

**STATE OF NEBRASKA
ATTESTATION REVIEW
OF THE
VILLAGE OF BROADWATER**

PERIOD OF OCTOBER 1, 2007 THROUGH MARCH 23, 2009

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Issued on May 8, 2009

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NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Independent Accountant's Report

Citizens of the State of Nebraska:

We have reviewed expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants, bank and investment accounts, and purchasing procedures of the Village of Broadwater for the period of October 1, 2007, through March 23, 2009. The Village of Broadwater's management is responsible for the expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants administration, bank and investment accounts, and purchasing procedures. Management did not provide us a written assertion regarding such matters.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants, bank and investment accounts, and purchasing procedures. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants, bank and investment accounts, and purchasing procedures are not presented, in all material respects, in conformity with the criteria set forth in the Criteria section.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Village of Broadwater's expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants, bank and investment accounts, and purchasing procedures and any fraud and illegal acts that are more than inconsequential that come to our attention during our review. We are also required to obtain the views of management on those matters. We did not perform our review for the purpose of expressing an opinion on the internal control over the Village of Broadwater's expenditures, Village Board

proceedings, Village Board member utility accounts, Federal grants, bank and investment accounts, and purchasing procedures or on compliance and other matters; accordingly, we express no such opinions.

Our review disclosed certain findings that are required to be reported under *Government Auditing Standards* and certain other matters. Those findings, along with the views of management and the identification of significant deficiencies and material weaknesses, are described below in the Summary of Results. A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

This report is intended solely for the information and use of the Citizens of the State of Nebraska, management of the Village of Broadwater, others within the Village of Broadwater, and the appropriate Federal and regulatory agencies; however, this report is a matter of public record, and its distribution is not limited.

Signed Original on File

Mike Foley
Auditor of Public Accounts

Sandra Steinbrecher
Audit Manager

Mary Avery
Special Audits and
Finance Manager

May 8, 2009

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Background

Broadwater is a small village of 140 residents (2000 U.S. Census) located in Morrill County. The Village of Broadwater (Village) is governed by an elected five-person board (Village Board), whose responsibilities include monitoring and approving the Village expenditures, documentation and publication of Village Board proceedings, utility billing and collection, Federal grants administration, bank and investment accounts, and purchasing procedures.

The current Village Board members are:

Michelle Hoerler
Rex Leisy
Ronald Mitchell

Pam Blake
Sue Nussbaum

The Village Board appoints the Broadwater Village Clerk, who functions as the Clerk and Treasurer, and is responsible for maintaining the records for the Village and handling the finances of the Village upon approval of the Village Board. The current Broadwater Village Clerk (Clerk) is Brandi Livingston.

Criteria

The criteria used in this attestation review were Nebraska State Statutes, Village of Broadwater Municipal Code, good internal control, and sound accounting practices.

Summary of Procedures

Pursuant to Neb. Rev. Stat. § 84-304 (Reissue 2008), the Auditor of Public Accounts (APA) conducted an attestation review of the Village's expenditures, Village Board proceedings, Village Board member utility accounts, Federal grants administration, bank and investment accounts, and purchasing procedures for the period of October 1, 2007, through March 23, 2009, in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The APA's attestation review consisted of the following procedures:

1. Tested several Village expenditures for: 1) compliance with municipal code and State Statute purchase authority; 2) complete and accurate publication; and 3) adequate supporting documentation.
2. Obtained and reviewed Village Board proceedings for a general understanding of the Village's government operations, issues, etc.
3. Determined if Clerk was publishing Village Board proceedings in accordance with Neb. Rev. Stat. § 19-1102 (Reissue 2007).
4. Reviewed Village Board proceedings for presentation of the Village monthly accounting and Village treasury balances from the Clerk in accordance with Neb. Rev. Stat. § 17-606 (Reissue 2007).

