



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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June 17, 2009

Board of Commissioners
Banner County, Nebraska

Dear Commissioners:

We have audited the basic financial statements of Banner County (County) for the fiscal year ended June 30, 2008, and have issued our report thereon dated June 17, 2009. 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

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 the 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

Payroll Procedures

State of Nebraska Department of Revenue rules and regulations require monthly depositing and quarterly reporting of Nebraska taxes withheld if such taxes are more than \$500 each month. Neb. Rev. Stat. § 23-131 (Reissue 2007) states that “warrants shall be signed by the chairperson of the county board...and countersigned by the county clerk.” In addition, good internal control requires payroll check registers be complete and accurate; all checks be issued in sequential order; adequate supporting documentation be retained for tax withholding payments; payroll bank accounts be reconciled to accounting records with all discrepancies investigated and resolved in a timely manner; and all employee withholdings be remitted in a timely manner.

Review of Banner County’s payroll procedures noted the following significant deficiencies:

- Multiple instances in which Nebraska income tax withholdings were not remitted to the Nebraska Department of Revenue in a timely manner. For example, January through March 2008 withholdings totaling \$2,222 were not remitted until June 2008.
- Payroll checks are signed only by the County Clerk, there is no second signature by the chairperson of the County Board.
- The payroll check registers do not include a complete list of all issued check numbers.
- Payroll checks are not issued in sequential order.
- Several instances were noted in which amounts claimed did not agree to subsequent actual amounts disbursed.
- Supporting documentation for reporting of Federal payroll withholdings could not be located for the October through December 2007 reporting quarter.
- The County’s imprest payroll records do not reconcile with bank records for the account and the County Clerk does not, and has not for many years, made any attempt to perform monthly reconciliations of the account. Based on the auditor’s reconciliation of the account as of June 30, 2008, the bank account is short \$3,288.
- Payroll benefit withholdings were not remitted in a timely manner. For example, the \$854 payment to Ameritas for vision insurance equated to approximately four months of employee withholdings; and the \$496 payment to First Concord for IRS Section 125 plan administration equated to approximately three months of employee withholdings.
- Adjustments totaling \$1,749, which were identified in the prior year audit as needing correction, were not adequately followed up on and resolved. These adjustments included various overpayments and underpayments made for employee withholdings.

When payroll procedures are not adequate to ensure complete and accurate documentation, prompt payment of tax and other withholding liabilities, and the timely reconciliation of the payroll bank account, there is an increased risk of fraud or loss as well as the potential for litigation related to employee benefits. This deficiency was noted in the prior audit.

We recommend Banner County immediately implement procedures to ensure all payroll records are complete, accurate, and retained for subsequent inspection. We further recommend Banner County’s payroll bank account be reconciled monthly with any discrepancies addressed in a timely manner, and that all payroll

checks contain a dual signature by the Board Chairperson and the County Clerk. Lastly, we strongly recommend Banner County implement procedures to ensure all tax liabilities and employee withholdings are remitted and reported immediately following withholding in order to avoid penalties, interest, lawsuits, liens, etc.

County's Response: I have set up a new checking account for payroll with checks that will have 2 signature spaces. Also, the new account will be balanced monthly. Withholding deposits to the State of Nebraska will also be made in a timely manner.

Claims

Good internal control requires that documentation be maintained to support all claims filed with the County Board, and County Board approval of claims be documented by County Board signatures on the individual claim, or claims register.

During testing we noted the following:

- For 8 of 35 claims tested, the supporting documentation either did not agree to the amount paid, or was not on file.
- For 1 of 25 claims tested, the claim amount approved by the County Board, did not agree to the amount paid for the claim.
- For 2 of 25 claims tested, the signed copy of the claim was not on file.

When documentation is not on file to support amounts claimed there is an increased risk that incorrect or unsubstantiated amounts are being paid by Banner County. Additionally, when there is no documentation of County Board approval, there is an increased risk that Banner County funds are being paid out inappropriately without approval of the County Board.

We recommend the County Board ensure all claims are signed and approved by the County Board, that this approval is documented and implement claim auditing procedures to ensure all claims paid agree to supporting documentation.

COUNTY CLERK

Office Accountability

Neb. Rev. Stat. § 33-130 (Reissue 2008) requires the County Clerk to remit all fees received and due to the County Treasurer no later than the 15th day of the following month. Good internal control requires the timely deposit of all money received and Accounts Receivable be documented and reviewed in order to reduce the risk of loss, theft, or misuse.

