



City of Homer

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Office of the Mayor

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October 29, 2019

BDO USA, LLC
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Sent Electronically

Dear Auditors:

At the Homer City Council work session of October 14, 2019, I stated I had several questions concerning the 2018 audit performed by your firm. These questions are derived from three areas of City accounting but all would generally fall into the category of compliance with the legal level of budgetary control. Each will be separately addressed below, following the specific questions.

Question 1: On page 14 of the audit, 4 projects are listed as having been completed in 2018. Did the auditors track the projects from appropriation to return of excess funds? (See attached Chart 1 for typical path of project funding.)

Question 2: Also beginning on page 14, and continuing on to page 15, there is a list of "On-Going Projects". The assumption would be made that any project that has not been closed out, would be open and on-going. Is this a complete list of open (and on-going) projects?

Question 3: Why have you continued to combine the Water and Sewer Enterprise Fund with the Homer Accelerated Water/Sewer Projects (HAWSP) Fund?

Question 4: On page 90, Exhibit H-3 indicates the fund took in \$1,788,095 and paid out \$1,180,999 leaving a balance of \$607,096. The balance was transferred out of the HAWSP Fund to reduce some prior debt; where were those funds transferred to? (See attached Chart 2 for HAWSP Fund annual accounting.)

Question 5: Why is the HAWSP Fund not listed as a special revenue fund on page 72?

Question 6: Why is the HAWSP Fund not listed as a capital project fund on page 73?

Question 7: Please identify the locations of the \$4,507,855 of assigned non-major funds shown on page 49.

Discussion:

Project Budgeting: Questions 1 and 2 are derived from the job cost accounting for projects that go back over 10 years. It appears that few projects have ever been closed out even though they have been long completed. Projects that had a balance of unexpended funds have left those funds in limbo; that is to say that since the funds were never, as required by Homer City Code, returned to the originating fund, they never became available for new appropriations by the City Council.

Moreover, many of the projects accumulated deficits to the project account, but the deficit amounts were covered by central treasury payments. This is problematic on three fronts. First, there is no opportunity for the City Council to choose a path for preventing deficit spending; second, there is no accountability for carrying a project beyond the appropriation; and third, by covering deficit spending through a mechanism of central treasury payment, the project manager essentially has self-appropriated funds without Council approval.

It would seem that a single project that showed a significant deficit would have caught the attention of the audit team, but this is a long-lived practice and has never been commented upon.

The "Utility Fund": The Utility Fund is a fund containing two funds (HAWSP and the Water and Sewer Utility Fund) that have been combined together for no apparent reason. The two funds have no relationship with one another.

In 2010, the then City Manager told the Council: "That this is one of the confusions the Auditor is that he has mixed the operating funds with the funds segregated to pay this debt and the funds collected through assessments. The Water and Sewer Enterprise fund is paid by the water and sewer customers." (Minutes of the Special Meeting of the Homer City Council, July 19, 2010, page 8.)

Why, 8 years later, do we still harbor this "confusion"?

The operations and maintenance of the water and sewer systems are funded by commodity tariffs that are carefully modeled to fairly allocate those costs. While the City as a whole plays a part in sharing some of those costs (i.e. paying a larger portion of hydrant maintenance because the hydrant system requires over-sized water lines and the system plays an important role in a fire rating that benefits the entire town) the payment for that participation is not made with HAWSP revenues (see page 90 of the audit).

The "confusion" has also led to the HAWSP fund somehow slipping into having annual income that is insufficient to support any new projects. Somewhere in time, and no one can say when, the fund accepted a debt that must be paid back with all available cash. The debt is not described in the schedule of long term liabilities (pages 44 and 45 of the audit). The payment out of the HAWSP fund is made to a negative fund balance, but these are real dollars and the money went... where? What created the negative fund balance?

Other Funds: On page 21, there is a \$4,591,652 value for assigned (non-major) funds. I asked the auditor where a summary might be found listing the funds that comprise that number. He directed me to page 74 where there is a partial list of funds, but on page 49 it is apparent that the vast majority of that value (\$4,507,855) has no explanation as to the number of additional funds, the fund balance for each of those funds, and the fund activity for 2018 in each of those funds. Is there a

reason to not disclose the location of ~\$4.5mm? If the City has policy requirements to create such an assortment of funds, there is then an associated duty of reporting. If the funds are combined to lend accounting and audit convenience then that compilation should be reported, not ignored. The annual budget places money into each of these funds, but those funds are not for discretionary spending. Any expenditure requires an appropriation by the Council.

In summary, while there are other sections of the 2018 audit that are not entirely clear, the three items above are thematic: fiscal policy and appropriations are the responsibility of the Homer City Council, and any deviation from that should be discovered through a cautionary examination of the books by our auditor.

If you have any questions concerning this letter, please feel free to call or email me. My office number in Homer is 907.235.9028. My email address is kencastner@ci.homer.ak.us.

