehicles were reserved or in use.

> We recommend at the time reimbursements are submitted for payment, all claims be supported with detailed documentation of charges as well as detail on the purpose of expenses incurred, e.g., meetings, conferences, and hearings. We also recommend the Board determine whether the $633 was a proper and necessary expense of the ESU. Lastly, we recommend vehicles currently owned by the ESU be used for employee travel whenever possible. If all vehicles are reserved or in use, it would be most economical to have an employee traveling on a long-distance trip use an ESU-owned vehicle, and have an employee traveling within the local service area claim mileage.

ESU's Response: In regard to the advisory letter dated July 24 sent from your office I have the following comments:

Item 4: Conference Attendance
The report comments on the Administrator staying over an extra night in Las Vegas. I would offer the following comments: 1. The airline rates I received for this trip were based on a Saturday night stayover, which is a fairly common practice. This resulted in a savings as opposed to a Saturday departure. 2. My plane out of Las Vegas left at 7:00 AM the following morning (Sunday). 3. The brunch in question began (not ended) at 10:15 A.M. and ran until past noon local time. 4. I drove my own vehicle to the airport in Denver and did not charge mileage to the ESU.

Item 6: Administrator Mileage and Reimbursements
The reimbursement claim of $633 was for a period extending from July 1, 2000 through March 1, 2001. Every meal was receipted and the receipts were turned in. My travel log can be used to confirm the dates on the receipts and also to verify the purpose of the travel in question. I pointed this out to the auditors, but the receipts and documentation provided did not meet their standard for audit purposes.

In all other respects ESU #14 will take the necessary corrective measures to insure that the travel and expense policies of the unit are in compliance with statute and accepted auditing standards as suggested in your report. Thank you for your consideration and suggestions for improvement.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Duane Tappe, Administrator
Educational Service Unit #15
344 Main St.
P.O. Box 398
Trenton, NE 69044-0398

Dear Mr. Tappe:

We performed an evaluation of the travel disbursements of Educational Service Unit #15 (ESU) for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #15 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Untaxed Commuting Per Diem</u>

Internal Revenue Service (IRS) regulations require that additional compensation be reported on the employee's W-2 as taxable income. Additionally, the IRS defines commuting expenses as those expenses incurred in traveling from one's residence to one's regular place of employment and one's regular place of employment to one's residence, no matter how often this occurs during the day.

The ESU Administrator received a $250 monthly per diem as compensation for his daily commute from his home in McCook to the ESU headquarters in Trenton. During our evaluation, we noted the following:

- The ESU travel policy did not address the Administrator's commuting per diem.
- The commuting per diem was not being taxed as additional compensation.
- Several instances were noted in which the Administrator claimed additional mileage over and above his per diem compensation for travel between McCook and Trenton.
- The Administrator often shifted between using either Trenton or McCook as his home base on his mileage expense reimbursement requests.

1. <u>Untaxed Commuting Per Diem</u> (Concluded)

> We recommend the ESU, when paying per diems for commuting costs, report those per diems as taxable income on the employee's W-2. We also recommend a consistent home base be used for all mileage reimbursements, with the administrator's additional mileage trips between McCook and Trenton not being eligible for additional compensation over and above the monthly commuting per diem set by the Board. Lastly, we recommend the Board, as part of a comprehensive update to its current travel policy, outline its commuting guidelines.

2. <u>Travel Expenditures</u>

Sound accounting practices require complete and accurate supporting documentation for all expenditures. Such documentation must be of sufficient detail to allow for determination of propriety in accordance with all rules, regulations, and policies. Additionally, good internal control requires governing Boards be provided with sufficient detail to arrive at informed decisions on expenditure approval.

During our evaluation, it was noted the majority of meal purchases made with credit cards did not have sufficient detail for audit purposes. For example, available receipts typically only showed the meal and tip totals. Furthermore, the purpose of purchased meals was seldom documented. Without detailed information on charges, as well as the purpose of meal purchases, the propriety of charges cannot be determined. Also noted during our evaluation was that the Board did not look at detailed employee expense sheets. Monthly employee expense reimbursements often exceeded $500. The claim register presented to the ESU Board for approval of expense reimbursements showed employee expenses with only the employee's name and the description "expenses," which is insufficient for the Board to be able to make an informed approval decision.

> We recommend all credit card transactions be supported with detailed documentation of charges. To accomplish this, employees will need to ensure the receipts they receive include a detailed breakdown of charges. In addition, we recommend the ESU Board, at a minimum, review the detail of all credit card payments prior to approval. Such review could be performed by a Board finance committee, if such exists, by making recommendations to the full Board regarding payment.

