



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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June 22, 2016

David Spencer, Superintendent
South Platte Public Schools
610 Plum Street
P.O. Box 457
Big Springs, NE 69122

Dear Mr. Spencer:

As you know, the Nebraska Auditor of Public Accounts (APA) received a concern recently regarding certain financial activities of the South Platte Public Schools (School). In response, thereto, the APA began limited preliminary planning work to determine if a full financial audit or attestation of the School would be warranted. During the course of that work, the APA requested specific financial information. Of particular interest were the School's payments for lawn care services.

Based upon the outcome of our preliminary planning work, the APA has determined that a separate financial audit or attestation of the School is unnecessary at this time. Nevertheless, that work did reveal certain internal control or compliance matters, or other operational matters within the School, that are presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Background

Since June 2014, the School has paid Robert Johnson, who is also employed there as a teacher, to provide its lawn care services. Below is a summary of the School's payments to Mr. Johnson from June 2014 through March 2016:

Fiscal Year	Amount Paid
2014	\$5,245
2015	\$9,330
Total	\$14,575

The June 9, 2014, meeting minutes for the School's Board of Education (Board) indicate that Mr. Johnson was initially enlisted to provide only temporary lawn care services, as follows:

Summer projects were discussed. The custodians are busy cleaning and geologic surveys will start tomorrow, the electrical engineer has been here, and coop ordering is coming in. Mr. Johnson is working on the lawns while Kyrklund is out of town. The new sprinklers will be installed the end of the month but the ground might need some leveling first. The custodians will do the carpet removal in the shop and Spencer will order a load of rock for the back lot.

Not until the March 9, 2015, meeting did the Board approve the hiring of Mr. Johnson to provide the School's lawn care services on a more permanent basis:

Motion by Sherman seconded by Sestak to approve the summer projects including having the gym floor refinished, hiring R-Lawn for spraying and Bob Johnson for lawn care. Voting yes: Sherman, Cole, Rhoades, Sestak, Shaw, Armstrong. Motion carried.

The APA identified several issues during its review of the financial information provided by the School, as detailed below.

1. No Contract for Services

The School failed to memorialize its lawn care services arrangement with Mr. Johnson in a written contract that specified his hourly rate of pay, the duration of the services provided, and other details of their agreement.

Neb. Rev. Stat. § 79-515 (Reissue 2014) states the following:

The school board or board of education of any school district may enter into contracts under such terms and conditions as the board deems appropriate, for periods not to exceed four years, for the provision of utility services, refuse disposal, transportation services, maintenance services, financial services, insurance, security services, and instructional materials, supplies, and equipment and for collective-bargaining agreements with employee groups. This section does not permit multiyear contracts with individual school district employees.

(Emphasis added.) The lack of a formal, written lawn care services contract or agreement with Mr. Johnson places the School at risk should a dispute arise regarding the specific terms of the understanding between the two parties.

Additionally, the absence of a separate, written contract could give rise to some confusion as to whether the additional compensation paid to Mr. Johnson for lawn care services should be included, along with the wages received for teaching, in his retirement contributions under the School Employees Retirement Act, which is found at Neb. Rev. Stat. §§ 79-901 to 79-977.03 (Reissue 2014, Supp. 2015).

Good internal control requires procedures to ensure that each of the School's contractual agreements is memorialized in a formal, written document that specifies all of the material terms of the understanding between the parties. Without such procedures, there is an increased risk for a misunderstanding or dispute that could result in the loss or misuse of School funds.

We recommend the School implement procedures to ensure each of its contractual agreements are memorialized in a formal, written document that specifies all of the material terms of the understanding between the parties.

