

**AUDIT REPORT
OF
SOUTH HEARTLAND DISTRICT
HEALTH DEPARTMENT**

JULY 1, 2017, THROUGH JUNE 30, 2018

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the Auditor of Public Accounts.**

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Issued on October 4, 2018

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

| Name | Title |
|---------------------|-----------------------------|
| Nanette Shackelford | Clay County – President |
| Charles Neumann | Adams County |
| Judy Reimer | Adams County |
| Eric Samuelson | Clay County |
| Dixie Siemsen | Clay County |
| Doyle Christensen | Nuckolls County |
| Peggy Meyer | Nuckolls County |
| Matt Blum | Nuckolls County |
| Roger Bohrer | Webster County |
| Ronald Kuehner | Webster County |
| Mirya Hallock | Webster County |
| Michael Kleppinger | Professional Representative |
| Phyllis Salyards | Professional Representative |

South Heartland District Health Department Executive Management

| Name | Title |
|---------------|----------------------------|
| Michele Bever | Director |
| Joe Streufert | Finance/Operations Manager |

South Heartland District Health Department
606 N. Minnesota Ave., Suite 2
Hastings, NE 68901
www.southheartlandhealth.org



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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

INDEPENDENT AUDITOR'S REPORT

South Heartland District Health Department
Hastings, Nebraska

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities and major fund of the South Heartland District Health Department (SHDHD), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the SHDHD's primary government, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the SHDHD's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SHDHD's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and the major fund of the SHDHD, as of June 30, 2018, and the respective changes in cash-basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matters – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole, which collectively comprise the SHDHD's basic financial statements. The Management Discussion and Analysis, and the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund, on pages 4-7 and 17, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Management Discussion and Analysis and the Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and considering the SHDHD's internal control over financial reporting and compliance.

October 1, 2018



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor
Lincoln, Nebraska

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Heartland District Health Department's (SHDHD) annual audit report presents our discussion and analysis of the SHDHD's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the SHDHD's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The SHDHD is completing this audit report in compliance with the provisions of Statement No. 34 of the Governmental Accounting Standards Board *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Statement No. 34 establishes standards for external financial reporting for all State and Local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net assets into three components: (a) invested in capital assets, net of related debt; (b) restricted; (c) unrestricted.

This annual report consists of three parts: (1) Management's Discussion and Analysis (this section); (2) Basic Financial Statements – Cash Basis; and (3) Supplemental Schedules.

The accompanying basic financial statements have been prepared on the cash basis of accounting. Accordingly, the financial statements and supplemental schedules are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United State of America.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data about the financial statements and the SHDHD's commitments and contingencies that are not reported in the cash basis financial statements. The statements are followed by a section of Supplementary Information that further explains and supports the information in the financial statements.

FINANCIAL HIGHLIGHTS

Book Balances

The SHDHD's total cash available decreased from \$77,195 to \$58,938, or a decrease of \$18,257.

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---------------------------|------------------|------------------|
| Cash and Cash Equivalents | \$ 58,938 | \$ 77,195 |
| Total Assets | <u>\$ 58,938</u> | <u>\$ 77,195</u> |
| Net Position | | |
| Unrestricted | <u>\$ 58,938</u> | <u>\$ 77,195</u> |

Receipts and Disbursements

For the fiscal year ended June 30, 2018, the SHDHD's total receipts were \$734,744. The SHDHD's total disbursements were \$753,001, a net change of -\$18,257.

Below is information from the Statement of Cash Basis Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund. Differences between fiscal years 2017 and 2018 are not directly comparable given that the accounting basis for the financial reports changed from an accrual basis to a cash basis.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Continued)

| | FY18 | FY17 |
|--|-------------|------------|
| RECEIPTS | | |
| Federal Grants | \$ 385,652 | \$ 470,208 |
| State Revenue – LB 692 | 183,330 | 183,302 |
| State Revenue – LB 1060 | 105,458 | 104,791 |
| State Revenue – LB 657 | 11,111 | 11,807 |
| State and Local Grants | 37,721 | 21,719 |
| Charges for Services | 5,120 | - |
| Donations | 1,142 | - |
| Interest Income | 25 | 29 |
| Miscellaneous | 5,185 | 5,671 |
| Total Receipts | 734,744 | 797,527 |
| DISBURSEMENTS | | |
| Current | | |
| Personnel | 559,374 | - |
| Operating | 153,553 | - |
| Supplies | 21,191 | - |
| Travel | 18,883 | - |
| Health & Social Services | - | 746,982 |
| Capital Outlay | - | 2,455 |
| Total Disbursements | 753,001 | 749,437 |
| Excess (Deficiency) of Receipts over Disbursements | \$ (18,257) | \$ 48,090 |

FINANCIAL ANALYSIS OF THE SHDHD AS A WHOLE

Federal and State Grant Funding

Federal and State grant revenue is received by the SHDHD to administer Federal and State programs and grants. These funds support, for the most part, the program/grant activities.

