

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 entity'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2014-01 and 2014-02 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County's financial statements are free from 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*.

Douglas County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayes & Associates, L.L.C.

Hayes & Associates, L.L.C.
Omaha, Nebraska
January 23, 2015

Douglas County, Nebraska
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended June 30, 2014

II. FINDINGS—FINANCIAL STATEMENTS

Finding 2014-01: Cash Management

Condition: The Douglas County internal auditor reviewed the internal controls over the County's cash management policies and procedures and identified and reported to the audit committee and board of commissioners issues pertaining to the process of bank reconciliation and monitoring of bank accounts. These items are summarized below:

- **Bank Reconciliations**
The treasurers department reconciles the bank accounts from the bank statement to QuickBooks and then subsequently to Oracle which has resulted in significant variances over the fiscal year. During our audit of the agency funds we noted that the book balance was understated by \$1,095,679 which was due to the amount being posted in wrong fiscal year. The amount was posted in July of 2015 instead of June 2014.

- **Monitoring of Bank Accounts**
According to state statute the treasurer is responsible for overseeing and receiving all money collected by the county. Based on the internal auditor control testing it was noted that the County does not have a complete, definitive list of all County bank accounts. The County Clerk/Comptroller keeps one list and the Treasurer another. The Treasurer had seven accounts that were not included on the Clerk/Comptroller's list; the Clerk/Comptroller had ten accounts not included on the Treasurer's list. Internal audit also identified one account that was not on either list.

We have reviewed the deficiency in the County's internal control. We concur with the deficiency and consider the finding to be a significant deficiency. Based upon our audit testing and some assistance to the County Treasurer on the yearend reconciliation the variance in the reconciliation has been resolved.

Criteria: Management should periodically substantiate and evaluate recorded balances for cash accounts and provide for proper preparation, supervisory review, and timely resolution of outstanding items. The County should monitor all bank accounts for proper control and activity, and periodically compare the clerk listing to the treasurer's listing. .

Douglas County, Nebraska
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended June 30, 2014

II. FINDINGS—FINANCIAL STATEMENTS - CONTINUED

Finding 2014-01: Cash Management

Cause: The reconciliation process was not updated when the Treasurer's office implemented QuickBooks. The reconciliation process in place did not provide detailed explanations of differences between Oracle and QuickBooks. The investigation of the reconciliation differences has not been a priority of the Treasurer's office. There was a lack of coordination and attention paid to monitoring bank accounts.

Effect: Without proper supervisory review, management cannot be sure that reconciliations are being prepared properly and promptly. Without knowing the detail of the differences between Oracle and QuickBooks, management cannot know with certainty that all transactions were posted completely and accurately and any error or irregularities were properly resolved. Erroneous or misclassified transactions may not be detected.

Recommendation: Bank reconciliations should be completed and reviewed in a timely manner. All reconciling items should be adequately investigated and resolved as part of the monthly reconciliation process. Bank accounts should be reconciled to the County's accounting system, Oracle. With the help of other County departments, investigate further and work toward developing a strategy to migrate from QuickBooks to Oracle Cash Management. It is recognized that migrating to Oracle is a major undertaking and the County may ultimately decide the effort is not worthwhile. In the meantime, the Treasurer should make it a priority to investigate the differences and provide detailed explanations of the differences in the formal reconciliations along with appropriate documentation and evidence of supervisory review.

Management Response: The Douglas County Treasurer's office continues to work toward resolving the issue of reconciling QuickBooks to Oracle. The County continues to work towards implementing Oracle Treasury and Cash Management for complete integration while working within our fiscal constraints. For the 2014 audit, the Treasurer's office worked with the external auditors to develop a monthly reconciliation process for all accounts. In December of 2014, the Comptroller's office issued a policy requiring monthly reconciliations to be performed and submitted to the Comptroller for review. The policy requires all differences to be fully explained.

HISTORICAL

- 2007, several Accounting Dep't. employees were all using one password to log into Quicken to do all of their daily work, including reconciliations
- Urbach embezzlement, \$74,000
- Little or no segregation of duties
- A culture of bookkeeping, not accounting
- Hired Senior Director of Auditing and Accounting
- Explored accounting packages and spent \$50,000 for conversion to Quick Books for use to write checks and reconcile accounts with restricted employee access
- Was no implementation plan, lacked accounting skills
- Intention of Quick Books conversion was to balance to the bank, not Oracle
- The system interface between Quick Books and Oracle makes it extremely difficult and impractical between the timing of the various sources of revenue
- Quick Books was never intended to balance to Oracle
- Attempts to balance Quick Books to Oracle occurred much later after implementation

CURRENT

- No money is missing
- Funds in Oracle are balanced to our daily work at the end of the month
- We balance each of our cashier-employees every day
- Any discrepancies are reported daily (see attached)
- VTR is balanced to iNovah, which goes to Oracle through distribution
- Accounting Department balances iNovah to Oracle each day
- IMS is balanced to iNovah, which goes through distribution to Oracle
- Accounting Department balances iNovah to Oracle each day
- Bank reconciliations are balanced each month

- We receive money from vouchers, on-line, credit cards, debit cards, over-the-phone payments, Lock Box receipts, all of which present timing issues for reconciling Quick Books to Oracle
- The Justice Department recommended that we convert to Oracle
- A plan was forwarded through Joe Lorenz that outlined our plan to convert

GOING FORWARD

- All involved agree that we should convert to Oracle
- A consultant was hired to make recommendations
- A job description is being drafted by DOT.Comm for a full-time Oracle expert to be employed by the Treasurer's Office to handle the conversion and daily operation
- There will still be timing issues, even after conversion, due to the nature of our revenue flow

Attachment #3

Douglas County Budget Update

June 2, 2015

J. Lorenz

Expense Budget Requests

Department	Budget Request	Request Over Target	% Total Overage
Juvenile Court	\$7,079,852	\$2,383,085	47.1
Employee Fringe Benefits	\$31,800,000	\$1,100,000	21.8
Assessor/Register of Deeds	\$5,044,655	\$253,693	5.0
911 Communications	\$6,174,403	\$239,768	4.7
Corrections	\$34,764,314	\$179,624	3.6
County Attorney	\$8,201,816	\$155,249	3.1
Juvenile Assessment Center	\$877,457	\$136,714*	2.7
District Court	\$3,995,980	\$115,662	2.3
Youth Center	\$8,001,889	\$108,049*	2.1
Public Property	\$4,007,940	\$93,804	1.9
Sheriff	\$14,935,222	\$87,872	1.7
GIS	\$374,612	\$78,157	1.6
Outside Office Expense	\$1,952,125	\$62,000	1.2
Capital Improvement	\$670,000	\$35,000	0.7
Clerk	\$1,704,583	\$26,354	0.5
Other	\$54,926,733	(\$151,658)	--
Total General Fund	\$184,511,581	\$4,903,373	100.0

* 100% offset by grant revenues

Revenue Projections

Department	Projection	Decrease from Last Year
Treasurer	\$11,432,770	\$670,000
Clerk of the District Court	\$1,515,510	\$66,290
Assessor/Register of Deeds	\$4,160,000	\$32,500
Total		\$768,790

Budget Deficit Calculation

	F14/15 (Adopted)	F15/16 (Requested)	Difference	% Increase
Taxes, Departmental Revenues & Transfers	\$247,487,879	\$257,478,527	\$9,990,648	4.0%
Total Expense Budgets	\$247,541,515	\$261,670,799	\$14,129,284	5.7%
Deficit	(\$53,636)	(\$4,192,272)	(\$4,138,636)	

Funding deficit of \$4,192,272 from a property tax hike would require an increase of approximately 2.2 cents to the tax levy in F15/16.

Expense Budget – Potential Adjustments

Department	Budget Request	Request Over Target	<u>Potential Reductions</u>
Juvenile Court	\$7,079,852	\$2,383,085	\$600,000
Employee Fringe Benefits	\$31,800,000	\$1,100,000	-
Assessor/Register of Deeds	\$5,044,655	\$253,693	\$253,693
911 Communications	\$6,174,403	\$239,768	-
Corrections	\$34,764,314	\$179,624	\$100,000
County Attorney	\$8,201,816	\$155,249	\$75,000
Juvenile Assessment Center	\$877,457	\$136,714*	-
District Court	\$3,995,980	\$115,662	\$50,000
Youth Center	\$8,001,889	\$108,049*	-
Public Property	\$4,007,940	\$93,804	\$50,000
Sheriff	\$14,935,222	\$87,872	\$87,872
GIS	\$374,612	\$78,157	-
Outside Office Expense	\$1,952,125	\$62,000	\$31,000
Capital Improvement	\$670,000	\$35,000	\$35,000
Clerk	\$1,704,583	\$26,354	-
Other	\$54,926,733	(\$151,658)	(\$163,089)
Total General Fund	\$184,511,581	\$4,903,373	\$1,119,476

* 100% offset by grant revenues

Revenue Budget – Potential Adjustments

Department	Revenue Projection	
Youth Center	\$4,912,219	\$87,781
Sheriff	\$11,432,770	\$67,230
Public Property	\$3,291,100	\$58,900
Risk Insurance	\$450,000	\$50,000
County Attorney	\$1,178,552	\$41,448
Clerk of District Court	\$1,515,510	\$34,490
Election Commission	\$147,755	\$27,245
Miscellaneous	\$50,000	\$25,000
Purchasing	\$168,000	\$12,000
General Equipment	\$20,000	\$5,000
Outside Office	\$6,000	\$4,000
Total		\$413,094