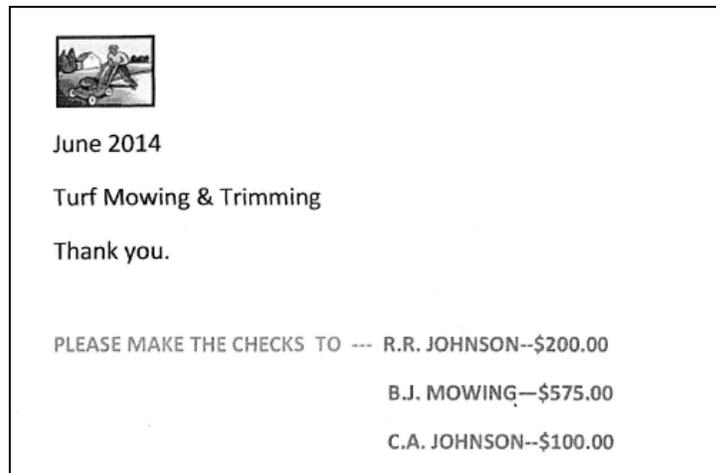
2. Lack of Adequate Documentation

Mr. Johnson's lawn services invoices lacked adequate details, such as the dates, times, and specific descriptions of the duties performed for each billing. The absence of such details made it difficult for the School to monitor properly the accuracy of the billings, including whether the claimed services were actually provided or whether duplicate services were charged.

Most invoices listed only the total hours worked each month, the hourly rate charged, and a general description of the services provided. The following invoice for July 2015 is typical of most others submitted by Mr. Johnson:



Invoices from the previous year generally included even less detail, as illustrated by the following invoice for June 2014:



In the table below, the APA summarized all the lawn care invoices that Mr. Johnson presented – frequently in the name of different vendors – to the School for payment from June 2014 through September 2015:

Service Dates	Hours	Rate	Total	Service Description	Payee	Amount
05/27/2014 - 06/04/2014	21	\$15	\$315	Nonturf weed spraying, mowing and trimming	BCC Landscape Maintenance	\$315
06/05/2014	3	\$125	\$375	Turf mowing	R.R. Johnson	\$375
06/2014	91	\$15	\$1,365	SPPS nonturf care weed spraying, mowing nonturf, trimming, preparing and planting buffalo grass at football field	BCC Landscape Maintenance	\$260
					Chem Lawn Care	\$575
					CBJ Greens Service	\$530
06/2014	n/a	n/a	\$875	Turf mowing & trimming	R.R. Johnson	\$200
					B.J. Mowing	\$575
					C.A. Johnson	\$100
07/2014	96	\$15	\$1,440	Weed spraying, mowing nonturf, trimming, preparing and planting buffalo grass at football field	BC Nonturf Care	\$575
					RRJ Greens Maintenance	\$575
					BJ Weed Control	\$290
07/2014	n/a	n/a	\$875	Turf mowing & trimming	C.A. Johnson	\$300
					CB Services	\$575
08/2014	n/a	n/a	\$500	Turf mowing & trimming	Johnson Mowing Service	\$500
08/2014 & 09/2014	48	\$15	\$720	SPPS nonturf weed spraying, mowing nonturf, trimming, preparing and planting buffalo grass at football field	BJ Weed Control	\$145
					Bob's Landscaping	\$575
Calendar Year 2014 Charges						\$6,465
05/2015 & 06/2015	137	\$15	\$2,055	SPPS nonturf care - weed spraying, mowing nonturf, trimming	BCC Landscape Maintenance	\$575
					Bob Johnson	\$575
					BJ Weed Control	\$575
					RRJ Greens Maintenance	\$330
05/2015 & 06/2015	11	\$125	\$1,375	SPPS turf care	RR Johnson	\$575
					CA Johnson	\$575
					BC Mowing	\$225
07/2015	68	\$15	\$1,020	SPPS nonturf care - weed spraying, mowing nonturf, trimming	RRJ Greens Maintenance	\$245
					B Johnson Mowing & Weed Control	\$575
					BC Nonturf Care	\$200
07/2015	9	\$125	\$1,125	SPPS turf care	CB Services	\$575
					Robert Johnson Turf Mowing	\$200
					BC Mowing	\$350
08/2015	69	\$15	\$1,035	SPPS nonturf care - weed spraying, mowing nonturf, trimming	Weed Man Turf Care	\$575
					Just Right Turf	\$460
08/2015	12	\$125	\$1,500	SPPS turf care	BJ Sod	\$575
					Johnson Pro Lawn	\$575
					CRJ Lawn Care	\$350
Calendar Year 2015 Charges						\$8,110
Total Charges for 2014 & 2015						\$14,575

The above summary shows clearly that the School received multiple invoices for lawn care services each month; however, the lack of detailed information on those invoices renders it impossible to determine whether any duplicate charges were billed.