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5. Reviewed utility accounts of Village Board members to determine if they were assessed utilities at established Village rates. Tested posted Village Board member payments to ensure they were included in the deposit details and recorded on bank deposits per bank statements.
6. Reviewed grant agreements, bid documents, communications, etc., regarding the Village's United States Department of Agriculture (USDA) Rural Development Water Improvement Loan and Grant for purpose of improving municipal water system in order to minimize contamination in the Village's drinking water.
7. Obtained September 30, 2008, bank reconciliations for all Village checking accounts. Verified the completeness and accuracy of the reconciliation, as well as the validity of the reconciling items.
8. Reviewed the Village's general purpose and grant bank statements for large/unusual transactions. Traced several non-Automated Clearing House deposits (utilities, donations, reimbursements, etc.) to itemized deposit slips. Agreed credited deposits to the Village's General Ledger Itemized Categories Reports.
9. Independently confirmed with financial institutions the September 30, 2008, balances of all Village bank and investment accounts.
10. Reviewed the Village's check register for evidence of pre-signed checks.
11. Performed a surprise cash count of all monies on hand at the Village office on March 25, 2009.
12. Reviewed the Village office's petty cash fund activity for reasonableness and adequate documentation.
13. Reviewed Nebraska State Statutes, Village municipal codes, and Village Board procedures related to the operations of the Broadwater Village Library (Village Library). Specifically, whether: (1) Village Library funds were maintained by the Village as a separate library fund in accordance with Neb. Rev. Stat. § 51-209 (Reissue 2004); (2) the Broadwater Village Library Board (Library Board) retained exclusive control of library expenditures, including payment of approved expenditures in accordance with Neb. Rev. Stat. § 51-207 (Reissue 2004) and § 51-209 ; and (3) an annual report of library operations was made to the Village Board in accordance with Neb. Rev. Stat. § 51-213 (Reissue 2004).
14. Reviewed the Village's procedures related to sale of personal property owned by the Village.
15. Reviewed Village's audit waivers for fiscal years 2006, 2007, and 2008 and budgets for fiscal years 2008 and 2009.

Summary of Results

The summary of our attestation review noted the following findings and recommendations:

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1. Implementation of Village Board Approved Utility Rates

On February 4, 2008, the Village Board amended Municipal Code 4-204 relating to garbage collection service rates. It included a fee of \$2.05 for each commercial business or one-family unit using own yard waste container. Sound accounting practices and good internal control require the Village have procedures in place to ensure the complete and accurate implementation of all approved fees and charges.

Pursuant to the Village Board's February 4, 2008, action, the new total garbage collection service rate for the each commercial business or one-family unit using own yard waste container computed to \$34.45 per month. The \$2.05 was correctly included in the applicable commercial trash rate; however, it was not correctly included in the applicable residential trash rate of \$34.42 per month. As a result, applicable residential customers were under-assessed \$.03 per month.

As a result, residential customers using own yard waste containers were not assessed the full rate established by the Village Board.

We recommend the Village implement procedures to ensure all fees/charges approved by the Village Board are completely and accurately implemented and collected.

Village's Response: A resident and/or commercial business requesting their own dumpster at a rate of \$34.45 involves two units. The commercial unit has been paying the assessed rate, the residential unit was under charged; paying only a rate of \$34.42. This residential unit is now being assessed the correct rate.

2. Petty Cash Procedures

Sound accounting practices and good internal control require the Village have adequate petty cash procedures in place to fully safeguard and account for such funds.

The Clerk maintains a small petty cash fund, which is not held on an imprest basis. The petty cash fund is used as a revolving fund, with the Clerk periodically (approximately every 1-2 months) requesting \$15-20 from the Village Board through the claims process. The claims are not supported by expenses or receipts; they are simply identified as "Petty Cash Fund". For the fiscal year ended September 30, 2008, and the period October 1, 2008, through March 23, 2009, reimbursement claims to the Village totaled \$175 and \$40, respectively, while the related petty cash fund expenditures during those periods totaled \$177 and \$41, respectively. In addition, the surprise cash count of all monies on hand at the Village office on March 25, 2009, noted the petty cash fund to be \$.75 short of the control ledger.