Review of the County Clerk's office procedures noted the following:

- Remittances to the County Treasurer were not timely. July 2007 fees were not remitted until September 2007, November 2007 fees were not remitted until January 2008, January and February 2008 fees were not remitted until April 2008, and June 2008 fees were not remitted until May 2009.

- Deposits to the bank were not made on a routine basis.
- A listing of accounts receivable at June 30, 2008, or May 20, 2009, was not available.
- The bank balance compared to the accounting records indicated a shortage of \$689 on May 20, 2009.

When monies received are not deposited in a timely manner, fees are not timely remitted to the appropriate authorities, assets are not reconciled to liabilities, and accounts receivable are not monitored and documented, there is an increased risk of loss, theft, or misuse.

We recommend procedures be implemented to ensure all monies received are deposited in a timely manner and subsequently remitted to the appropriate authorities in a timely manner. We further recommend procedures be implemented to ensure assets agree to liabilities at all times and accounts receivables be monitored and documented.

County's Response: Deposits are being made to the county clerk's account at the time instruments are recorded. Money collected for copies is deposited at the end of the week. Fees will be paid to the treasurer's office monthly.

We are finally getting caught up in the office and barring any more district, appeals, and Supreme Court cases the workload will be smoother. Also we will be changing to a new real estate appraisal system that hopefully will not have as many "bugs" as the one we are now using.

CLERK OF THE DISTRICT COURT

Office Accountability

Sound accounting practices require all financial activity be complete and accurately recorded in the accounting system to reduce the risk of loss, theft, or misuse. Good internal control requires information from physically issued checks, including check numbers, payees, dates, amounts, etc., agree to the accounting system. Good internal control as well as sound accounting practices also require timely deposit of all monies received and a comprehensive reconciliation between book balances and bank balances be completed monthly, with variances promptly identified and resolved. Neb. Rev. Stat. § 33-106.02 (Reissue 2004) requires monthly remittance of District Court fees to the general fund of Banner County.

During the prior audit of the Clerk of the District Court's office procedures, significant issues were noted related to accountability of transactions. Following the audit in May 2008, the Clerk of the District Court together with the Office of the Court Administrator worked to record as many identified and previously unrecorded transactions as possible. The following was noted during the review of the Clerk of the District Court's office accountability for the fiscal year ended June 30, 2008:

- All monies received and all checks issued were not consistently recorded in the JUSTICE system, the official accounting and case management system of the District Court, throughout the entire fiscal year. As a result, in May 2008 a significant number of transactions were required to record this activity; at which time unrecorded prior year activity totaling \$103,680 in receipts and \$102,798 in checks were recorded in the JUSTICE system. Subsequent to December 2007 with the hiring of a Deputy Clerk of the District Court, procedures were implemented to ensure the complete, accurate, and timely recording of all activity.
- As of June 30, 2008, an identified net variance of \$2,256 existed between the District Court's bank account and its accounting records. Of this variance, \$997 related to undeposited revenues dating from September 2000 through September 2005. The remaining \$1,259 related to: \$212 in fee overpayments to the Nebraska State Treasurer, \$25 bank deposit which could not be identified to a particular case, \$315 which had been claimed twice to Banner County and should be repaid, \$1,105 which had been paid out/applied twice, and \$232 in specific accounting adjustments to identified cases. Total remedy of \$2,571 to resolve the total variance is the personal responsibility of the elected official.
- As of June 30, 2008, 17 cases had negative trust balances as a result of the above noted undeposited receipts, errors, and overpayments.
- Physically issued check numbers did not agree to check numbers recorded in the District Court's accounting system. The District Court subsequently took action in February 2009 to remedy this situation.
- Prior to December 2007, fee remittances were not made to the County Treasurer on a monthly basis.
- During review of case files, one \$15 undeposited check, with an issue date of January 3, 2006, was observed in the case file. This check was attached to a request for issuance of a summons in a Child Support case. The \$15 was not recorded in the JUSTICE system.

When all financial activity is not accurately recorded in the official accounting system, monies received are not deposited in a timely manner, and when fees are not remitted to the appropriate authorities in a timely manner, there is a greatly increased risk of loss, theft, or misuse.

The Clerk of the District Court together with the Office of the Court Administrator have made considerable improvements in the District Court's accountability and record keeping since the hiring of a Deputy Clerk of the District Court in December 2007. We recommend the two offices work together to address the unresolved issue of the \$2,571 remaining variance amount between the District Court's bank account and its accounting records which is the personal responsibility of the elected official.

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, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Signed Original on File

Deann Haeffner
Assistant Deputy Auditor