



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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November 17, 2020

Larry Olson, Council President
City of Crawford
135 Elm Street
Crawford, NE 69339

Dear Mr. Olson:

As you know, the Nebraska Auditor of Public Accounts (APA) received complaints that the City of Crawford (City) has been subsidizing the local Legend Buttes Golf Course with proceeds from the municipal sewer fund. Responding thereto, the APA began a limited preliminary examination, pursuant to Neb. Rev. Stat. § 84-304 (2020 Neb. Laws, LB 781, § 8), to determine if a full financial audit or attestation would be warranted. In doing so, the APA requested certain information from the City. Based upon the outcome of that preliminary audit work, including a review of the information received, the APA has determined it to be unnecessary for this office to complete a separate financial audit or attestation of the City at this time.

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

Comment and Recommendation

A review of recent City audits reveals that both the local Legend Buttes Golf Course and the City's General Fund appear to have been supplemented by proceeds from the municipal Sewer Fund.

The table below reflects the balances due to and from the various funds over the past several fiscal years:

Per Audit Financials	2014	2015	2016	2017	2018	2019
Due From:						
General Fund	\$ 193,426.00	\$ 85,191.00	\$ 148,867.00	\$ 194,357.00	\$ 139,583.00	\$ 57,800.00
Golf Fund	\$ 194,549.00	\$ 210,761.00	\$ 236,841.00	\$ 292,013.00	\$ 316,935.00	\$ 309,256.00
Due To:						
Water Fund	\$ -	\$ -	\$ -	\$ 124,277.00	\$ 19,708.00	\$ -
Sewer Fund	\$ 387,975.00	\$ 295,952.00	\$ 385,708.00	\$ 362,093.00	\$ 436,810.00	\$ 367,056.00
Total Amount Due	\$ 387,975.00	\$ 295,952.00	\$ 385,708.00	\$ 486,370.00	\$ 456,518.00	\$ 367,056.00

Note: Due From indicates money from these funds was being used by the Due To funds. The Golf and General Funds owe the Sewer Fund \$367,056.00, as of September 30, 2019.

The APA inquired with the City regarding what statutory authority permitted borrowing money from the Sewer Fund. The City's response is copied below:

The deficit in the Golf Fund is an overdraw on a pooled cash account as shortages have occurred over many years. There have not been any transfers to the Golf Fund from the Sewer Fund in violation of the State Statutes. The Council is aware of the situation and is addressing the issue. The City has been working on reducing the deficit and has taken action in a more deliberate manner by recently committing \$30,000 of the annual franchise fees to be applied to the Golf Fund deficit.

Time Projection to Rectify the Deficit in the General and Golf Funds

At the close of FYE 2020, internal reports show the remaining balance in General to be -\$43,875, an improvement from last year's -\$57,800. The remaining balance of the Golf Fund is -\$235,550 (not counting accrued expenses that may yet occur for FYE 2020), which is also an improvement from last year's balance of -\$309,256. The City of Crawford is committed to rectifying the deficits and substantial progress has been made on the deficits in the last three years. This effort was made more successful when the bond on the golf course was paid off in December of 2017. The Council met on September 28, 2020 and approved to apply the approximately \$20,000 in golf savings to the deficit; and \$30,000 per year from franchise fees to be applied to the golf deficit going forward. As other funds become available, it has been the City's practice to apply any funds as allowed to the deficit funds. The amount due from General should be paid in the next one or two years, after which, the amount that can be applied to the Golf Fund deficit each year could be even larger, with a goal of \$50,000 per year. In that scenario, it would be feasible that the deficit could be paid within five or six years.

While the City claims there have not been any fund transfers in violation of State statute, there are certain steps necessary for using surplus utility funds, as outlined below.

Neb. Rev. Stat. § 17-540 (Cum. Supp. 2018) contains the following requirements for the waterworks income:

All income received by cities of the second class or villages from public utilities and from the payment and collection of water taxes, rents, rates, or assessments shall be applied to the payment of running expenses, interest on bonds or money borrowed, and the erection and construction of public utilities. If there is any surplus income, such income shall be placed into a sinking fund for the payment of public utility bonds or for the improvements of the works, or into the general fund as the city council or village board of trustees may direct. The surplus remaining, if any, may, if the city council or village board of trustees so directs, be invested in interest-bearing bonds or obligations of the United States.

(Emphasis added.) Neb. Rev. Stat. § 17-609 (Cum Supp. 2018) authorizes the disposition of surplus utility funds as follows:

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.) The aforementioned statutes require an evaluation of the utility funds to determine if an excess exists after the payment of any bonds or warrants due. If an excess exists, the Mayor and City Council are required to approve, by resolution, the transfer of those surplus utility funds to the General Fund.

Good internal controls require procedures to ensure that the Mayor and City Council approve all transfers of excess utility funds through a formal resolution.

Without such procedures, there is an increased risk for the misuse of City funds, as well as noncompliance with State law.

We recommend the Mayor and City Council determine if an excess exists in the City's utility funds and, if so, approve a resolution directing the transfer of those surplus funds to the General Fund. This should be done prior to appropriating the excess utility funds to subsidize the local golf course or for any other purpose.

City Response: The City of Crawford is reviewing the letter and taking it under advisement. The City of Crawford will be taking corrective action in 2020-2021 at some point after our annual FYE 2020 audit is completed.

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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.

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

Audit Staff Working on this Examination:

Craig Kubicek, CPA, CFE – Assistant Deputy Auditor

Sincerely,

A handwritten signature in cursive script that reads "Mary Avery".

Mary Avery
Special Audits and Finance Manager
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