3. <u>Conference Attendance</u>

Sound business practices require entities to periodically weigh the cost/benefit of attending national conferences, which can often be an entity's most costly travel expense.

3. Conference Attendance (Concluded)

During our evaluation, it was noted the ESU sent two Board members as well as the Administrator to national ESU-related conferences. The total cost of attendance for the 1999 and 2000 national conferences were approximately $3,900 and $4,300, respectively. The Board unwritten policies on the number of Board members and staff to attend one conference. However, it had no written policies. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, is whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should also consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

In addition, it was noted the 2000 conference in Las Vegas, Nevada ended on a Saturday with a 10:15 a.m. brunch. All ESU attendees stayed Saturday night at the conference hotel, incurring an additional $487 in hotel costs. No documentation was available to support the reason for this extended stay.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.
>
> In addition, we recommend that whenever the ESU chooses to extend a conference stay the cost/benefit analysis, as well as any other deciding factors used in the ESU's decision-making process, be documented and retained for subsequent inspection.

4. Travel Policies

Sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, one-day meals, commuting, use of ESU-owned vehicles, conference attendance, allowable reimbursable meal expenses, lodging, mileage, and incidental travel costs.

During our review, it was noted the ESU did not have a comprehensive travel policy which addressed all aspects of employee travel.

> We recommend the ESU Board develop a more comprehensive travel policy which would provide ESU employees with a detailed resource on travel policies, allowable costs, and reimbursement procedures.

5. Lodging Expenditures

Sound business practices require that tax-exempt entities take steps to avoid paying taxes for which it is exempt whenever possible. In addition, sound accounting practices require complete and accurate supporting documentation for all expenditures. Lastly, sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, whether lodging charges are to include charging of incidentals to rooms, employee payment and/or reimbursement of personal charges, etc.

During our evaluation, we noted the following:

- One instance in which an employee personally paid for lodging in Kearney and obtained reimbursement. As a result of the lodging not being directly billed to the ESU, the ESU paid all applicable state, local, and lodging taxes, which can often be 10% or more of the total per-night room charge.
- One instance in which an employee was reimbursed in excess of $913 for lodging despite no original supporting documentation of any actual employee lodging expenses being incurred. A printout of a hotel's website homepage, with figures handwritten on the printout, was used as support for the payment.
- The ESU paid $1,600 for registration at the AESA 2000 conference but did not maintain any brochures, agendas, or other supporting information regarding the conference.
- Two instances in which employees charged meals and/or personal long-distance calls directly to their motel/hotel rooms. These charges, particularly meals, were not adequately described on lodging bills to allow for review of reasonableness of charges incurred. Furthermore, employees did not reimburse the ESU for those direct charges which were personal expenses.

> We recommend the ESU either have lodging directly billed to the ESU, fill out a FORM 13 (Nebraska Resale or Exempt Sale Certificate) and have employees present it to the lodging establishments, or prepare its own standard tax-exempt form to have employees present to the motels/hotels at the time of check-in to avoid paying unnecessary taxes on employee stays. In addition, we recommend all expenditures be supported by original documentation showing actual expenditures incurred. Additionally, in the case of conference registrations, we recommend the ESU maintain all conference-related brochures and the agenda for subsequent review. Lastly, we recommend the Board include in its travel policy instructions on direct charging of non-room charges to lodging bills. If the Board permits employees to charge incidentals directly to their lodging bills, the employees should be required, particularly in the case of meals, to provide the ESU with detailed charge slips so that subsequent review can be made of the propriety of charges for reimbursement.

6. Incomplete Travel Logs

Sound business practices require travel logs used in support of mileage reimbursements contain consistent documentation as to the purpose of travel and be representative of actual map miles. Additionally, good internal control requires a periodic independent review of travel logs by management to ensure the accuracy, consistency, and propriety of trips claimed for reimbursement.

During our evaluation, it was noted employees often did not state the purpose of trips taken when submitting personal vehicle mileage for reimbursement. In addition, several instances were noted in which claimed and paid miles were not representative of actual map miles.

> We recommend all travel logs used in support of mileage reimbursements have the purpose of such trips clearly and consistently stated on the travel logs. Furthermore, we recommend the Business Manager periodically spot-check mileage claims to actual map miles for reasonableness.

7. Personal Expenses

Neb. Rev. Stat. Section 13-2204, R.R.S. 1997, does not allow the expenditure of public funds to pay for any expenses incurred by a spouse of an official, employee, or volunteer unless the spouse is also an official, employee, or volunteer of the local government. In addition, Neb. Rev. Stat. Section 13-2203(1), R.R.S. 1997, regarding local government miscellaneous expenditures, allows for the expenditure of public funds only for the payment or reimbursement of actual and necessary expenses incurred.