State Funding

As a district health department formed under LB 692 (2001), the SHDHD receives funding from the State of Nebraska to support public health activities. State funds include the following:

- LB 692 (2001) – Nebraska Health Care Cash Fund to support the district health departments for the establishment, management, and operation of the health department and its core public health functions. Core public health functions include assessment and policy development, prevention of illness and disease, and assurance of services, including public health nursing, health education, and environmental health services.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

- LB 1060 (2006) – Appropriations for local health departments. At the SHDHD, these funds support the operation of the health department as focused primarily on the essential services of surveillance and assessment, performance management, environmental health, and addressing health disparities.
- LB 657 (2015) – Additional Nebraska Health Care Cash Fund for state aid for public health departments. These funds are currently being used by the SHDHD to support performance improvement activities.

In 2017-2018, the SHDHD received \$299,899 from the State of Nebraska to support public health activities. In 2016-2017, the SHDHD received \$299,900 from the State of Nebraska to support public health activities.

General Fund Budgetary Highlights

The SHDHD's proposed budget for the operation of the SHDHD for 2017-2018 was set at \$1,064,478.

When preparing the proposed budget, the SHDHD allows for fluctuations in Federal and State program/grant activity throughout the year. For this reason, during the 2017-2018 fiscal year, the SHDHD did not spend over the budget of \$1.06 million that was provided on August 25, 2017, to the Hastings Tribune (Hastings). During the 2016-2017 fiscal year, the SHDHD did not spend over the budget of \$1.3 million that was published on September 1, 2016, in the Hastings Tribune (Hastings).

Interlocal Agreements

The SHDHD was formed in November 2001 through signed resolutions adopting an interlocal agreement between the three counties of Adams, Nuckolls, and Webster in Nebraska, so that all persons residing in these counties would have access to public health services.

LB 692 (2001) allowed for the establishment of interlocal agreements between counties for the establishment of a local public health department, if at least three contiguous counties are involved and the counties have a total of at least thirty thousand residents.

In 2002, the SHDHD expanded to four counties with the addition of Clay County. In December 2008 – January 2009, all four counties signed a revised 2008 interlocal agreement, in order to meet the requirements for tax-exempt status required by State statute. This interlocal agreement outlined the organization of the district and the powers and management of the district health department.

According to the 2008 interlocal agreement:

The DISTRICT HEALTH DEPARTMENT shall be funded by state and federal grants, private foundations, donations and other monies for which the DISTRICT HEALTH DEPARTMENT is eligible. Funds obtained from all sources shall be used to maintain and operate the DISTRICT HEALTH DEPARTMENT, including funding of the salaries of the necessary personnel. The Board of Directors, established in accordance with Neb.Rev.Stat. §§ 71-1630, shall establish and maintain the annual budget of the DISTRICT HEALTH DEPARTMENT.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Concluded)

Contacting the SHDHD's Financial Management

This financial report is designed to provide the public with a general overview of the SHDHD's finances and to demonstrate the SHDHD's accountability for the money with which it is entrusted. If you have any questions about this report or need additional information, contact Dr. Michele Bever, PHD, MPH, Executive Director, South Heartland District Health Department, 606 N Minnesota Ave, Suite 2, Hastings, NE 68901. The SHDHD's phone number is (402) 462-6211, the fax number is (402) 462-6219, and the website is located at www.southheartlandhealth.org.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF NET POSITION – CASH BASIS
June 30, 2018

| | <u>Governmental Activities</u> |
|---------------------------|------------------------------------|
| ASSETS: | |
| Cash and Cash Equivalents | \$ 58,938 |
| Total Assets | <u>\$ 58,938</u> |
| NET POSITION: | |
| Unrestricted | \$ 58,938 |
| Total Net Position | <u>\$ 58,938</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF ACTIVITIES – CASH BASIS
For the Fiscal Year Ended June 30, 2018

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursements)/ Receipt and Changes in Net Position |
|-------------------------------|-------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Health & Social Services | \$ 753,001 | \$ 5,120 | \$ 423,373 | \$ (324,508) |
| Total Governmental Activities | <u>\$ 753,001</u> | <u>\$ 5,120</u> | <u>\$ 423,373</u> | <u>(324,508)</u> |
| General Receipts: | | | | |
| | | | | 183,330 |
| | | | | 105,458 |
| | | | | 11,111 |
| | | | | 1,142 |
| | | | | 25 |
| | | | | 5,185 |
| | | | | <u>306,251</u> |
| | | | | (18,257) |
| | | | | <u>77,195</u> |
| | | | | <u>\$ 58,938</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND

June 30, 2018

| | <u>General Fund</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 58,938 |
| Total Assets | <u>\$ 58,938</u> |
| | |
| FUND BALANCE | |
| Unassigned | \$ 58,938 |
| Total Fund Balance | <u>\$ 58,938</u> |

The accompanying notes are an integral part of the financial statements.

**SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE
GOVERNMENTAL FUND**

For the Fiscal Year Ended June 30, 2018

| | <u>General Fund</u> |
|---|---------------------|
| RECEIPTS | |
| Federal Grants | \$ 385,652 |
| State Revenue - LB 692 | 183,330 |
| State Revenue - LB 1060 | 105,458 |
| State Revenue - LB 657 | 11,111 |
| State and Local Grants | 37,721 |
| Charges for Services | 5,120 |
| Donations | 1,142 |
| Interest Income | 25 |
| Miscellaneous | 5,185 |
| Total Receipts | 734,744 |
| DISBURSEMENTS | |
| Current: | |
| Personnel | 559,374 |
| Operating | 153,553 |
| Supplies | 21,191 |
| Travel | 18,883 |
| Total Disbursements | 753,001 |
| Deficiency of Receipts Over Disbursements | (18,257) |
| Cash Basis Fund Balance - Beginning | 77,195 |
| Cash Basis Fund Balance - Ending | \$ 58,938 |

The accompanying notes are an integral part of the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2018

1. **Summary of Significant Accounting Policies**

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the South Heartland District Health Department (SHDHD) in Hastings, Nebraska.

A. Reporting Entity

The SHDHD is a local health department established under and governed by the laws of the State of Nebraska. The SHDHD provides public health services to the residents of Adams, Clay, Nuckolls, and Webster counties in Nebraska. As a political subdivision of the State, the SHDHD is exempt from sales and use taxes.

The financial reporting entity consists of the SHDHD.

In determining the financial reporting entity, the SHDHD complies with the provisions of GASB Statement Number 61, and it has considered potential component units (traditionally separate reporting entities) for which the SHDHD may be financially accountable and, as such, should be included within the SHDHD's financial statements. The SHDHS is financially accountable if it appoints a voting majority of the organization's governing body and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the SHDHD. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on these criteria, the SHDHD did not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements. The Statement of Net Position and Statement of Activities display information about the activities of the SHDHD and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the SHDHD. The SHDHD reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following category:

Unrestricted. This category represents resources that do not have constraints externally imposed on net asset use by creditors, grantors, or contributors, or imposed by law through constitutional provisions or enabling legislation. Unrestricted resources often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General revenues include all other receipts properly not included as program receipts. The SHDHD reported the following general receipts: State Revenue (LB 692, LB 1060, and LB 657), Donations, Interest Income, and Miscellaneous Income.

Fund Financial Statements. The fund financial statements provide information about the SHDHD's funds. GAAP requires separate statements by fund category – governmental, proprietary, and fiduciary. The SHDHD has only the Governmental Fund category. An emphasis is placed on major funds within the governmental category. Major funds are funds whose receipts, disbursements, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental funds and at least 5 percent of the aggregate amount for all governmental funds. Any other fund may be reported as a major fund if the SHDHD's officials believe that fund is particularly important to the financial statement users.

The SHDHD reports the following types of governmental funds:

General Fund. This is the SHDHD's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

The SHDHD designates fund balances as follows:

Unassigned. Those funds that are not restricted, committed, or assigned for a specific purpose.

C. **Measurement Focus, Basis of Accounting**

The SHDHD prepares its financial statements on the cash basis, which is in conformity with the accounting practices prescribed or permitted by the State of Nebraska; consequently, these statements represent a summary of the cash activity of the various funds of the SHDHD and do not include certain transactions that would be included if the SHDHD prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

Under the cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Concluded)

D. Cash and Cash Equivalents

The SHDHD cash and cash equivalents are considered to be cash on hand and demand deposits.

E. Capital Assets

Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., buildings, computer hardware, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

F. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the SHDHD funds as paid. Upon termination, employees are paid for any unused vacation. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements and would be recorded in accordance with the SHDHD's policy, which is to recognize the expense and accrued liability when vacation and compensatory leave is earned.

G. Budget Process

The SHDHD is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. Appropriations for expenditures lapse at year-end. Any revisions to the adopted budget of total expenditures to any fund require a public hearing. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow.

2. **Deposits**

The following disclosures – deposits, including checking accounts, savings accounts, and money market accounts, are all classified as cash or cash and cash equivalents on the financial statements.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. **Deposits** (Concluded)

Custodial credit risk is the risk that, in the event of a bank failure, the SHDHD's deposits may not be returned to it. As of June 30, 2018, all of the SHDHD's deposits with financial institutions were fully insured.

The bank balance of the SHDHD's accounts, at June 30, 2018, consisted of the following:

| | | |
|--------------|----|---------------|
| Checking | \$ | 54,076 |
| Money Market | | 4,862 |
| | \$ | <u>58,938</u> |

3. **Contingencies and Commitments**

The SHDHD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The SHDHD has purchased commercial insurance to offset these certain risks. There have been no significant reductions in insurance coverage and no settled claims in excess of insurance coverage in any of the past three fiscal years.

4. **Retirement Plan (Plan)**

The SHDHD contributes to a multiple-employer plan (Plan) administered by the Public Employees Retirement Board in accordance with the provisions of the County Employees Retirement Act. The Plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. The Plan provisions are established under Neb. Rev. Stat. §§ 23-2301 through 23-2334 (Reissue 2012, Cum. Supp. 2016, Supp. 2017) and may be amended through legislative action.

