

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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August 30, 2005

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Buffalo County, Nebraska

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We have audited the basic financial statements of Buffalo County (County) for the fiscal year ended June 30, 2005 and have issued our report thereon dated August 30, 2005. In planning and performing our audit of the basic financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

## **COUNTY OVERALL**

### **1. Segregation of Duties**

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted all offices of the County each had a lack of segregation of duties since one person could handle all aspects of processing a transaction from beginning to end. Due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. This was also noted in prior audits.

We recommend the County review this situation. As always, the County must weigh the cost of hiring additional personnel versus the benefit of a proper segregation of duties.

## **COUNTY BOARD**

### **2. Physical Property Controls**

Good internal control and sound accounting practices require entities develop comprehensive, written physical property policies which include, in part, reasonable dollar thresholds for the inventory of property and documented procedures guiding the disposal of all physical property items, including those traded in, sold at surplus auction, scrapped, etc.

During the audit, the following was noted:

- The County did not have a comprehensive, written physical property policy which, in part, established dollar thresholds for the inventory of property.
- The County did not have a uniform procedure in place to adequately document the disposal of all physical property items. During testing of physical property deletions, items from the offices of the Assessor and Probation could not be traced to supporting documentation of disposal.

When guidance is not provided regarding the inventory and subsequent disposal of physical property there is an increased risk of loss, theft, or misuse of such assets.

We recommend the County implement a comprehensive, written inventory policy which, in part, establishes a dollar threshold for the inventory of property. We also recommend the County implement procedures, including a uniform destruction form, to consistently document the disposal of all physical property items.

## **COUNTY SHERIFF**

### **3. Balancing Procedures**

Good internal control requires procedures be in place to ensure assets (cash on hand, reconciled bank balances, advanced fees, etc.) are in agreement with office liabilities (fees and trust accounts).

We noted the County Sheriff did not balance office assets against office liabilities and, as such, lacked accountability over its "other liabilities". At June 30, 2005, the Sheriff had approximately

\$48,722 in “other liabilities” which were not detailed as to whom they were owed. Sheriff’s office personnel believe \$10,000-\$12,000 of the \$48,722 was likely advance payments received; however, no detailed listing of such advanced payments was available to support that contention.

Failure to determine asset-to-liability balancing variances can result in an increased risk of loss, theft, or misuse of funds allowing errors to more easily go undetected.

We recommend the County Sheriff implement documented monthly balancing procedures and follow up on unexplained variances.

## **COUNTY TREASURER**

### **4. Cash Drawer Accountability**

Good internal control and sound accounting practices require individual accountability be associated, whenever possible, with the collection and disbursement of monies.

County Treasurer’s office personnel were not assigned separate cash drawers. As a result, all employees were involved in receipting/disbursing out of the office’s various cash drawers which significantly increases the risk of loss, theft, or misuse of funds and greatly reduces the County Treasurer’s ability to identify and/or respond to any areas of concern, should such arise.

The County Treasurer stated that while she would like individual cash drawers for each of her employees, the physical setup of her current office space is not conducive to such an arrangement. The County Treasurer also stated she had discussed her own concerns regarding lack of cash drawer accountability with the County Board on several occasions.

We recommend the County Treasurer work to implement individual accountability, including the assignment of individual, locking cash drawers, whenever practicable.

*County’s Response: In 1997, my office took over the responsibility of processing motor vehicle titles. The unofficial plan at that time was to build an offsite building for the services the County Treasurer’s office performs. Along with that, would come the ability to assign specific cash drawers to every clerk, much as they do in banks. That has not happened, however, the County is currently in the planning stages of building. I have talked at length with the architect about the needs I have for sufficient counter space to allow for individual cash drawers. In all fairness to employees, they have been left vulnerable in this environment, and would also welcome the needed change. Office space limitations have made it impossible to make this important correction.*

## 5. Edit and/or Change Reports

Good internal control requires review of any edit and/or change reports generated by the various computer systems used by the County Treasurer's office in order to timely identify and properly investigate, if necessary, any unusual transactions.

The County Treasurer's office did not review the Manual Change Audit Listing Report generated by the Department of Motor Vehicle's title and registration (VTR) system. This report details all manual changes and overrides performed by employees.

When all available edit and/or change reports are not reviewed in a timely manner, there is an increased risk of unusual transactions not being identified with appropriate follow up action taken.

We recommend the County Treasurer print the VTR Manual Change Audit Listing Report each month and review the reasonableness of the manual changes and overrides performed by office employees.

*County's Response: I will run this report monthly and review.*

## 6. Unclaimed Property

Neb. Rev. Stat. Section 69-1307.01 R.R.S. 2003 related to intangible personal property held by political subdivisions states that all intangible personal property held for the owner that has remained unclaimed for more than three years is presumed abandoned. Once such property is presumed abandoned such items must be filed with the State Treasurer before November 1 of each year as of June 30 next preceding.