On occasion of Board members or staff spouses accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow the spouse's expense to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be processed through the records of the ESU.

> We recommend the Board develop a policy that no personal expenses of Board members or staff be processed through the records of the ESU.

ESU's Response: Thank you for your letter dated July 24 listing your field auditor's concerns. We also appreciate the timely suggestions to rectify these concerns. We actually had planned to update our board policies this fall, especially in the areas mentioned in your letter. While we try to be efficient and economical with tax payer dollars, we know there is always room for improvement.

It is possible to respond to several of the concerns at this time.

1. *The administrator's commuting allowance has already been eliminated. The ESU 15 board voted to add the monthly allowance to the administrator's salary during its June 5, 2001, board meeting; thereby including this compensation on the employee's W-2 form.*

   The change in bases for mileage was due to the mileage allowance in the past. When the administrator went to schools east and north of McCook, mileage was charged from McCook. When the administrator drove west and north of Trenton, the mileage was charged from Trenton. The Trenton office is now the consistent home base for necessary mileage reimbursements.

2. *I will tell our employees to ask for and submit more detailed receipts and will recommend that a board member also sign off on any monthly expenses submitted that exceed $500.00.*

3. *Conference attendance policies for national conventions are in place for ESU 15 board members. At the October 3, 2000, board meeting a resolution was passed to limit the number of board members attending a national convention to two per year. We have had two board members attend the AAESA (American Association of Educational Service Agencies) convention these past two years. Because of our heavy involvement in educational technology and other new programs, our board felt it was important to see what other states and agencies were doing.*

   The Las Vegas conference actually ended at 1:00 p.m. and it would not have been easy to get back to Southwest Nebraska at a reasonable time. In addition, we received a very reasonably priced ($209) round trip ticket from McCook to Vegas by staying over a Saturday night. Current prices for the same flight are $479 each. Airline rates can be very arbitrary.

   We will take your advice and have cost/benefit analysis discussions on future conferences.

4. *We intend to update ESU 15 travel policies and will seek legal counsel about sound business practices.*

5. *I am sure ESU 15 employees can do a better job of documenting lodging expenditures. We will also encourage direct billing scenarios and will not reimburse employees for any taxes charged to their rooms.*

6. *We have already revised our travel logs and are checking for actual map miles more closely.*

7. *Personal expenses for spouse travel will no longer be processed through the records of ESU 15.*

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Margene Beatty, Administrator
Educational Service Unit #16
314 W. First St.
P.O. Box 915
Ogallala, NE 69153-0915

Dear Ms. Beatty:

We performed an evaluation of the travel disbursements of Educational Service Unit #16 (ESU) for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #16 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Federal Maximums</u>

The written travel policy of the ESU states, in part, "the Board may authorize . . . reimbursement of meals and lodging at a rate not exceeding the applicable federal rate . . . "

At the time of our evaluation, the ESU was not aware of the current federal meal and lodging rates and, furthermore, was unaware of how to obtain current federal rate data. The rate data in use by the ESU showed meal and lodging maximums of $34 and $50, respectively, for Lincoln, and a lodging rate of $55 for Omaha. The current federal meal and lodging rates for Lincoln are $30 and $55, respectively. The current federal lodging rate for Omaha is $63.

Without current federal meal and lodging rate data, it is impossible for ESU staff to enforce compliance with its own meal and lodging rate policy as well as Internal Revenue Service provisions regarding federal maximum per diem standards.

1. Federal Maximums (Concluded)

> We recommend the ESU apply current federal per diem maximums as published by the Federal government, which can be easily accessed online at www.policyworks.gov/perdiem.

ESU's Response: Regarding ESU #16 I wish to call your attention to a number of items that fall into one of three categories: (1) beneficial (2) incomplete or (3) misleading.

ESU #16 appreciates the information regarding the web site listing current federal meals and lodging rate data. Accessing this information will allow for accuracy with regard to the Internal Revenue Service provisions addressing maximum per diem standards. The ESU #16 board currently considers the federal excess rate report at each meeting and entertains a motion to approve or disapprove these expenses, on a monthly basis. If this procedure needs to be altered, please inform us of a more appropriate way to handle this item.

2. Personal Use of ESU-Owned Vehicles

Neb. Rev. Stat. Section 49-14,101(4), R.R.S. 1998, prohibits public officials or public employees from the use of personnel, resources, property, or funds under their official care and control for personal financial gain. Neb. Rev. Stat. Section 49-14,101, R.R.S. 1998, further provides Class III misdemeanor penalty provisions for violations of this particular Statute section.