Participation in the Plan is required of all full-time employees. Part-time (working less than one-half of the regularly scheduled hours) employees may elect voluntary participation upon reaching age 18.

The SHDHD employees contribute 4.5% of their total compensation. In addition, the SHDHD contributes an amount equal to 150% of the employee's contribution. The contribution rates are established by § 23-2307 and § 23-2308 and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employer's account is fully vested after three years of participation in the system or credit for participation in another governmental plan prior to actual contribution to the Plan. Non-vested contributions are forfeited upon termination. Forfeitures are used to cover a portion of the pension plan's administrative expenses. Prior service benefits are paid directly by the SHDHD to the retired employee. The Plan's financial statements, including pension costs and obligations, are audited annually and can be obtained from the State of Nebraska Public Employees Retirement System.

For the year ended June 30, 2018, 15 employees contributed \$19,380, and the SHDHD contributed \$29,071.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

5. **Beginning Fund Balance Reconciliation**

The SHDHD reported its basic financial statements on an accrual basis for the fiscal year ended June 30, 2017, but is reporting on a cash basis for the fiscal year ended June 30, 2018. Accordingly, the SHDHD's ending accrual-basis fund balance as of June 30, 2017, does not agree to the SHDHD's beginning cash-basis fund balance as of July 1, 2017, as shown in this report. The difference is due to the following accrual entries that are not included in a cash basis audit:

| | | |
|---|----|---------------|
| Accrual Basis Fund Balance as of 6-30-17 | \$ | 469,980 |
| Receivables | | (94,088) |
| Prepaid Expenses | | (5,591) |
| Net Pension Asset | | (20,571) |
| Capital Assets, Net of Depreciation | | (300,409) |
| Deferred Outflows Related to Pensions | | (45,184) |
| Deferred Inflows Related to Pensions | | 19,322 |
| Accrued Liabilities (Accounts Payable, Accrued Payroll Items, Compensated Absences, etc.) | | 53,736 |
| Cash Basis Fund Balance as of 7-1-17 | \$ | <u>77,195</u> |

6. **Subsequent Events**

The SHDHD has evaluated subsequent events from the balance sheet date through October 1, 2018, the date at which the financial statements were available to be issued. Nothing of significance was noted.

**SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCE**

**BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2018

| | Budget (Original & Final) | Actual | Variance Favorable/ (Unfavorable) |
|---|------------------------------|------------|---|
| RECEIPTS | | | |
| Federal Grants | \$ 753,027 | \$ 385,652 | \$ (367,375) |
| State Revenue - LB 692 | 181,739 | 183,330 | 1,591 |
| State Revenue - LB 1060 | 105,458 | 105,458 | - |
| State Revenue - LB 657 | 11,111 | 11,111 | - |
| State & Local Grants | 13,316 | 37,721 | 24,405 |
| Other Receipts | - | 11,472 | 11,472 |
| Total Receipts | 1,064,651 | 734,744 | (329,907) |
| DISBURSEMENTS | | | |
| LB 692 | 181,739 | 131,919 | 49,820 |
| LB 1060 | 150,458 | 94,524 | 55,934 |
| 1422 (Emergency Preparedness) Grant | 378,485 | 249,603 | 128,882 |
| Every Woman Matters Grant | - | 57,127 | (57,127) |
| Other Grants and Contracts | 353,795 | 219,828 | 133,967 |
| Total Disbursements | 1,064,477 | 753,001 | 311,476 |
| Deficiency of Receipts Over Disbursements | | (18,257) | |
| Fund Balance, Beginning of Year | | 77,195 | |
| Fund Balance, End of Year | | \$ 58,938 | |

See the Notes to the Budgetary and Actual Information.

SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

NOTES TO THE BUDGETARY AND ACTUAL INFORMATION

For the Fiscal Year Ended June 30, 2018

BUDGETARY COMPARISON SCHEDULE

Basis of Accounting

The accompanying Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund is presented on the cash basis of accounting. This basis is consistent with the basis of accounting used in preparing the basic financial statements.

Budget Process

The SHDHD adopts an annual budget that is approved by the Board of Health. It is prepared in accordance with the basis of accounting utilized by the SHDHD's Governmental Funds. The SHDHD is not obligated by statute to file a budget with the State of Nebraska.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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SOUTH HEARTLAND DISTRICT HEALTH DEPARTMENT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

South Heartland District Health Department
Hastings, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of South Heartland District Health Department, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the South Heartland District Health Department's basic financial statements, and have issued our report thereon dated October 1, 2018. The report notes the financial statements were prepared on the basis of cash receipts and disbursements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Heartland District Health Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Heartland District Health Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Heartland District Health Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. During our audit, we identified a deficiency in internal control, described above in the Comments and Recommendations Section, that we consider to be a material weakness: Comment and Recommendation Number 1, Financial Statement Preparation. We also identified deficiencies in internal control described above in the Comments and Recommendations Section, that we consider to be significant deficiencies: Comment and Recommendation Numbers 2, Bank Reconciliation Issues; 3, Internal Controls Over Payroll; 4, Other Internal Controls; and 5, Lack of Supporting Documentation.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the South Heartland District Health Department's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Heartland District Health Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