When petty cash funds are not maintained on an imprest basis, and receipts are not retained to support all expenditures, there is an increased risk of loss, theft, or misuse.

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We recommend the Village implement petty cash procedures that include maintenance of all petty cash funds on an imprest basis and submission of all receipts for the expenses of the Petty Cash Fund be provided to the Village Board in support of amounts claimed for reimbursement into the fund.

Village's Response: Receipts are now received and submitted as expenses of the petty cash fund to maintain an imprest basis in support of the expenses claimed. Notice will be given to the library board to ensure that proper documentation is also kept for the library petty cash fund.

3. Pre-Signed Checks

Sound accounting practices and good internal control prohibit the signing of checks in advance of being filled out completely and approved by the Village Board.

Review of the Village check register on March 23, 2009, noted four pre-signed checks on hand. The Clerk stated she had requested the two Village Board members authorized on the checking account to pre-sign a total of 27 checks with the intention such checks would be used to pay subsequently approved March 2009 claims.

When checks are signed in advance of being filled out completely and approved by the Village Board, there is an increased risk of loss, theft, or misuse of Village funds. Authorized individuals should never sign checks in advance to them being fully completed and approved by the Village Board.

This finding is a significant deficiency.

We recommend the practice of signing checks in advance of being filled out completely and approved by the Village Board be immediately discontinued. The Village Board should ensure all expenditures are approved and checks are completely filled out prior to signing.

Village's Response: The Village does not make a practice of pre-signing checks and will not allow this to happen in the future. We were notified by the clerk that an excess of four checks had been signed at the March meeting and that the check book was securely locked up until the April meeting whereas said checks were completely filled out and approved for April's expenditures.

4. Library Board Procedures

Neb. Rev. Stat. § 51-207 requires all local library boards to have exclusive control of their expenditures. In addition, Neb. Rev. Stat. § 51-209 requires a local library's expenditures to be drawn upon and paid out by the political subdivision's treasurer upon vouchers signed by the president of the library board and authenticated by the secretary of the library board, and not to

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be used or disbursed in any other manner. Lastly, Neb. Rev. Stat. § 51-213 (Reissue 2004) requires the library board to report to the governing board of its political subdivision, on or before the second Monday in February in each year, regarding the condition of the library's trust on the last day of the prior fiscal year, as well as on various other aspects of library operations.

During review of Village Library Board procedures, we noted the following:

- While the Village maintains Village Library funds separately, and the majority of expenditures out of that separate fund are formally approved by the Village Library Board, the Village Board has also subsequently reviewed and approved all expenditures out of the separate fund as part of its regular business before allowing payments on Village Library vouchers. We noted utility bills paid out of Village Library funds were not formally approved by the Village Library Board prior to payment by the Village Board.
- The Village Board minutes did not indicate presentation by the Village Library Board of the statutorily required report of Village Library operations as of September 30, 2008.

Failure of the Village to permit the Village Library Board's exclusive control over Village Library expenditures constitutes noncompliance with State Statute. Similarly, failure of the Village Library Board to report to the Village Board regarding the status of Village Library operations also results in noncompliance with State Statute.

We recommend the Village Library Board retain exclusive control over Village Library expenditures, with subsequent review and approval of such expenditures necessary by the Village Board. Once approved by the Village Library Board, expenditures should be paid out by the Village's treasurer. We also recommend the Village Library Board, on or before the second Monday in February of each year, make a report to the Village Board containing all of the requirements of Neb. Rev. Stat. § 51-213.

Village's Response: All library expenditures will be approved by the library board prior to the village office issuing checks for the same. Notice has been given to the Library Board that a year end library operations report for 2007-08 is not on file and to submit one in accordance with Neb. Rev. Stat. 51-213.