During our evaluation, it was noted the ESU had four ESU-owned vehicles. Three of the vehicles were assigned to Division Directors and one was assigned to the ESU Administrator. Each of these employees was allowed to use assigned ESU-owned vehicles for personal use. As such, during our review of vehicle logs, personal trips using ESU-owned vehicles were noted. It should also be noted that instances were observed in which vehicle logs had notations that personally purchased gasoline was put into ESU-owned vehicles as reimbursement for personal use of vehicles. However, the quantity and/or cost of such gasoline purchase "reimbursements" were left up to the individual employee.

> We strongly recommend the ESU immediately discontinue allowing personal use of ESU-owned vehicles.

ESU's Response: The information regarding the personal use of ESU owned vehicles was misleading. Personal use of company vehicles occurred on a limited basis when it was impossible for the employee to access their own personal car. Further, in an effort to show "no personal gain", the employees were required to compensate the Unit for the expenses incurred through personal use. No mention was made in your report about the fact that "no personal" gain was accrued.

This item has been discussed with the ESU #16 board and a policy addressing "personal use of ESU-owned" vehicles will be considered by the board.

2. Personal Use of ESU-Owned Vehicles (Concluded)

Auditors' Response: It is incorrect to state that "no personal gain" was derived from personal use of an ESU-owned vehicle as long as some reimbursement of expenses was made. Furthermore, vehicle costs extend far beyond just gasoline to include insurance, maintenance, replacement, etc. Regardless, ESU employees only had access to these vehicles due to their employment with the ESU, and while Statute clearly prohibits such personal use of property, public perception of such use should also strongly discourage the ESU from continuing the practice.

3. Lodging Expenditures

Sound business practices require that tax-exempt entities take steps to avoid paying taxes to which it is exempt whenever possible. In addition, sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, whether lodging charges are to include charging of incidentals to rooms, employee payment and/or reimbursement of personal charges, etc. Lastly, sound accounting practices require complete and accurate supporting documentation for all expenditures.

During our evaluation, it was noted the ESU had seven credit cards issued to employees. Lodging was routinely charged to these ESU credit cards. Such charges typically included state, local, and lodging taxes which were often 10% or more of the total per-night room charge. In addition, we noted several instances in which incidental lodging expenditures, such as room service meals and personal long-distance calls were directly charged to employees' motel/hotel rooms. These incidental charges, particularly meals, were not adequately described on lodging bills to allow for review of reasonableness of charges incurred. Furthermore, employees did not consistently reimburse those incidental charges, which were personal in nature, e.g., phone calls to employees' homes. Lastly, during our evaluation, we noted one instance in which the detailed hotel backup of room charges was $73 short from the total hotel charge as paid by the ESU. At the time of review, ESU personnel presumed an employee had chosen to extend the hotel stay for business purposes; however, no documentation to support that presumption was available.

> We recommend the ESU either fill out a FORM 13 (Nebraska Resale or Exempt Sale Certificate) and have employees present it to the lodging establishments or prepare its own standard tax-exempt form to have employees present to motels/hotels at the time of sign-in to avoid paying unnecessary taxes on employee stays. When drafting such a form, the ESU may want to include citation of applicable Department of Revenue guidelines, the ESU's Federal Tax Identification Number, name of employee, statement that employee is traveling on ESU business, signature of ESU Director, etc. Additionally, we recommend the Board include in its travel policy instructions on direct charging of non-room charges to lodging bills. If the Board permits employees to charge incidentals directly to lodging bills, the employees should be required, particularly in the case of meals, to provide the ESU with

3. Lodging Expenditures (Concluded)

> detailed charge slips so that subsequent review can be made of propriety of charges for reimbursement. Lastly, we recommend all lodging expenditures be completely supported. If any discrepancies exist between lodging totals billed and paid by the ESU and corresponding documentation, discrepancies should be investigated and fully documented to support the payment being made.

ESU's Response: A policy requiring staff and board members to use FORM 13 (Nebraska Resale or Exempt Sale Certificate) will be drafted. Further, any payment to hotels for lodging will cover the cost of the lodging only, taxes will be deducted from the final payment and a copy of FORM 13 will be attached to the payment. This procedure should accrue a considerable savings on the current lodging costs. The policy will further address direct charging of non-room charges to lodging bills.

4. Credit Card Transactions

Sound accounting practices require complete and accurate supporting documentation for all expenditures. Such documentation must be of sufficient detail to allow for determination of propriety in accordance with all rules, regulations, and policies. Good internal control requires governing Boards be provided with sufficient detail to arrive at informed decisions on expenditure approval.