South Heartland District Health Department's Response to Findings

South Heartland District Health Department's response to the findings identified in our audit are described in the accompanying letter. South Heartland District Health Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the South Heartland District Health Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Heartland District Health Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor
Lincoln, Nebraska

October 1, 2018



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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October 1, 2018

Board of Health
South Heartland District Health Department
Hastings, Nebraska

We have audited the basic financial statements of the South Heartland District Health Department (SHDHD) for the fiscal year ended June 30, 2018, and have issued our report thereon dated October 1, 2018. In planning and performing our audit of the basic financial statements of the SHDHD, 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 SHDHD'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 following areas:

1. Financial Statement Preparation

The South Heartland District Health Department (SHDHD) lacked the level of understanding and expertise needed to prepare fair and complete financial statements, as required by government auditing standards.

The SHDHD prepared a Statement of Activities that included a number of errors, including the following:

| Category | SDHDH Amount | Correct Amount | Difference | Explanation |
|---|--------------|----------------|------------|---|
| Operating Grants and Contributions (Program Receipts) | \$ - | \$ 423,373 | \$ 423,373 | The SHDHD reflected Federal Income and State & Local grant receipts as "General Receipts" instead of as Program Receipts and completely excluded accreditation receipts from its financial statement. |
| Charges for Services | \$ - | \$ 5,120 | \$ 5,120 | The SHDHD reflected radon kit sales and Diabetes Prevention Program (DPP) receipts as "General Receipts" instead of as charges for services. |
| Health & Social Services Disbursements | \$743,483 | \$ 753,001 | \$ 9,518 | The SHDHD included transfers out as disbursements and did not report all disbursements from its accounting system on its financial statement. |

The SHDHD failed to assign account numbers to all of the revenue and expense accounts in its accounting system, which contributed to the SHDHD's inability to properly classify all receipts and disbursements.

Paragraph A2 of AICPA Auditing Standards AU-C Section 200 states, in relevant part, the following:

An audit in accordance with GAAS is conducted on the premise that management and, when appropriate, those charged with governance have acknowledged and understand that they have responsibility

a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework[.]

Good internal controls require procedures to permit a fair and accurate presentation of financial statements in accordance with government auditing standards. Without such procedures, there is an increased risk for misstatements in the financial statements.

The SHDHD’s financial statements were materially misstated and required management-approved adjustments.

We recommend the SHDHD implement procedures to ensure that financial management has the level of expertise needed to prepare fair and complete financial statements. We also recommend the SHDHD assign account numbers to all accounts in its accounting system that properly identify its receipts and disbursements.

SHDHD’s Response: We are currently working with another health department in the state to combine resources for purpose of obtaining the expertise of an individual with an extensive knowledge of the QuickBooks accounting software to help us resolve the issues that led to the recommendations in this section. Better organization of our Chart of Accounts, including the addition of account numbers, will resolve these issues.

2. Bank Reconciliation Issues

The APA found a number of issues related to the bank reconciliation process of the SHDHD, including the use of a reconciliation discrepancies account in the accounting system to balance the bank records to the books. The SHDHD made accounting entries directly to the checking account using this account, instead of correcting the errors in the original receipt or disbursement accounts. The APA noted the following entries made to this account for balancing:

| Date | Memo | Split | Original Amo |
|------------|--------------------|-------------------------------------|--------------|
| 09/30/2017 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ (715.27) |
| 10/31/2017 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ (787.44) |
| 12/31/2017 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ 0.45 |
| 01/31/2018 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ (617.39) |
| 02/28/2018 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ 5.05 |
| 03/31/2018 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ 0.01 |
| 04/30/2018 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ (0.80) |
| 05/31/2018 | Balance Adjustment | 4000 - Reconciliation Discrepancies | \$ 0.84 |

At June 30, 2018, the bank disbursements did not agree to the accounting record disbursements. The bank had \$1,500 more disbursements than what was recorded in the accounting records. The APA accumulated a list that represent the difference, as follows:

