



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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July 15, 2021

Bruce Schlecht, Mayor
City of West Point
444 South Main
P.O. Box 327
West Point, Nebraska 68788

Dear Mr. Schlecht:

As you know, the Nebraska Auditor of Public Accounts (APA) had been contacted with concerns regarding the City of West Point's (City) expenditures of certain economic development monies. In response to these concerns, the APA began limited preliminary planning work to determine if a full financial audit or attestation would be warranted. Pursuant thereto, the APA requested certain financial records from the City. Based upon the outcome of this preliminary planning work, including an analysis of the information provided, the APA has determined that a separate financial audit or attestation is unnecessary at this time.

Nevertheless, we have noted a certain internal control or compliance matter that is presented below. The following information is intended to improve internal controls or result in other operational efficiencies.

Background Information

In 1991, the Nebraska Unicameral Legislature passed LB 840, creating the Local Option Municipal Economic Development Act (Act). That law authorizes cities and villages to collect and appropriate local tax dollars for economic development purposes, if approved by the local voters. The Act provides also for the formulation of a local economic development program and a proposed plan pertaining thereto, which establish parameters for the collection and expenditure of local tax revenues for economic development.

The City's approved Economic Development Program, October 1, 2012 - September 30, 2027, (Program) is available on the City's website at http://www.ci.west-point.ne.us/PdfFiles/econ_dev_plan_2012-adopted.pdf. The Program details the City's economic development strategy, program eligibility, qualifying businesses, proposed funds to be collected, plan duration, and application process. As stated in the Program (pg. 6, "Application Process"), applicants must provide the following information to be considered for financial assistance:

1. *A detailed description of the proposed project.*
2. *A business plan that includes employment and financial projections, current financial statement, financing requirements for the project and total projected costs.*
3. *A complete City Local Option Municipal Economic Development Program application.*

The APA requested documentation for three specific projects under the Act, which are summarized in the table below:

Project	Estimated Act Funding Total	Notes
South Highway 275 Project	\$ 81,344	The estimated cost was based on the accepted bid amount of \$185,487.54, less the \$104,143.54 paid to the City by adjacent property owners – many of whom had approached the City with an interest in using project money to repair the South Highway 275 Business Plaza entrance and parking area for improved drainage.
Give Get Grow Cuming County Program	\$ 15,000	The cost was specified in the application submitted by Cuming County Economic Development for the program. The funding was provided by local municipalities and multiple businesses therein. Consumers could purchase \$50 gift cards from eligible businesses, and each of those purchases was matched by an additional \$25 in program funds.
Street Improvement District No. 2014-1	\$ 85,000	According to the City’s meeting minutes for April 2, 2014, this amount was earmarked for the economic development program. Multiple adjacent property owners had approached the City with an interest in using Act money to develop and upgrade infrastructure, including water, sewer, and paving around the South Industrial Tract. Those property owners paid \$165,341.08 to the City for that purpose.

Comment and Recommendation

Lack of Documentation and Compliance

For all three of the above projects, the APA noted a lack of documentation to support the City’s use of Act monies, as follows:

- a) ***South Highway 275 Project*** – The City failed to provide the following documentation:
 - A business plan that includes employment and financial projections.
 - Current financial statements.
 - Financing requirements for the project and total projected costs.
 - A complete City Local Option Municipal Economic Development Program application.

- b) ***Give Get Grow Cuming County Program*** – The City failed to provide the following documentation for any of the businesses that received funds for the gift card match:
 - A business plan that includes employment and financial projections.
 - Current financial statements.
 - Financing requirements for the project and total projected costs.

- c) ***Street Improvement District No. 2014-1*** – The City failed to provide the following documentation:
 - A business plan that includes employment and financial projections.
 - Current financial statements.
 - Financing requirements for the project and total projected costs.
 - A complete City Local Option Municipal Economic Development Program application.

In addition to these items, the City was unable to provide documentation to support whether any other applications were received or reviewed around the time that the above projects were considered, and whether any other projects had been considered or approved.

To ensure compliance with both State statute and Program requirements, documentation supporting projects approved under the Act should be kept on hand and made available for inspection upon request. Neb. Rev. Stat. § 18-2710 (Reissue 2012) provides, in relevant part, the following:

The governing body of any city proposing to adopt an economic development program shall prepare a proposed plan for such economic development program. The proposed plan shall include:

* * * *

(5) A description of the manner in which a qualifying business will be required to submit an application for financial assistance, including the type of information that will be required from the business, the process that will be used to verify the information . . . [.]

As explained in the “Background Information” section above, moreover, the Program requires specific documentation in order for a project to be considered for financial assistance; however, the City appears to have ignored certain aspects of these requirements when approving funding for three projects addressed.

The City was also unable to provide any information regarding compliance with Neb. Rev. Stat. § 18-2709 (2021 Neb. Laws, LB 163, § 192) which states, in relevant part, the following:

(2) Qualifying business also means:

* * * *

(c) A business that derives its principal source of income from retail trade, except that no more than forty percent of the total revenue generated pursuant to the Local Option Municipal Economic Development Act for an economic development program in any twelve-month period and no more than twenty percent of the total revenue generated pursuant to the act for an economic development program in any five-year period, commencing from the date of municipal approval of an economic development program, shall be used by the city for or devoted to the use of retail trade businesses. For purposes of this subdivision, retail trade means a business which is principally engaged in the sale of goods or commodities to ultimate consumers for their own use or consumption and not for resale[.]

(Emphasis added.) Good internal controls require procedures to ensure that proper documentation is received and retained, pursuant to both State statute and Program requirements, for all projects receiving public funds under the Act. This is necessary to support not only compliance with the various provisions of the Act but also proper management of Program monies.

Without such procedures, there is an increased risk for noncompliance with various provisions of the Act and loss or misuse of Program monies.

We recommend the City implement procedures to ensure proper documentation is received and retained, pursuant to both State statute and Program requirements, for all projects receiving public funds under the Act.

City Response: The City of West Point will implement procedures to ensure proper documentation is received and retained, pursuant to both State statute and Program requirements for all projects receiving public funds under the Act.

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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

Lucas Post, CPA – Auditor II

Sincerely,

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

Mary Avery

Special Audits and Finance Manager

Phone 402-471-3686

Mary.Avery@nebraska.gov

cc: West Point City Attorney
Cuming County Attorney