As noted already, moreover, the above table reveals that Mr. Johnson's invoices directed the School to make payments to different vendors. In total, the School paid 21 different vendors for lawn care services provided by Mr. Johnson from June 2014 to September 2015.

The Schools total payments to each of the 21 vendors designated by Mr. Johnson from June 2014 to September 2015 are summarized in the following table:

	Payee	Amount
1	B Johnson Mowing & Weed Control *	\$575
2	B.J. Mowing	\$575
3	BC Mowing **	\$575
4	BC Nonturf Care	\$775
5	BCC Landscape Maintenance	\$1,150
6	BJ Sod	\$575
7	BJ Weed Control	\$1,010
8	Bob Johnson	\$575
9	Bob's Landscaping	\$575
10	CA Johnson	\$975
11	CB Services	\$1,150
12	CBJ Greens Service	\$530
13	Chem Lawn Care	\$575
14	CRJ Lawn Care	\$350
15	Johnson Mowing Service	\$500
16	Johnson Pro Lawn	\$575
17	Just Right Turf	\$460
18	Robert Johnson Turf Mowing	\$200
19	RR Johnson	\$1,150
20	RRJ Greens Maintenance	\$1,150
21	Weed Man Turf Care	\$575
	Total	\$14,575

**The invoice requested payment of \$575 to B Johnson Mowing & Weed Control; however, the School issued the check to B.J. Mowing. Vendors listed in this table are per the invoice, not the check.*

***The invoice requested payment of \$225 to BC Mowing; however, the School issued the check to BC Nonturf Care. Vendors listed in this table are per the invoice, not the check.*

Good internal controls require procedures and records to ensure adequate, detailed documentation is on file to support all expenditures of School funds. Without such procedures, there is an increased risk for loss or misuse of School funds.

We recommend the School implement procedures to ensure vendor invoices are not duplicates and are sufficiently detailed to allow for an accurate determination of the nature, timing, and extent of the services provided.

3. Incorrect Form 1099-MISC

In its instructions for Form 1099-MISC (Miscellaneous Income), the Internal Revenue Service (IRS) directs payors to file the “Form 1099-MISC, Miscellaneous Income, for each person to whom you have paid during the year . . . At least \$600 in . . . services performed by someone who is not your employee . . .” (<https://www.irs.gov/pub/irs-pdf/i1099msc.pdf>)

Interestingly, none of the 21 different vendors designated by Mr. Johnson’s invoices, as noted in the table above, received payments in excess of \$600 from the School within a single calendar year. Despite the fact that multiple vendor names were listed on the invoices and the School made payments to these different vendors, only one Form 1099-MISC was issued for the

services provided. After calculating the total amounts paid to Mr. Johnson’s various company names for calendar years 2014 and 2015, however, the APA determined that those totals did not agree to the information the School reported to Mr. Johnson on his Form 1099-MISC.

The variances between the APA’s calculation of the payments made to Mr. Johnson and the information found on the Form 1099-MISC prepared by the School are set out in the following table:

Year	Amount Reported on 1099-MISC	APA Calculation	Variance
2014	\$5,890	\$6,465	(\$575)
2015	\$5,330	\$8,110	(\$2,780)
Totals	\$11,220	\$14,575	(\$3,355)

After the APA notified the School of the discrepancy between its total payments to Mr. Johnson and the Form 1099-MISC information, School staff responded that the amounts on the 2015 tax form did not include payments from August 2015 and September 2015. The 2015 Form 1099-MISC was subsequently corrected to reflect accurately the total payments to Mr. Johnson for the calendar year.

