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January 5, 2011

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, 2010, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 5, 2011, 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 January 5, 2011, in accordance with *Government Auditing Standards*.

Osborne Robbins & Buhler PLLC

STATE OF UTAH LEGAL COMPLIANCE

Building Permit Surcharges

The City is required to collect a 1% surcharge on all building permits and shall remit 80% of the surcharge collected to the State Division of Occupational and Professional Licensing (DOPL). The City is required to remit this surcharge in connection with a quarterly report prepared using a form provided by the DOPL. This report is due within 30 days following the end of each calendar quarter. During the year ended June 30, 2010, the fourth quarter report was not filed and the related surcharges had not been remitted by the time audit field work was completed.

Recommendation

Procedures should be implemented to ensure that the report is filed in a timely manner.

Management Response and Action Plan

The Planning Department will complete these reports within the required time period.

Interest Paid on Retainage – B & C Road Projects

State law requires that if any payment on a contract with a private contractor for work on a class B or C road is retained or withheld, it shall be placed in an interest bearing account and the interest shall accrue, at the average rate of return on cash deposits experienced by the City, for the benefit of the contractor – to be paid after the project is completed and accepted by the City.

During the year, the City retained funds payable to contractors for work on B & C road projects but did not record or pay the interest that would have accrued on the funds.

Recommendation

Procedures should be developed in which funds held on these kinds of projects are tracked for appropriate interest accrual and the interest earned should be paid to the contractors upon the completion of the project.

Management Response and Action Plan

Procedures will be developed to identify projects for which interest should be accrued. Interest will then be accrued on amounts retained until the completion of the project. The accrued interest will then be paid to the contractors upon the completion of the project.

Unclaimed Property

A government entity holding intangible property for more than one year after the property became payable or distributable must report and remit the property to the State Treasurer's Office by November 1 each year. The City indicated that for 2009, it had no unclaimed property.

We noted however, that the City's bank reconciliations indicate several outstanding checks that are more than one year old and likely fall under the scope of this compliance requirement. Additionally, the City has on record several construction bonds that expired more than a year ago, which have not been returned to their owners.

Recommendation

We suggest the City review the requirements governing the types of property that should be reported and submitted to the State and compare that information with the details of its books and records and remit any property that falls within the stated guidelines.

Management Response and Action Plan

The Procedures used to identify unclaimed property will be expanded to include a more thorough investigation of old outstanding checks and construction bonds.

OTHER COMMENTS AND OBSERVATIONS

Court Trust Fund Account Reconciliations

The City's court must maintain an account for certain trust account transactions.

At the time of the audit, the schedules that are used by court personnel which track activity related to the trust account, did not agree to the balances in the general ledger account used to track this trust account in the general ledger. The difference was not significant in relation to the financial statements overall as of June 30, 2010, but it also was not readily identifiable which is an indication that the liability account on the general ledger which should be tracking these bonds, is not being regularly reconciled to the supporting information from the court.

Recommendation

The City's accounting personnel should obtain from the court personnel, details of the activity in the court trust account and ending balances on a regular basis and reconcile the activity as reported by the court to the information reported in the account used to track the trust fund on the general ledger. Any differences should be noted, resolved and adjusted as appropriate.

Management Response and Action Plan

Management is in the process of reconciling the difference between schedules generated by court personnel, and the general ledger. Policies will be put into place that will insure a regular reconciliation of the schedules and the general ledger.

Fund Balance Reporting – New Requirements

Beginning in the fiscal year ended June 30, 2011, generally accepted accounting principles will require that the City's fund balances be reported under a new method, implementing a hierarchy of fund balance classifications based primarily on the extent to which the City is bound by constraints on resources reported in the funds. Fund balance will need to be classified into one of five categories including Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance and Unassigned Fund Balance.

Additionally, the notes to the City's financial statements will require disclosure about the City's policies affecting these fund balance classifications.

Recommendation

The City should review its current policies and procedures regarding the order of spending restricted and unrestricted fund balance and the order of spending for committed, assigned and unassigned fund balance.

The City should also be prepared to have disclosed in the notes to the financial statements a description of authority and actions that lead to committed and assigned fund balance.

Management Response and Action Plan

The city will review the new requirements and develop a description of authority and actions that lead to committed and assigned fund balance.

Reconciliation of Balance Sheet Accounts

We noted several accounts in the general ledger, particular those related to various accrued liabilities, that had not been reconciled in a long time. Many of these accounts have nominal amounts in them but are no longer actually being used and should be zeroed out. Others are being used to accrue various liabilities, but the payments made on these liabilities are being recorded in entirely different accounts, leaving several accounts with ending balances that, individually, are incorrect, even if, in total they net out to a reasonable balance.

Recommendation

All balance sheet accounts should be reconciled on a regular basis. This reconciliation should entail assessing what the correct balance in the account should be and ensuring that the balances shown on the general ledger agree to the correct known balance. Any discrepancies should be investigated, resolved and adjusted on a timely basis.

Management Response and Action Plan

Unused and mismatched balance sheet accounts will be reviewed for propriety and adjusted accordingly.