Thank you.

Sincerely,



Ken Castner
Mayor, City of Homer, Alaska

Attachments (2)

Distribution:

- K. Koester, City Manager
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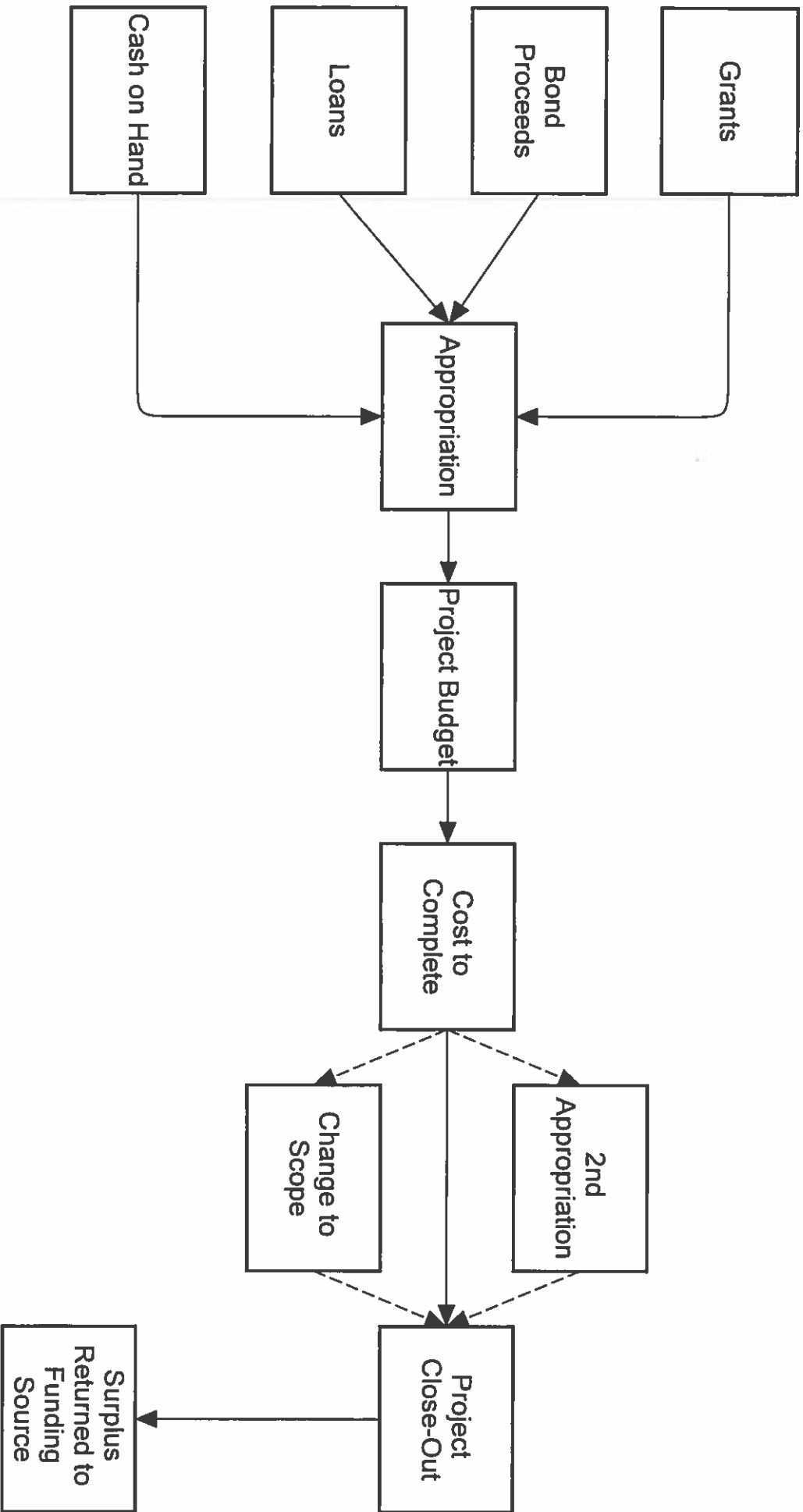
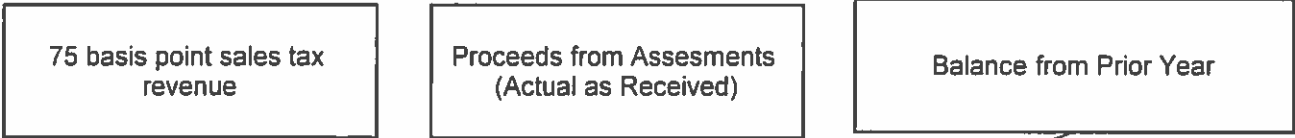


Chart 1



HAWSP FUND

Loan Payments

Admin. Charges

New Projects

Fiscal Year End Balance

Chart 2