



City of Grand Island

Tuesday, February 21, 2012

Study Session

Item -1

Presentation by Almquist, Maltzahn, Galloway, & Luth for Fiscal Year 2011 City Single Audit and General Purpose Financial Statements and Electric and Water Audit Reports

Terry Galloway from Almquist, Maltzahn, Galloway & Luth will present the Fiscal Year 2011 City Single Audit and General Purpose Financial Statements and Electric and Water Audit Reports.

Staff Contact: Jaye Monter



To the Honorable Mayor and City Council
City of Grand Island
Grand Island, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the fiduciary funds of the City of Grand Island for the year ended September 30, 2011, and have issued our report thereon dated February 4, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2008. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Grand Island are described in Note A to the financial statements. The City adopted GASB 54 regarding the classification of governmental fund balances during the year ended September 30, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the collectability of accounts receivable is based on historical utility revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the collectability of accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

SHAREHOLDERS

Robert D. Almquist
Phillip D. Maltzahn
Terry T. Galloway
Marcy J. Luth
Heidi A. Ashby
Christine R. Shenk

1203 W 2nd Street
PO Box 1407
Grand Island, NE 68802
Ph. 308-381-1810
Fax 308-381-4824
Email: cpa@gicpas.com

Management's estimate of the depreciation of capital assets is based on the estimated useful life of the capital asset. We evaluated the key factors and assumptions used to develop the depreciation of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Ten audit adjustments increased the fund balances of the City's governmental funds by \$1,276,924. Four audit adjustments increased the net assets of the City's business-type funds by \$1,387,248. Three audit adjustments increased the net assets of the City's discretely presented component units by \$25,430. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Accounts payable and expenses were decreased \$877,259 on the Sewer Fund to remove invoices from accounts payable that had been paid in September 2011.
2. Construction in progress was increased and expenses were decreased \$253,320 on the Sewer Fund to include invoices accrued in accounts payable in the year end capital asset balance.
3. The accrual for health insurance claims and insurance expense was increased \$253,000 on the Insurance Fund to adjust the accrual for unpaid health claims to the year end estimate.
4. The accrual for retiree insurance and insurance expense were both decreased \$372,513 on the Insurance Fund to adjust the accrual for retiree health insurance to the year end estimate.
5. Sales tax receivable and revenue were both increased \$1,205,515 on the General Fund.
6. A \$600,000 allowance for uncollectible notes receivable was recorded on the Economic Development Fund.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction,

that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 4, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In connection with our audit of the financial statements of the City of Grand Island as of September 30, 2011, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations.

1. At September 30, 2011, the certificates of deposit were understated by \$48,651 and the accrued interest receivable was overstated by an offsetting amount. We recommend adjusting the CD balances as the banks add interest to the accounts.
2. We recommend that you withdraw the excess funding amounts from the Police and Fire Defined Benefit Plans related to the Pre-84 employees.
3. During our Single Audit procedures, we noted that the final financial report for the Community Revitalization grant (08-CR-002) did not match the city's financial records or the final draw down submitted to the Nebraska Department of Economic Development. After further examination, we noted that the final financial report showed that the city received \$6,428 more than they actually did. This related to expenses that should have been reimbursed, but were never submitted. We recommend that all drawdowns and grant financial reports be reconciled to the City's financial records before the reports are submitted.

4. During our Single Audit procedures, we noted that matching funds for grants are being compiled after the grant has been closed out. We recommend that matching funds be compiled on a regular (monthly) basis in order to ensure that there will be no deficiency in matching funds that could cause the city to repay a portion of the grant.
5. We suggest you consider the benefits of using an Internal Auditor.

This information is intended solely for the use of the City Council and management of the City of Grand Island and is not intended to be and should not be used by anyone other than these specified parties.

*Singquist, Malthahn,
Galloway & Luth, P.C.*

Grand Island, Nebraska
February 4, 2012

To the Honorable Mayor and City Council
City of Grand Island
Grand Island, Nebraska

The City's audit firm, Almquist Maltzahn Galloway & Luth, presented a list of Other Audit Findings or Issues in their letter issued to the Council dated February 4, 2012. These are matters that the auditors believe should be considered. Below is that list with responses from the City.

1. At September 30, 2011, the certificates of deposit were understated by \$48,651 and the accrued interest receivable was overstated by an offsetting amount. We recommend adjusting the CD balances as the banks add interest to the accounts.

Response: In order to create this change, the Finance Department will need to contact the various certificate of deposit institutions and have them notify the city of accrued interest earnings on each certificate of deposit. We believe we can implement this process to satisfy this recommendation for the next audit year.

2. We recommend that you withdraw the excess funding amounts from the Police and Fire Defined Benefit Plans related to the Pre-84 employees.

Response: The City plans to continue funding employer contributions to the defined contribution plans with the excess contributions in the defined benefit plans. Over time, this will draw the excess funding amounts down.

3. During our Single Audit procedures, we noted that the final financial report for the Community Revitalization grant (08-CR-002) did not match the city's financial records or the final draw down submitted to the Nebraska Department of Economic Development. After further examination, we noted that the final financial report showed that the city received \$6,428 more than they actually did. This related to expenses that should have been reimbursed, but were never submitted. We recommend that all drawdowns and grant financial reports be reconciled to the City's financial records before the reports are submitted.

Response: This finding discovered during preliminary audit work warranted city administration and the city council to amend the city code and transfer the Community Development Division and its personnel to the Finance Department. This change will achieve improved internal controls with finance overseeing all submission of grant drawdowns and reporting to insure all grant reporting will match the city's financial records.

4. During our Single Audit procedures, we noted that matching funds for grants are being compiled after the grant has been closed out. We recommend that matching funds be compiled on a regular (monthly) basis in order to ensure that there will be no deficiency in matching funds that could cause the city to repay a portion of the grant.

Response: This was the second finding discovered during preliminary audit work which added to the justification of city administration and the city council to amend the city code to transfer the Community Development Division and its personnel to the Finance Department. Processes are being put into place to properly record all matching funds as they are incurred.

5. We suggest you consider the benefits of using an Internal Auditor.

Response: This is an issue that has been discussed internally and will be brought forward as a recommendation during the 2013 budget process.

This information is intended solely for the use of the City Council and management of the City of Grand Island and is not intended to be and should not be used by anyone other than these specified parties.

Jaye Monter
Interim Finance Director

Grand Island, Nebraska
February 4, 2012

Grand Island, Nebraska
February 4, 2012