At June 30, 2005, the County Treasurer had 17 checks totaling \$1,355 which had been outstanding for at least 3 years; of those 17 checks, 5 had been outstanding for over 4 years and 2 had been outstanding for over 5 years.

When remittances are not made in accordance with the Unclaimed Property Act, the County is in noncompliance with State Statute.

We recommend the County Treasurer remit all unclaimed property in accordance with the timely remittance required by the Unclaimed Property Act.

*County's Response: I have relied on an unclaimed property brochure distributed by the State Treasurer, which clearly states uncashed checks will be turned over at five years. I am waiting for the Auditors to obtain a legal opinion about this before I remit this November. If their opinion remains that 3 years is correct, I will send all uncashed checks to the State Treasurer that are three years and older.*

**7. Petty Cash Accountability**

Good internal control and sound business practices require all assets, and the related financial activity of such assets, be reflected on the County Treasurer's daily balance sheets in order to provide a complete and accurate presentation of all

The County Treasurer's daily balance sheets did not include the office's petty cash balance and related financial activity. The County Board had authorized a \$13,000 petty cash fund for the County Treasurer. During the fiscal year ended June 30, 2005, \$90,135 was disbursed through this petty cash fund.

When all assets and related financial activity are not reflected on the County Treasurer's daily balance sheets there is an increased risk of loss, theft, or misuse.

We recommend the County Treasurer's daily balance sheets include all assets held by the office, including petty cash funds, and the financial activity related to such assets in order to provide complete and accurate office accountability.

*County's Response: All receipts and disbursements were accounted for and related bank statement was balanced. I will add this to my daily balance sheet.*

**CLERK OF THE DISTRICT COURT**

**8. Financial Transaction Receipting**

Sound accounting practices require the complete and accurate recording of all monies received as well as ongoing, timely review of receipt transactions to identify and resolve any miscodings as they occur to ensure the prompt payout of fees to the rightful owner.

At June 30, 2005, the Clerk of the District Court had \$32,599 in "Miscellaneous Fees" as well as \$4,167 in fees recorded under the payee "Agency Name Missing". District Court personnel indicated these amounts most likely were the result of employee miscodings at the time of the original receipt and that, as time permits, the accounts are reviewed and adjusted as necessary to correct any miscodings.

When revenues are not correctly recorded at the time of receipt there is an increased risk of loss, theft, or misuse.

We recommend every effort be made to correctly record all monies at the time of original receipt in order to ensure the prompt and most efficient handling of fees. Furthermore, the District Court should implement ongoing review procedures to ensure identification and resolution of any miscodings.

*County's Response: This amount includes two Construction Liens in the amount of \$32,276.23 which are included in the "Miscellaneous Fees" report. At the time the District Court received this Construction Lien money it was placed in miscellaneous fees. The Business Analyst for the JUSTICE system was contacted and the correction of the code has been made, because this amount will be paid to a third party. The remaining amount is paid out on a monthly basis. The amounts labeled "Agency Name Missing" is attached to a case number and are being transferred to the agencies.*

## **9. Unrecorded Investment**

Sound accounting practices require all assets in the control of the Clerk of the District Court, including funds invested in the name of the Clerk of the District Court, be completely and accurately accounted for in the JUSTICE system, the financial accounting and case management system of the Court.

At June 30, 2005, the Clerk of the District Court had a \$34,311 investment, which originated in February 2005 and was not recorded in the JUSTICE system.

There is an increased risk of loss, theft, or misuse of funds when invested monies are not properly accounted for in the accounting system.

We recommend all invested monies be completely and accurately recorded in the JUSTICE system.

*County's Response: These investments are recorded on a manual system and have been audited every year. The previous auditors preferred not to have them on the District Court Justice accounting system. They have now been added to the JUSTICE accounting system.*

## **10. Unresolved Reconciling Items**

Good internal control and sound accounting practices require complete and accurate reconciliations of bank and book balances and timely resolution of all reconciling items.

At June 30, 2005, the Clerk of the District Court was carrying \$3,699 in reconciling items on the monthly reconciliation of its bank account. This total consisted of approximately 40 individual reconciling items, some of which were indicated as being at least 2 years old.

When reconciling items are not resolved in a timely manner, there is an increased risk of loss, theft, or misuse.

We recommend the Clerk of the District Court's monthly reconciling procedures include prompt resolution of all reconciling items.

*County's Response: The District Court struggles with the bank on correcting the entries that have been found to be their errors on the bank statement.*

## **11. Petty Cash Procedures**

Neb. Rev. Stat. Section 23-106 R.R.S. 1997 gives the County Board the sole authority to establish petty cash funds for the purpose of making payments for subsidiary general operational expenditures and purchases. The Board is required to set, by resolution of the Board, the amount of the petty cash funds and include such authorization in the County Board budget message. Furthermore, good internal control requires all petty cash funds be maintained on an imprest basis at the authorized (set) amount.

At June 30, 2005, the Clerk of the District Court had a \$983 petty cash fund. The District Court's petty cash fund was used to pay costs related to delivery/service, postage, and other incidentals. The County Board budget message did not indicate authorization for a petty cash fund in the office of the Clerk of the District Court.