| | |
|------------|--|
| | Check 11584. Recorded GL on 6/30/2017 - shown as cleared on reconciliation, so not on O/S list - cleared bank on 7/7/17 |
| 222.16 | On bank statement 6/7/17. Entered into GL on 7/5/17 (Amazon debit) |
| 30.00 | On bank statement 6/1/17. Entered into GL on 7/5/17 (NALHD debit) |
| 11.39 | On bank statement 6/23/17. Entered into GL on 7/5/17 (Russ's Market) |
| 20.00 | On bank statement 6/13/17. Entered into GL on 7/5/17. (One entry for YMCA \$40.) |
| 20.00 | On bank statement 6/13/17. Entered into GL on 7/5/17. (One entry for YMCA \$40.) |
| (50.00) | check 12454 on bank 8/31 not in book |
| (1,033.87) | Signs.com - 3 entries is bank totaling \$1389.73 (64.68, 273.73, 1051.32). Book amount was \$355.86 |
| 500.15 | Best Buy - amount was this much less in B/S than GL |
| (245.12) | On bank statement 9/14/17, and not found in GL - check 11675 |
| (200.00) | On bank statement 9/14/17, and not found in GL |
| 20.46 | Hit book on 9/7/2017 for Stamps, but not bank statement |
| 715.27 | 9/30/17 Reconciling difference logged by South Heartland, not in bank |
| 120.00 | Check 1588 dated 8/7/17 was outstanding in Aug. SDHD has wrong o/s check for the \$120. Fell off in Sept but didn't clear. |
| (588.49) | On bank statement 10/2/17. Not found in GL (Best Buy) |
| 787.44 | Reconciling difference logged by South Heartland |
| 27.76 | 10/2/17 entry to books, not in bank yet. (Stamps.com) |
| 617.39 | GL entry on 1/31/18 to reconciliation discrepancies, not in bank |
| (31.47) | On o/s list in January, but it posted to the bank on 1/25, should not be outstanding. Check 11853. |
| (585.49) | On o/s list in January, but it posted to the bank on 1/26, should not be outstanding. Check 11877. |
| (165.39) | Debit on bank on 2/2/18 for a payroll account, not in GL |
| (1,497.54) | Debit on bank on 2/5/18, bank error credited on bank 2/7/18 |
| (129.00) | Debit on bank on 2/5/18, not in GL. (Firespring) |
| 180.12 | GL entry on 2/1/18 to Heritage Bank for liability check not in bank. |
| 27.81 | Listed on o/s check amounts in January but dropped off in Feb. Entry was 10/20/17 Stamps.com - still o/s per APA GL |
| 0.01 | EFT on 2/1/18 to Ameritas was .01 higher in the GL than on the bank. |
| 0.01 | 3/20/18 GL .01 higher than bank (Firespring) |
| (129.00) | Bank debit on 4/3/18, no entry in GL (Firespring) |
| 91.52 | GL 4/25/18 ACH to VSP Ameritas, not in bank |
| 0.80 | GL 4/30/18 balance adjustment(\$.80) not in bank |
| (142.50) | Bank debit on 6/8/18 to Country Inn and Suites, not in GL |
| 25.00 | 6/29/18 GL entry for ACH to Heritage Bank not in bank |

Finally, the SHDHD had \$79.01 in old, outstanding deposits. One in particular is a \$75 deposit dated July 1, 2016. The SHDHD should review the old deposits and make the appropriate entries to correct the situation.

Good internal controls require adequate procedures to ensure the bank records are in agreement with the accounting records. Without such procedures, there is an increased risk for theft, loss, or misuse of funds.

We recommend the SHDHD implement procedures to ensure its bank records are properly reconciled to its accounting records. In doing so, the SHDHD should investigate and appropriately resolve any differences noted. The use of the reconciling differences account should immediately cease. Furthermore, the Board should ensure a proper review of the reconciliation and accounting records to ensure the accounting records are properly reconciled to the bank records. Finally, the SHDHD should ensure the old outstanding deposits are appropriately resolved.

SHDHD's Response: We will immediately discontinue the use of the reconciliations discrepancies account when a difference occurs during the monthly reconciliation of the bank statements. With assistance from and expert in QuickBooks, we plan to clear up the issues regarding disbursement and deposit discrepancies and are instituting a process to print out discrepancies for monthly review.

3. Internal Controls over Payroll

The SHDHD lacked adequate internal controls over its payroll processes. The APA tested paychecks to four SHDHD employees and noted the following control issues:

| Issue | Description |
|---|---|
| Employee Overpayment | The SHDHD overpaid an employee a total of \$898.56. The employee had elected to cease two benefit deductions from the employee’s pay. Due to not changing the benefit amount in time, the SHDHD reimbursed the employee \$99.84 for the benefits that were to have ceased. Instead of a one-time payment in April 2018, the SHDHD paid the employee that amount for nine other pay periods, until August 2018, when the APA brought the matter to the attention of the SHDHD. |
| Income Tax Withholdings | One employee requested one withholding on his IRS Form W-4, but his paystub reflected zero withholdings. Two employees had Federal income taxes withheld at the married filing single rate, but the State income taxes were withheld at the married rate, which is not allowed per Nebraska Department of Revenue regulations. One employee’s pay included \$25 in additional Federal income tax withholding, but the SHDHD did not have a W-4 on file for this employee authorizing the additional tax withholding. |
| Payroll Deduction Authorization and Amounts | One employee’s pay included a \$65.10 deduction per pay period for AFLAC insurance; however, the SHDHD failed to maintain the documentation to support that the employee authorized the benefit deduction. Another employee’s pay included deductions of \$36.52 for dental insurance and \$349.84 for a health savings account (HSA) per pay period; however, the SHDHD lacked documentation to support that the employee authorized the benefit deduction. Additionally, the SHDHD lacked documentation to support the amount of the HSA deduction. |
| Leave Allocation | The SHDHD allocated leave hours to its various programs based on budget projections, not based on the actual time the employee worked on the programs. |
| Fringe Benefit Allocation | Two employees tested received the \$450 cash-in-lieu of health insurance fringe benefit. The SHDHD lacked procedures to ensure the amounts were allocated properly to its programs based on actual time worked. |
| Holiday Leave Overpayment | One employee recorded 8.5 hours for holiday leave, and the SHDHD paid that individual for the 8.5 hours, instead of the standard 8 hours. |
| No Supervisory Approval of Time Records | The SHDHD failed to provide a supervisory review of the Director’s timesheet. |