Good internal control requires procedures to ensure that any IRS Form 1099-MISC prepared by the School contains an accurate statement of all miscellaneous income paid to the employee/contractor. A lack of such procedures could have significant tax implications for the payee.

We recommend the School implement procedures to ensure correct income amounts are reported on the IRS Form 1099-MISC, and any prior inaccuracies, including those for calendar year 2014, are corrected.

4. Unreasonable and Unnecessary Purchases

While reviewing the financial activity provided by the School, the APA noted a number of questionable purchases. Specifically, the School made six flower purchases totaling \$329.08.

The following table details the School’s six purchases of flowers during the period tested:

Date	Vendor	Description	Amount
10/09/2014	Petal Pushers	Flowers	\$41.73
02/06/2015	Flowers by Mike	Get well plants	\$99.95
03/06/2015	Flowers by Mike	Herman	\$38.50
05/11/2015	Dee's Floral and Gifts	Plat for funeral	\$40.00
08/10/2015	Flowers by Mike	Flowers (Jeffres)	\$49.00
10/12/2015	Flowers by Mike	Flowers	\$59.90
Total			\$329.08

The Local Government Miscellaneous Expenditure Act (Act), which is set out at Neb. Rev. Stat. §§ 13-2201 through 13-2204 (Reissue 2012), addresses various expenditures, aside from those otherwise authorized by law, that constitute allowable uses of public funds by designated political subdivisions.

The provisions of the Act are made applicable to School districts, among numerous other entities, by § 13-2202(2), which states, in relevant part: “Governing body shall mean . . . in the case of a school district, the school board” Similarly, § 13-2202(3) provides, also in relevant part: “Local government shall mean . . . school districts”

Section 13-2203 of the Act specifies the types of miscellaneous expenditures permitted by the governing bodies of local governments. Flower purchases for funerals or other personal occasions are not found among that select statutory list of allowable expenditures. Because § 13-2203 does not expressly include the purchase of flowers for such events among the permissible expenditures listed, such disbursements must be considered disallowed by law.

On September 11, 1992, following adoption of the Act earlier that same year, the Nebraska Accountability and Disclosure Commission issued a document entitled “A Guideline to the Use of Public Funds by Cities and Villages – Revised” (Guideline). Therein are discussed, in light of the provisions of the Act, a number of specific scenarios involving the expenditure of public funds. Although issued more than two decades ago, the Guideline remains relevant, as the Act has not been amended since its inception.

Regarding the issue of flower purchases, the Guideline provides the following:

Question #6 – May municipal funds be expended for flowers and memorials for deceased elected officials, employees or their families?

Response – No.

There are certain circumstances in which the purchase of flowers by the School is allowable, such as for use in building or on grounds owned by the School. However, based solely upon the description found in the accounting system, some of the flower purchases noted appear impermissible under the Act.

Good internal control requires procedures to ensure purchases that all miscellaneous School purchases are lawful under the Act. Without such procedures, there is an increased risk of not only loss or misuse of School funds but also statutory noncompliance.

We recommend the Board implement procedures to ensure that all miscellaneous School purchases are lawful under the Act.

* * * * *

Our limited procedures for this letter were designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Nevertheless, our objective is to use knowledge gained during the preliminary planning work to make comments and suggestions that we hope will be useful to the School.

Draft copies of this letter were furnished to the School to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. Where no response has been included, the School declined to respond

This communication is intended solely for the information and use of the School and its management. It is not intended to be, and should not be, used by anyone other than those specified parties. However, this letter is a matter of public record, and its distribution is not limited.

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

Sincerely,

A handwritten signature in cursive script that reads "Mary Avery". The signature is written in black ink and is positioned above the typed name and contact information.

Mary Avery
Special Audits and Finance Manager
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