During our evaluation, it was noted the ESU had seven credit cards issued to employees. Travel-related expenditures such as meals, lodging, commercial transportation, and registrations were routinely charged to these ESU credit cards. The monthly credit card charges averaged $2,000 to $3,000. The report presented to the ESU Board for approval of payment showed these charges as "travel expenses," which was insufficient for the Board to be able to make an informed approval decision. In addition, during our evaluation, the majority of meal purchases made with credit cards did not have sufficient detail for audit purposes. For example, available receipts typically only showed the meal and tip totals. Furthermore, the purpose of purchased meals was not consistently documented. Without detailed information on charges as well as the purpose of meal purchases, the propriety of charges cannot be ensured.

> We recommend all credit card transactions be supported with detailed documentation of charges. To accomplish this, employees need to ensure the receipts they receive include a detailed breakdown of charges. In addition, we recommend the ESU Board, at a minimum, review the detail of all credit card payments prior to approval. Such review could be performed by a Board finance committee, if such exists, by making a recommendation to the full Board regarding payments.

ESU's Response: A policy will be drafted that requires a detailed breakdown of the costs that are charged to credit cards. The finance committee will be provided with a more detailed breakdown of the monthly credit card usage.

5. Incomplete Travel Logs

Sound business practices require that when an entity owns vehicles, which are permanently assigned to entity employees, detailed travel logs be maintained which accurately and consistently record all vehicle trips. Additionally, good internal control requires a periodic independent review of such vehicle travel logs to ensure the accuracy, consistency, and propriety of trips as recorded.

During our evaluation, it was noted that travel logs kept by employees with permanently assigned ESU-owned vehicles did not consistently include the purpose of trips taken. In addition, instances were noted in which logged miles were incorrectly carried forward from one month to the next, logged miles were incorrectly totaled, and one individual's recording of miles to the 1/10th mile resulted in logged miles being incorrectly calculated. Lastly, it was noted there was no ESU review of the completed travel logs from ESU-owned vehicles.

> We recommend all trips with ESU-owned vehicles have the purpose of such trips clearly and consistently stated on the vehicle logs. Furthermore, we recommend a periodic review of travel logs for completeness and accuracy be performed by someone other than the preparer of the logs. This review should be documented.

ESU's Response: The staff will be informed that incomplete travel logs will NOT be acceptable documentation for daily and monthly travel reporting. We plan to continue with our current log forms unless informed otherwise. All logs will be reviewed for completeness and accuracy.

6. Conference Attendance

Sound business practices require entities to periodically weigh the cost/benefit of attending national conferences, which can often be an entity's most costly travel expense.

During our evaluation it was noted the ESU sent three Board members as well as the Administrator to national ESU-related conferences. The total cost of attendance for the 1999 and 2000 national conferences was approximately $6,100 and $6,200, respectively. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, is whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

In addition, it was noted the 1999 conference in San Marco, Florida ended on a Saturday with a 10:30 a.m. brunch. All ESU attendees stayed Saturday night at the conference hotel, incurring an additional $632 in hotel costs. No documentation was available to support the reasons for these extended stays. Furthermore, it was noted that when attending these national conferences the ESU rented two rental cars. For the 1999 conference, approximately half of the rental cost of two vehicles, $222, was to be split and reimbursed by two Board members and the Administrator. However, ESU documentation was only able to show that one of the three

6. Conference Attendance (Concluded)

individuals had reimbursed the ESU for a share of the split cost. Lastly, it was noted the ESU did not routinely maintain brochures, agendas, or other supporting information regarding conferences attended by ESU employees.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.
>
> We also recommend the Board review the costs, benefits, and public perception of the ESU's practice of renting two rental cars when attending national conferences. Furthermore, we recommend that whenever the ESU chooses to extend a conference stay, the cost/benefit analysis, as well as any other deciding factors used in the ESU's decision-making process, be documented and retained for subsequent inspection. Lastly, we recommend the ESU, as a matter of practice, routinely maintain brochures, agendas, or other supporting information regarding conferences attended by ESU employees.

ESU's Response: The current ESU #16 Board Policy on Board and employee travel to conferences will be reviewed and documentation such as a copy of brochures, agendas and other supporting information will be maintained in the central office.

7. Travel Policies

Sound business practices require that entities have in place a comprehensive travel policy to guide traveling employees in all aspects of employee travel. Such a policy should address, in part, one-day meals, commuting, use of ESU-owned vehicles, conference attendance, allowable reimbursable meal expenses, lodging, mileage, and incidental travel costs.

During our review it was noted the Board did not have a comprehensive travel policy which addressed all aspects of employee travel. In addition, it was noted the Board's travel policy authorized mileage reimbursements for employees not under a negotiated agreement at a rate of $.28/mile. However, during the period of our review, the actual mileage reimbursement rate paid by the ESU to its employees was $.31-$.32/mile. It appears the mileage rate had gone through several revisions over the years but had not been revised in the ESU travel policy.