Title 316 NAC 21-010.01 (October 26, 2014) states the following:

Except as provided in Reg-21.010.01B, when determining the proper amount of income tax to be deducted and withheld from an employee’s wages, the employer will allow the number of exemptions claimed by the employee on his or her Employee’s Withholding Allowance Certificate, Federal Form W-4, for federal income tax purposes.

45 CFR § 75.430(i)(1) (October 1, 2017) states, in relevant part, the following:

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

* * * *

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . . ;

* * * *

(vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award

The SHDHD's Employee Handbook, Policy Number HR103, (September 2017) contains the following:

If a holiday falls on a day when you would have worked more than 8 hours, you can only receive 8 hours for the holiday. The time you missed above 8 hours has to be made up somehow; if not with accrued vacation hours adjusting hours for the rest of the week.

Good internal control requires procedures to ensure employees receive payment only for authorized amounts, and there is adequate documentation to support deductions from pay and tax amounts withheld from pay. Such procedures should also require personnel costs, including paid leave and fringe benefits, to be properly allocated according to actual time worked, and all time worked to be properly approved by a supervisor.

Without such procedures, there is an increased risk for the loss or misuse of SHDHD funds.

We recommend the SHDHD implement procedures to ensure payroll amounts are authorized, and withholdings and deductions from employees' pay are authorized and accurate. We also recommend the SHDHD implement procedures to ensure all payroll costs are allocated to its various programs based on actual time worked. This would include all leave paid as well as fringe benefits. Finally, we recommend the SHDHD ensure a Board member approves the Director's time worked.

SHDHD's Response: The issue with the employee overpayment as well as the issue pertaining to the W-4's was resolved immediately upon being brought to the attention of management. The employee for whom we did not have a W-4 on file was from our inception at which time Mary Lanning Healthcare was handling the payroll for our office. We have W-4's on file for all current employees and will ensure that all employee files are maintained properly and kept up-to-date with the inclusion of all documentation to support employment, benefits and deductions.

We are in the process of working with other local health departments in our state to come up with a standardized way of allocating leave and fringe benefit amounts in correlation with the hours the employee has worked in certain areas during that time period. Written policies will be completed when an acceptable practice has been identified. SHDHD will ensure that a Board member reviews and approves the executive director's leave requests.

4. Other Internal Controls

The APA determined that the SHDHD also lacked adequate internal controls in other areas, as follows:

| Issue | Description |
|----------------------------------|--|
| Non-Personnel Expense Allocation | The method the SHDHD used to allocate its non-personnel costs to various programs was not adequate or in accordance with the Uniform Grant Guidance. The APA found that 5 of 13 disbursements tested were allocated to multiple programs based on a spreadsheet that was unsupported. The SHDHD could not explain the method used to determine the allocation percentages on this spreadsheet or whether they were based on the relative benefits received in each program. The five documents tested totaled \$18,368.68. For example, each of the five documents had different percentages allocated to LB 1060 (2006) funds, and only one of the five documents had amounts charged to LB 657 (2015) and Accreditation funds. |
| Duplicate Payment | The SHDHD made a duplicate payment of \$312.50 to a vendor. The SHDHD included the same invoice on two separate payments to the vendor. |

| Issue | Description |
|---|---|
| Cash Receipts | The SHDHD's central office location receives mail containing cash receipts. The APA determined that only one individual opened the mail containing cash receipts (cash or checks). The individual who opens the mail prepares a daily listing of all cash received. There is no reconciliation of that listing to the corresponding bank deposit to ensure that all cash received was deposited. Additionally, we noted that the individual who takes deposits to the bank and performs all accounting entries also reconciles the bank statements. A cash drawer is also maintained by SHDHD but the drawer is not balanced periodically. All of these concerns contribute to a lack of segregation of duties. |
| Improper Payment of State and Local Taxes | Despite being tax exempt, the SHDHD improperly paid State and local taxes, totaling \$134.65, on two disbursements tested. |
| Petty Cash | The SHDHD replenished its petty cash fund by \$42, but it did not obtain receipts or other documentation to support the amount reimbursed. Additionally, there are no policies related to the petty cash funds. |
| No Fixed Asset Policy | The SHDHD did not have a written fixed asset inventory policy. |

