

CITY OF HOLLADAY

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

REPORT ON STATE LEGAL COMPLIANCE

SCHEDULE OF EXPENDITURES OF STATE AWARDS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2014

CITY OF HOLLADAY

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FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
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MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2014

OSBORNE, ROBBINS & BUHLER, P.L.L.C. Certified Public Accountants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Honorable Mayor and Members of the City Council
City of Holladay, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Holladay (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness (findings 2014-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated December 31, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Osborne Robbins & Buhler PLLC

December 31, 2014

CITY OF HOLLADAY, UTAH
Schedule of Findings and Responses
June 30, 2014

FINDINGS RELATING TO THE BASIC FINANCIAL STATEMENTS

The existence of the following significant deficiency has been reported to management in previous periods and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

2014-1 Internal Control Over Financial Reporting – Financial Statement Preparation Limitations

Condition: As is common in smaller organizations, the City's accounting department currently does not perform the functions related to the preparation of its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly the City is unable to, and has not established procedures or internal controls over the preparation of financial statements.

Therefore, as part of the audit, management requested the auditors to prepare a draft of the City's financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however management has not developed procedures or controls to 1) evaluate the completeness of the financial statement disclosures or 2) recognize instances when reclassification of financial statement items may be required by U.S. generally accepted accounting principles (GAAP).

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position and results of operations, including the notes to the financial statements, in conformity GAAP.

Effect: Because controls to 1) evaluate the completeness of financial statement disclosures and 2) recognize instances when reclassification of financial statement items may be required are not in place, there is a risk that the auditor prepared financial statements will not include a required disclosure, or that certain information in the financial statements might not be properly classified.

Cause of Condition: Management has been relying on the auditor's controls over 1) evaluating the completeness of the financial statement disclosures and 2) the classification of financial statement items, instead of relying on applicable internal controls over financial reporting.

CITY OF HOLLADAY, UTAH
Schedule of Findings and Responses - continued
June 30, 2014

Recommendation: We recommend that Management and those charged with governance discuss the risks associated with the condition described and compare those to the costs of additional training and or staff required to mitigate or eliminate those risks.

Management Response: We have considered the costs and benefits associated with addressing the risks noted in the above finding and have determined the costs to be prohibitive. We are comfortable with the risk levels associated with this finding.

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INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE ON:

- COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS
- COMPLIANCE FOR EACH MAJOR STATE PROGRAM
- INTERNAL CONTROL OVER COMPLIANCE
- SCHEDULE OF EXPENDITURES OF STATE AWARDS

Honorable Mayor and Members of the City Council
City of Holladay, Utah

Report On Compliance with General State Compliance Requirements and for Each Major State Program

We have audited the City of Holladay's compliance with applicable general state and major state program compliance requirements described in the *State Legal Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City or each of its major state programs for the year ended June 30, 2014.

General state compliance requirements were tested for the year ended June 30, 2014 in the following areas:

- Cash Management
- Budgetary Compliance
- Fund Balance
- Justice Courts
- Statement of Taxes Charged, Collected & Disbursed
- Assessing & Collecting Property Taxes
- Transient Room Tax and Tourism, Recreation, Culture, Convention,
and Airport Facilities Tax
- Impact Fees
- Utah Retirement Systems
- Transfers from Utility Enterprise Funds
- Government Records Access Management Act (GRAMA)
- Conflicts of Interest
- Nepotism
- Utah Public Finance Website
- Open and Public Meetings Act
- Budget Notices and Format

The City received state funding from the following programs classified as major programs for the year ended June 30, 2014:

B & C Road Funds

(Department of Transportation)

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City or its major state programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements and for each major state program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on General State Compliance Requirements and Each Major State Program

In our opinion, the City of Holladay complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City or on each of its major state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in our letter to management dated December 31, 2014 as items 2014-1, 2014-2 and 2014-3.

Management's response to the noncompliance findings in our audit is described in the accompanying letter to management. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City or on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an

opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state or major state program compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a general state or major state program compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state or major state program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain matters involving internal control over compliance which we are submitting for your consideration. These matters are described in our letter to management dated December 3, 2014 as items 2014-01, 2014-2 and 2014-3.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Awards as Required by the *State Compliance Audit Guide*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 31, 2014 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State Compliance Audit Guide* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of

expenditures of state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Osborne Robbins & Baker PLLC

December 31, 2014

CITY OF HOLLADAY
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2014

<u>Grant Name</u>	<u>Award/ Contract # (if applicable)</u>	<u>Year of Last Audit</u>	<u>Expenditures</u>	<u>TYPE</u>
UTAH DEPARTMENT OF TRANSPORTATION				
B & C ROAD	N/A	2014	\$ 836,554	TYPE A
Holladay City Safe Sidewalk Construction Project, SR-266; Holladay Blvd to 1887 East N. Side	90464_23H		103,310	TYPE B
DEPARTMENT OF PUBLIC SAFETY				
LIQUOR ALLOTMENT	N/A	2012	27,852	<\$100,000
UTAH STATE PARKS				
LAND AND WATER CONSERVATION FUND	N/A		150,000	TYPE B
TOTAL GRANT AND CONTRACT EXPENDITURES			<u>\$ 967,716</u>	

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Honorable Mayor and Members of the City Council
City of Holladay, Utah

In planning and performing our audit of the financial statements of The City of Holladay (the City) for the year ended June 30, 2014, we noted certain other matters for your consideration. This letter summarizes our comments and suggestions regarding those other matters. Also, included are descriptions of immaterial instances of noncompliance. This letter does not affect our report dated December 31, 2014, on the financial statements of the City. Also, significant deficiencies, including those considered to be material weaknesses, if any, are included in our report dated December 31, 2014, in accordance with *Government Auditing Standards*.

STATE OF UTAH LEGAL COMPLIANCE

Item 2014-1

Expenditures in Excess of Budget

The City incurred expenditures in excess of approved budget amounts in the following governmental fund:

	<u>Expenditures in Excess of Budget</u>
Redevelopment Agency Special Revenue Fund Debt Service - Interest	\$27,768

Recommendation

The City should closely monitor expenditures, including expenditures related to long term debt and contracts. The City should amend the budget throughout the year as circumstances change and additional expenditures become necessary.

Management Response and Action Plan

The City will closely monitor expenditures to ensure they do not exceed budget amounts, in addition a more comprehensive analysis of revenues and expenditures, will be made and incorporated into future budgets.

Item 2014-2

Council Review of Financial Reports

The Utah Code requires that 3rd – 5th class cities prepare financial reports on a monthly basis and provide the reports to the City Council for review. The Council is getting financial information, but not with the frequency or in the form that State law requires.

Recommendation

The City Manager, working in connection with the finance department, should ensure that financial reports are provided to the Council on a monthly basis in accordance with State law. We would suggest that reports are provided that compare budget to actual information for all departments and funds of the City.

Management Response and Action Plan

The City will ensure that the recommended reports are prepared on a monthly basis and that they are provided to the City Council for review on a monthly basis.

Item 2014-3

Utah Public Finance Website Public Financial Information

The City last updated the www.transparent.utah.gov website with the required public financial information in November 2013. Since that time, the City has been working with personnel at the State to get the financial information which is contained in the City's accounting records formatted properly to enable the information to be uploaded regularly and timely as required.

Recommendation

The City should continue to work with the State, or consider contracting with an outside party, to complete development of the formatting that is required to properly post the necessary information to the web site.

Management Response and Action Plan

The City will ensure that it completes the project to develop the mechanism that is needed to convert the information to a format to allow for timely posting of the information as required.

Osborne Robbins & Buhler PLLC

December 31, 2014