> We recommend the ESU Board develop a more comprehensive travel policy which would provide ESU employees with a detailed resource on travel policies, allowable costs, and reimbursement procedures.

8. Personal Expenses

Neb. Rev. Stat. Section 13-2204, R.R.S. 1997, does not allow the expenditure of public funds to pay for any expenses incurred by a spouse of an official, employee, or volunteer unless the spouse is also an official, employee, or volunteer of the local government. In addition, Neb. Rev. Stat. Section 13-2203(1), R.R.S. 1997, regarding local government miscellaneous expenditures, allows for the expenditure of public funds only for the payment or reimbursement of actual and necessary expenses incurred.

On occasion, of Board members or staff spouses accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow the spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be run through the records of the ESU.

> We recommend a policy be developed that no personal expenses of Board members or staff be processed through the records of the ESU.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Jim Adkisson, Administrator
Educational Service Unit #17
P.O. Box 227
Ainsworth, NE 69210-0227

Dear Mr. Adkisson:

We performed an evaluation of the travel disbursements of Educational Service Unit #17 for the fiscal year ended June 30, 2000 and for the period July 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #17 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal would be reimbursed. For example the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Continued)

- Sales to the State of Nebraska and its agencies are exempt from Nebraska Sales tax. The ESU staff communicated to us that at times sales tax on hotels/motels may be paid, and the ESU did not have a written policy to avoid paying this tax.

  > To avoid paying sales tax on lodging, we recommend the ESU Board establish a written policy to have all hotel/motel lodging charges directly billed to the ESU; a tax-exempt entity, versus having the employee pay the bill and, therefore, paying the sales tax through reimbursement to the employee.

- The IRS has taken the position that reimbursement for meal expenses incurred on one-day travel is taxable income to the employee unless such reimbursements are deemed "occasional". The ESU did not have a written policy on when meal expenses incurred on one-day travel may be reimbursed. The ESU did pay, in certain circumstances, a set $15 for one-day travel, per discussion with the ESU administrator.

  > We recommend the ESU Board develop a written policy on meal expense reimbursements on one-day travel.

- Per discussion with the ESU administrator, the ESU Board did not have a written policy on when personal long distance telephone calls (while in travel status) would be reimbursed.

  > We recommend the ESU Board develop a written policy on when personal long distance telephone calls will be reimbursed when an employee is in travel status.

- The ESU Board had an unwritten policy to pay the federal per diem rate for meals and lodging, or the actual cost may also have been paid. However, the ESU did not have a written policy in this area.

  > We recommend the ESU Board develop a written policy on how, and for what amount meals and lodging will be reimbursed for employee travel.

- The ESU had a negotiated agreement with certified personnel of the ESU. One part of that agreement noted in part, "Whenever professional leave is approved, appropriate expenses for attending meetings, programs, etc. will be paid by the Unit at the rate of up to $125.00 per day for all-inclusive expenses." The Board's travel policies do not cover this circumstance.

  > We recommend the Board's travel policies consider this circumstance in light of any other travel policies.

- The ESU Board and staff attended a limited number of conferences, per discussion with the ESU administrator. However, in review of the Board's travel policies, we noted the Board did not have written policies on the number of Board members and staff to attend a

1. Travel Policies (Concluded)

conference. We believe the Board should establish written guidelines on determining who, and how many staff should attend any one conference. We believe the factors to consider, the same as any other purchase of goods or services, is whether the costs are reasonable and necessary for the ESU. Other than costs, the Board should consider the training needs of the ESU Board members and staff, the conference agenda and how it fits the training needs of the ESU, and the ability of the Board members and staff who attended the conference to share information with other Board members and staff.

> We recommend the Board develop written policies on who, and how many Board members and staff attend any one conference. In addition, we recommend the Board prepare documentation to support the Board has considered its policies, and that the cost of sending Board members and staff to attend a conference is justified.

- Per discussion with the ESU administrator, spouses of Board members or staff accompanied the Board member or staff on trips to attend conferences. The Board's unwritten policy was to allow spouse's expenses to be paid by the ESU with the Board member or staff reimbursing the ESU for these expenses at a later date, when requested by the ESU. These expenses are personal expenses and should not be run through the records of the ESU.

> We recommend a policy be developed that no personal expenses of Board members or staff be processed through the records of the ESU.

2. Vehicle Travel Logs

From discussion with the ESU administrator, the ESU owned one vehicle, but there was no mileage log kept on the vehicle usage, nor was there any other monitoring procedure in place to ensure mileage was reasonable and the vehicle was used for ESU business only.