Federal regulations define allocable costs. 45 CFR § 75.405 (October 1, 2017) states, as is relevant, the following:

(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

(1) Is incurred specifically for the Federal award;

(2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and

(3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

State statutes exempt certain entities from sales and use taxes. Neb. Rev. Stat. § 77-2704.15(1)(a) (Cum. Supp. 2016) provides, in part, the following:

Sales and use taxes shall not be imposed on the gross receipts from the sale, lease, or rental of and the storage, use, or other consumption in this state of purchases by the state, including . . . [a] joint entity or agency formed by any combination of two or more counties, townships, cities, villages, or other exempt governmental units pursuant to the Interlocal Cooperation Act

Good internal control includes a plan of organization, procedures, and documentation designed to safeguard assets and to 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. Good internal control also requires procedures and records to ensure: 1) expenditures are allocated to various programs based on the relative benefits received; 2) vendors are not paid multiple times for the same invoice; and 3) sales and use taxes are not improperly paid.

Without good internal control, there is an increased risk for the loss or misuse of SHDHD's funds.

We recommend the SHDHD implement proper internal control to ensure the following:

- All methods used to allocate its expenses are reasonable, adequately documented, and based on the relative benefits received for each program.

- Vendors are paid only once for each invoice submitted.
- A proper segregation of duties over various processes exists. For example, two individuals should open the mail and prepare a record of cash received. The daily receipt listing should be compared to the bank deposit to ensure all monies received were deposited. Finally, the SHDHD should consider having the bank deposit made by someone other than the individual responsible for making the accounting entries and the bank reconciliation.
- Sales and use taxes are not improperly paid.
- Petty cash replenishments are documented by invoices or receipts supporting the purchases made.

SHDHD's Response: We will review our current practices and update accordingly to ensure that disbursements and receipts are allocated and recorded correctly. We are a small organization with few employees; therefore, not all recommendations made by the auditors, such as having two individuals opening the mail or having a second person physically make the bank deposits, are feasible.

5. Lack of Supporting Documentation

The APA found a number of transactions that lacked adequate documentation to support the expense. Because of the lack of documentation, the APA could not determine if some of those transactions were reasonable and necessary.

In a test of 13 disbursements, the APA found that the following six expenditures lacked adequate supporting documentation:

| Date | Amount | Vendor | Description |
|-----------|-------------|--------------------------|---|
| 8/7/2017 | \$ 9,120.00 | Capital Business Systems | Base payment for the copy machine service agreement was unsupported, as a copy of the contract was not on file at the SHDHD. |
| 7/5/2017 | \$ 222.16 | Amazon.com | A blue board was purchased by mistake. Instead of returning the item, the SHDHD kept it to use for general operations. No invoice with the amount was on file to support the purchase. Additionally, the purchase appears to have been unnecessary. |
| 9/29/2017 | \$ 600.00 | Community Health Center | Payment to the Community Health Center for its participation in a partnership agreement was unsupported. The initial payment amount was not documented in a formal agreement between the Center and the SHDHD. |
| 11/7/2017 | \$ 358.84 | Marriott Marquis | An invoice from hotels.com for a hotel cost was provided. However, the APA would expect to see a hotel folio, which is after-the-fact documentation, to ensure the amount on the folio agreed to the stated rate, and the employee actually stayed in the hotel. No such folio was available. |
| 1/18/2018 | \$ 700.00 | Lutz | Seven hundred dollars of a \$3,700 payment was for budget assistance. The amount was not included in the engagement letter; therefore, the documentation was inadequate. |

The APA also tested five journal entry transactions and determined that two of them lacked adequate documentation to support the entry made into the accounting system, as follows:

| Date | Amount | Description |
|-----------|-----------|--|
| 4/26/2018 | \$ 859.90 | The journal entry was to move printing costs from the general fund to LB 692 (2001) costs. Because the contract was not provided, the APA could not verify the amount charged per copy. Furthermore, the number of copies allocated to LB 692 (2001) costs did not agree to the number of copies the SHDHD obtained from the copy service website. |
| 9/30/2017 | \$ 575.00 | The journal entry was to move the costs of scholarships provided to entities signing up for the Worksite Wellness Network from the General Fund to Program 1422 funds. Four entities were involved; however, for one of them, the SHDHD did not have a memorandum of understanding on file to document the \$200 discount given to the entity for joining. |

Good internal control requires procedures to ensure that adequate documentation is maintained to support expenditures and journal entries. Without such procedures, there is an increased risk for the loss or misuse of funds.

We recommend the SHDHD implement procedures to ensure adequate documentation is maintained to support expenditures and journal entries.

SHDHD's Response: Through the audit process, SHDHD has learned what adequate documentation standards are for revenues, expenses and journal entries. Procedures will be put in place to ensure that adequate documentation is maintained to support these transactions.

* * * * *

It should be noted this report is critical in nature, as 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 SHDHD.

Draft copies of this report were furnished to the SHDHD to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

This report is intended solely for the information and use of the SHDHD, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor