



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Robert Mendenhall, Mayor
City of Humboldt
330 E Square
Humboldt, NE 68376-0156

Dear Mr. Mendenhall:

As you may know, the Nebraska Auditor of Public Accounts (APA) received some financial concerns regarding significant decreases to the City of Humboldt's (City) cash and CD balances. Consequently, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA obtained certain financial information from the City. Based upon the outcome of our preliminary planning work, including a review of the information received, the APA has determined that it is unnecessary for this office to perform a separate financial audit or attestation of the City at this time.

Nevertheless, during the course of the preliminary planning work, we noted a certain internal control issue that is presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Comment and Recommendation

The APA reviewed the City's audits for fiscal years 2017 and 2018. In so doing, we focused upon the details pertaining to the City's cash and CD balances – analyzing the reasons for any major changes thereto.

The following table provides a breakdown of the City's cash and CD balances for both fiscal years 2017 and 2018:

	Governmental Activities	Business Type Activities	Total
9/30/2017	\$ 567,691	\$ 623,006	\$ 1,190,697
9/30/2018	\$ 717,472	\$ 80,309	\$ 797,781
Increase (Decrease)	\$ 149,781	\$ (542,697)	\$ (392,916)

The decrease of \$542,697 in the Business Type Activities is due largely to a transfer of \$519,847 from the Water Fund to Non-Major Funds, which was documented in the fiscal year 2018 audit's Notes to the Financial Statements. That information is shown below.

6. INTERFUND TRANSFERS AND PAYABLES

Interfund transfers were made to transfer resources used for the purchase of capital assets, for debt service, and general operations. The sewer fund had an interfund payable to the water fund of \$90,124 at September 30, 2018. The purpose of the interfund payable was to provide financing for sewer system improvements.

Fund	Transfer to Other Funds	Transfer from Other Funds
General Fund	\$ 111,435	\$ -
Capital Projects Fund	-	23,227
Debt Service Fund	9,666	-
Cemetery Fund	14,272	-
Non-major Funds	-	603,157
Water	519,847	-
Sewer	-	28,836
Total	<u>\$ 655,220</u>	<u>\$ 655,220</u>

Interestingly, the above details make no mention of plans for a future payback to the Water Fund.

It should be noted also that the following information was included in Note 10, Going Concern Issues, of the Notes to the Financial Statements:

10. GOING CONCERN ISSUES

The City is currently experiencing cash flow issues that may have an impact on the city’s ability to meet its current obligations. The City Council is working on a plan to address the cash flow issues.

In addition, we observed that the auditors gave the following opinion:

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence about the beginning fund balances for the amounts included on the Statement of Financial Position. We were unable to satisfy ourselves by other auditing procedures concerning the fund balances as of September 30, 2018. The amount by which this scope limitation would affect the assets, fund balance, and revenues of the City of Humboldt, Nebraska has not been determined.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

On April 5, 2019, the APA contacted staff from Lengemann & Associates, the CPA firm that performed the fiscal year 2018 audit, asking whether they had knowledge of a City Council (Council) resolution authorizing the interfund transfer at issue. The CPA firm representatives were unaware of any such resolution.

Likewise, on April 17, 2019, the Mayor confirmed that the City could produce neither a resolution authorizing the interfund transfer at issue nor meeting minutes documenting any such formal authorization by the Council.

State law requires the Council to approve transfers from the City's excess utility funds.

To start, Neb. Rev. Stat. § 13-510 (Reissue 2012) states, in relevant part, the following:

Whenever during the current fiscal year or biennial period it becomes apparent to a governing body that due to unforeseen emergencies there is temporarily insufficient money in a particular fund to meet the requirements of the adopted budget of expenditures for that fund, the governing body may by a majority vote, unless otherwise provided by state law, transfer money from other funds to such fund.

(Emphasis added.) Furthermore, Neb. Rev. Stat. § 17-609 (Cum. Supp. 2018) provides the following:

The mayor and city council of a city of the second class or village board of trustees may, by resolution, direct and authorize the city treasurer or village treasurer to dispose of the surplus electric light, water, or gas funds, or the funds arising from the sale of electric light, water, or natural gas distribution properties, by the payment of outstanding electric light, water, or gas distribution bonds or water warrants then due. The excess, if any, after such payments may be transferred to the general fund of such city or village.

(Emphasis added.) Neb. Rev. Stat. § 18-2808 (Reissue 2012) states the following:

If the budget of a proprietary function is included in the municipal budget statement created pursuant to the Nebraska Budget Act, the Municipal Proprietary Function Act need not be followed for that proprietary function. Any income from a proprietary function which is transferred to the general fund of the municipality shall be shown as a source of revenue in the municipal budget statement created pursuant to the Nebraska Budget Act.

Without procedures to ensure that the City's interfund transfers are properly authorized by Council resolution, there is an increased risk for both statutory violation and the loss of funds.

We recommend the Council implement procedures to ensure that the City's interfund transfers are authorized by Council resolution, as required by State statute. We also recommend the Council pass a resolution now, retroactively approving the prior interfund transfer addressed herein.

Village Response: As you know, we have begun our term with a new Mayor and Council. It was evident that the city needed closer attention to details and are in the process of identifying weaknesses regarding their lack of processes and procedures in financial and many other areas. We are stabilizing the city finances and meeting our financial obligations.

A resolution has been passed for the transfer of the water funds into the general fund to cover expenses.

Our first action was to hire a new experienced Full Time Treasurer/Clerk who has worked with municipalities in the past.

Our second action was to hire a Part Time Clerk to fulfill many other state requirements as in the open act meetings, agendas and minutes.

Our third action was to hire a Municipality Attorney, which now immediately advises and directs our city in the much needed correct direction.

Our fourth action is to hire (we are in the process now) a new CPA with the municipality experience who has recognized that our Power Manager Program may not have been initially set up properly, therefore may have contributed to weak procedures. She will be able to assist and format the current upcoming budget including all departments.

Our future team will set procedures and policies that will assure our city's financial future. This will include Council approval for spending any appropriations, treasurer requirements, and processes for all financial transfers and balance reports.

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The preliminary planning work that resulted in this letter was designed primarily on a test basis and, therefore, may not bring to light all existing weaknesses in the City's policies or procedures. Nevertheless, our objective is to use the knowledge gained during the performance of that preliminary planning work to make comments and suggestions that we hope will prove useful to the City.

Draft copies of this letter were furnished to the City to provide its management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time.

This communication is intended solely for the information and use of the City 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.

Sincerely,



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