When petty cash funds are not properly authorized and are not maintained on an imprest basis, there is an increased risk of loss, theft, or misuse.

We recommend all petty cash funds be properly authorized and maintained on an imprest basis at the authorized amount.

*The County's Response: This account was not set up as a petty cash fund and was a budgeted line item set up for grand jury costs which is confidential information and a claim for the lump sum was submitted to the county to be reimbursed back to this account. Also the JUSTICE accounting system does not allow for advanced fees such as out of state sheriff fees which require a Court check, a claim is then filed to reimburse this account. This has been audited each year. As of September 13, 2005 the County Board approved this as a petty cash fund.*

## **12. Unclaimed Property**

Good internal control and sound accounting practices require the timely resolution of outstanding balances. Neb. Rev. Stat. Section 69-1307.01 R.R.S. 2003 related to intangible personal property held by political subdivisions states that all intangible personal property held for the owner that has remained unclaimed for more than three years is presumed abandoned. Once such property is presumed abandoned, such items must be filed with the State Treasurer before November 1 of each year as of June 30 next preceding.

Review of the JUSTICE system, the computerized financial and case management system of the District Court, indicated the District Court began use of the JUSTICE system in April 1994. Following implementation of the JUSTICE system, the District Court's use of its manual

accounting system should have been greatly reduced with the manual bank account outstanding transactions cleared and/or resolved in a timely manner which would have permitted closing of the bank account.

Review of the District Court's manual bank account, which remained open at June 30, 2005, noted the following:

- At June 30, 2005, the Clerk of the District Court had 17 checks totaling \$1,293 which had been outstanding for at least 3 years; District Court records were unavailable to determine the exact age of all outstanding checks as District Court personnel indicated some dated back prior to the mid-1980s.
- \$74 unidentified variance between June 30, 2005 bank balance and the District Court's book balance.

When old outstanding balances are not resolved in a timely manner and remittances of unclaimed property are not made in accordance with the Unclaimed Property Act, the Clerk of the District Court is in noncompliance with State Statute and at an increased risk of loss, theft, or misuse of funds.

We recommend the Clerk of the District Court actively work to remit all unclaimed property in accordance with the timely remittance required by the Unclaimed Property Act and resolve its remaining unidentified book balance in order to close its manual bank account.

*County's Response: A list of outstanding checks in the manual bank account has been prepared and will be submitted to unclaimed funds this October and the account will then be closed. The District Court was informed by the Bank that they would not be held responsible if a check was cashed on the account even if the account was closed.*

*The \$74.00 variance in the June 30, 2005 bank balance and the District Court's manual bank balance account will be taken care of at the time of the closing of the account.*

## **COUNTY CLERK**

### **13. Office Accountability**

Good internal control and sound accounting practices require accounting procedures be adequate to completely and accurately account for all monies received.

Review of the County Clerk's records noted the office bank account had a balance of \$33 in unremitted fees, however, the office's accounting records indicated there should have been \$153 in unremitted fees on hand at June 30, 2005; a difference of \$120. The difference was the result

of \$120 in marriage license receipts earned in May 2005 which could not be traced to a subsequent bank or Treasurer's deposit or to cash on hand. The auditors were not able to determine the disposition of these earnings and, as a result, it appears the County Clerk was short \$120.

When all monies received are not accounted for in a complete and accurate manner and earned revenues cannot be traced to subsequent deposit and/or remittance, there is an increased risk of loss, theft, or misuse.

We recommend the County Clerk work to improve its accounting procedures to better account for all monies received into the office.

*County's Response: A change in our office accounting procedure has been implemented in light of what has been brought out in the audit. These changes include eliminating a checking account utilized by County Clerk's office; deposits are made on a weekly basis to the Treasurer's office for marriage license fees and certified copies/miscellaneous filings. A change in staff and a segregation of duties has been implemented involving transactions which take place regarding marriage license, certified copies/miscellaneous duties.*

## **COUNTY ATTORNEY**

### **14. Petty Cash Procedures**

Good internal control and sound accounting practices require all petty cash funds be maintained on an imprest basis to the authorized amount and that bank balances and book balances be reconciled in a consistent and timely manner.

The County Attorney's petty cash fund is maintained in a bank account. At June 30, 2005, the petty cash account was \$120 in excess of the \$750 authorized amount. Additionally, the office did not prepare monthly bank reconciliations to reconcile its bank balance to the petty cash book balance.

When petty cash funds are not maintained on an imprest basis and bank accounts are not reconciled in a consistent and timely manner, there is an increased risk of loss, theft, or misuse.

We recommend all petty cash funds be properly maintained on an imprest basis at the County Board authorized amount.

It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the County.

Draft copies of this report were furnished to the County to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the County declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

This report is intended solely for the information and use of the County and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Deann Haeffner CPA".

Deann Haeffner  
Deputy State Auditor