Good business practice would require a log be prepared by the user of the vehicle, and a supervisor review of the log be done on a regular basis to ensure the vehicle was used only for ESU business.

When logs are not kept there is a greater risk that miles driven may not be for ESU business.

> We recommend a log be developed. The log should have information on mileage driven, dates, start and stop times, purpose of the trip, and signature of driver. We also recommend the log be reviewed by the administrator or other management personnel on a regular basis, and that such review be documented by a manager's signature on the log.

3. Supporting Documentation

From our review of 13 travel documents of the ESU we noted five where all of the appropriate documentation was not found, or was not available. We noted:

a. Check #9186 for $125. The expenses were for monthly vehicle expenses and a meeting held in Grand Island. There was no supporting documentation for the staff person's attendance at the meeting.
b. Check #7954 for $145. The expenses were for monthly vehicle expenses (in lieu of mileage), attendance at meetings, and meals. For a meeting attended in Lincoln, there was no supporting documentation on file at the ESU regarding this meeting.
c. Check #8130 for $680.51. We noted several issues regarding this payment.
   - No supporting documentation was on file to support the staff attendance at a conference,
   - There was no receipt for fuel costs reimbursed, and no supporting documentation for a trip to Holdrege, Nebraska.
   - We noted several internal control procedures not documented - the administrator did not initial the mileage log, and an approval for travel expenses was not on file.
d. Check #7797 for $332.07. An employee claimed mileage on a trip that calculated out to be 540 miles. However, the mileage claimed was for 658 miles. No documentation was on file to support this additional mileage.
e. Check #8218 for $334.94. This document related to a trip to California. We noted there were no supporting receipts on file for lodging and meals. The original receipts, per the bookkeeper, were sent to Seward Public Schools, as they were the recipients of the grant and they would have kept original copies of the receipts for Federal reporting purposes. However, the ESU did not document this nor did they have copies on file.

Good business practice and internal controls would require supporting documentation be obtained and maintained to support all disbursements. In addition, good internal control would require proper approvals for disbursements be documented.

When supporting documentation is not obtained or maintained, or when internal control procedures are not followed and documented, there is a greater risk of improper payments.

> We recommend the ESU maintain adequate documentation for all travel disbursements including original invoices from vendors, conference registrations, etc. In addition, we recommend internal control procedures be followed and documented.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. The ESU declined to respond.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

David Myers, Administrator
Educational Service Unit #18
School District of Lincoln, 5901 O St.,
P.O. Box 82889
Lincoln, NE 68501-2889

Dear Mr. Meyer:

We performed an evaluation of the travel disbursements of Educational Service Unit #18 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #18 and other operational matters that are presented below for your consideration.

Our comments and recommendations are noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU Board should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal will be reimbursed. For example the State's policy is as follows:
  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. Travel Policies (Concluded)

- No Time Limit for Personal Phone Calls While Traveling.

  The ESU travel policy did not establish a time limit for personal long distance telephone calls while in travel status. The Board's policy stated "the district will pay for one personal call per travel day when employees are traveling for district business."

  A comprehensive travel policy would establish a written policy for personal long distance telephone calls while in travel status including the time length or maximum amount that will be paid.

  Unreasonable long distance calls may be paid while an employee is in travel status if there is no written policy, including the allowed length of the call.

  > We recommend the ESU Board expand its travel policies for personal long distance telephone calls while in travel status to include the length of calls allowed.

- Based on discussion with the ESU administrator, spouses of staff may accompany the staff on trips when the staff person attends a conference. He indicated the Board's unwritten policy was not to allow the expenses of spouses to be paid by the ESU with the staff reimbursing the ESU for these expenses at a later date; however, this may have happened in the past. These expenses are personal expenses and should not be run through the records of the ESU.

  > We recommend the Board develop a written policy that no personal expenses of staff be processed through the records of the ESU.

2. Inadequate Supporting Documentation for Reimbursed Personal Mileage

During our test of travel disbursement documentation for the ESU, we noted the following:

Five out of five travel disbursements tested with personal mileage reimbursements did not have adequate documentation. All five did not have start locations. Two of the five were submitted with a Lincoln Public School (LPS) Travel Log. Both travel logs did not show the beginning mileage and/ or ending mileage.

Good business practice requires personal mileage reimbursement requests clearly identify the purpose of the trip, the start and stop locations, and the start and stop times.

When start or stop locations are not clearly identified, there is more risk that mileage reimbursements may not be for ESU business.

> We recommend mileage reimbursement forms clearly identify the purpose of the trip and the start and stop location.