5. Treasurer Monthly Accounting Reports to the Village Board

Neb. Rev. Stat. § 17-606 requires the treasurer of a city or village to submit to that political subdivision's governing board at the end of every month a report showing the state of the treasury at the date of such report, the balance of monies in the treasury, and details of such.

Review of monthly accounting reports presented by the Clerk to the Village Board noted the reports reflect the all-purpose and grant checking account activity and balances; however, they do not include information regarding the separate investments, such as certificates of deposit and

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Nebraska Public Agency Investment Trust (NPAIT) investments, maintained by the Village. As of September 30, 2008, the Village had investments totaling \$47,682 with NPAIT and a certificate of deposit at Platte Valley Bank totaling \$26,045. The Clerk indicated that “every few months” she provides the Village Board with summarized fund information, which does include reporting of such investments.

When not completely and accurately informed on the status of the treasury on a monthly basis, the Village Board’s ability to make informed management decisions is impaired, there is an increased risk of loss, theft, or misuse of Village funds, and the Village Treasurer is non-compliant with Neb. Rev. Stat. § 17-606.

This finding is a significant deficiency.

We recommend monthly accounting to the Village Board be done in accordance with Neb. Rev. Stat. § 17-606. A complete state of the Village treasury and balance of money in the treasury, including reporting of separate investments such as NPAIT and Certificates of Deposit, should be provided to the Village Board.

Village’s Response: The Village Board now receives a complete financial report including, but not limited to; general checking account, grant account, and all investments; currently held in NPAIT and Platte Valley Bank.

6. Sale of Personal Property Owned by the Village

Neb. Rev. Stat. § 17-503.02 (Reissue 2007) sets out the procedures villages are to follow when selling personal property. Such procedures are required to include passage of an authorizing resolution and prominent notice of such sale for a period of not less than seven days *prior* to the sale.

Review of Village Board minutes and Village Itemized Categories Reports (General Ledger equivalents) noted the Village received a total of \$379 in proceeds from sale of holiday decorations and various uniforms. These items had been acquired by the Village as part of the purchase of school property and remaining contents from the Leyton School District in the fall of 2008. At the November 3, 2008, Village Board meeting, a motion was made and seconded to “sell the holiday decorations that are in the school to generate revenue for building upgrades and repairs.” This approval was not done by separate resolution and no dates and/or times for the sale were noted. The December 1st Village Board minutes noted the Village Board Chairperson stating \$193 had been made from sale of decorations, at which time a fellow Village Board member questioned how the sale of such items had been handled. The Village Board subsequently held “garage sales” for remaining decorations and uniforms. The Clerk provided the APA with copies of the December 8th postings to publically advertise the Holiday Decoration garage sale on December 13th and the Uniform sale on December 20th.

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When Village-owned personal property is not sold in accordance with Neb. Rev. Stat. § 17-503.02, not only is the Village not in compliance with State Statute, but also there is an increased public perception of unfairness.

We recommend the sale of any Village-owned personal property be conducted in accordance with Neb. Rev. Stat. § 17-503.02.

Village's Response: The sale of all Village owned property in the future will be done in accordance with Neb. Rev. Stat. 17.503.02; via a resolution with the required seven days notice given.

Overall Conclusion

The Village of Broadwater is not able to adequately segregate duties so that no one person is in a position to misuse Village funds; therefore, the Village Board has the increased responsibility to provide proper monitoring and oversight of Village financial transactions. Lack of monitoring of Village transactions significantly increases the risk to Village funds, including risk of loss, theft, or misuse not being detected in a timely manner. Based on the findings noted above, the Village Board needs to implement stronger guidelines for the monitoring and oversight of Village transactions in the areas noted. In addition, the Village Board needs to permit the Library Board to have exclusive control over Village Library expenditures.

The APA staff members involved in this attestation review were:

Mary Avery, Special Audits and Finance Manager
Sandra Steinbrecher, Audit Manager

If you have any questions regarding the above information, please contact our office.