3. Meal Reimbursement Paid Over Policy Limit Without Approval

Meals were reimbursed for actual expenses incurred (receipts were required). There was a maximum of $30 ($34 as of 9/00) per day and what was reasonable. One out of four travel disbursements tested with meals reimbursed exceeded the daily allowance limit without proper approval from the Director of Finance or the Accounting Systems Manager.

BA #20 Business Travel and Expense Guide states, "The actual cost reimbursed for meals, including tips, shall not exceed the daily allowance without the approval of the Director of Finance or the Accounting Systems Manager."

The Superintendent approved and signed the reimbursement request. Per discussion with the Internal Auditor, the Accounting Clerk, the Accounting Systems Manager, the Director of Finance, and the Superintendent reviewed the request. The review done by the Accounting Systems Manager and Director of Finance was not documented.

> We recommend an authorized person according to ESU policy approve all travel reimbursement documents. We suggest possibly revising the policy to include the superintendent as an authorized person for approval.

ESU's Response: The following are responses to the comments on the evaluation of the travel disbursements of Educational Service Unit #18 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001. Each issue is listed with our response.

1. Travel Policies

a. Written policies of the ESU did not address when a specific meal will be reimbursed.
We will modify the current travel and expense guide to include when specific meals will be reimbursed.

b. No time limit for personal phone calls while traveling.
We will expand current guidelines for personal long distance telephone calls while in travel status to include the length of calls allowed.

c. The Board's unwritten policy is not to allow the expenses of spouses to be paid by the ESU with the staff reimbursing the ESU for these expenses at a later date.
We will include in the travel and expense guide the statement that no personal expenses of staff will be processed through the records of the ESU.

2. Inadequate Supporting Documentation for Reimbursed Personal Mileage
Personal mileage reimbursements did not have adequate documentation.

We will update the current mileage reimbursement form to include start and stop location. Also we will develop a business affairs bulletin on reimbursed personal mileage.

3. *Meal Reimbursement Paid Over Policy Limit Without Approval*
One out of four travel disbursements tested with meals reimbursed exceeded the daily allowance limit without proper approval from the Director of Finance or the Accounting Systems Manager. The Superintendent approved and signed the reimbursement request.

We will require documentation of review by the Director of Finance or the Accounting Systems Manager in the case of approval by a member of the executive committee of the District.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comments and recommendations included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor

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August 20, 2001

Dennis Pool, Administrator
Educational Service Unit #19
School District of Omaha
3215 Cuming St.
Omaha, NE 68131-2024

Dear Dr. Pool:

We performed an evaluation of the travel disbursements of Educational Service Unit #19 for the fiscal year ended August 31, 2000 and for the period September 1, 2000 through April 30, 2001.

In connection with our evaluation described above, we noted certain internal control matters related to the activities of Educational Service Unit #19 and other operational matters that are presented below for your consideration.

Our comment and recommendation is noted as follows:

1. <u>Travel Policies</u>

To better ensure ESU travel disbursements are reasonable and necessary for ESU business, the ESU should have written travel policies that cover all aspects of when and what travel disbursements are allowable, and the amount that will be paid. During our evaluation, we noted certain travel policies were not in writing, or did not exist. We noted the following:

- Written policies of the ESU did not address when a specific meal will be reimbursed. For example the State's policy is as follows:

  1. Breakfast - when an employee leaves for overnight travel at or before 0630, breakfast may be reimbursed.
  2. Lunch - when an employee leaves for overnight travel at or before 1100 or returns from overnight travel at or after 1400, the noon meal may be reimbursed.
  3. Supper - when an employee returns from overnight travel at or after 1900, the evening meal may be reimbursed.

  We recommend the ESU Board consider improving and expanding its travel policies on when specific meals will be reimbursed.

1. <u>Travel Policies</u> (Concluded)

ESU's Response: We are responding to your communication relative to the review of travel disbursements of Educational Service Unit #19.

Relative to the comments surrounding inclusion of parameters for when a specific meal will be reimbursed, while not committed to writing, staffs have been very conscientious about meals requested for reimbursement. Internal review of reimbursement requests has rarely seen staffs requesting reimbursement for non-travel times. When a review has determined that this may have occurred, the individual making the request is contacted for clarification and, if appropriate, a deduction is made for the unallowable meal. We are currently revising our guidelines to incorporate timelines for meal reimbursement. This will be effective beginning September 1, 2001.

A draft copy of this letter was furnished to the ESU to provide them an opportunity to review the letter and to respond to the comment and recommendation included in this letter. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time.

We appreciate the courtesy and cooperation extended to us during our evaluation.

Sincerely,

Don Dunlap CPA

Don Dunlap
Assistant Deputy Auditor