

WASHINGTON CITY, UTAH
SINGLE AUDIT ACT REPORT
FISCAL YEAR ENDED JUNE 30, 2010

WASHINGTON CITY, UTAH

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HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**Independent Auditors' Report 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***

MEMBERS:

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DEAN R. BURDICK, CPA
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MICHAEL K. SPILKER, CPA
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MARK E. TICHENOR, CPA

The Honorable Mayor and
Members of the City Council
Washington City, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington City, Utah, as of and for the year ended June 30, 2010, which collectively comprise Washington City's basic financial statements, and have issued our report thereon dated April 15, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Washington City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the following deficiency described in the accompanying schedule of findings and recommendations to be a material weakness.

08-01 Material Misstatement Adjustments

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. We consider the following deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies.

- 09-01 Accounts Receivable—Utility Funds
- 08-02 Electric Fund Inventory
- 08-04 Segregation of Duties
- 08-06 Fraud Risk Management Program

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington 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 other items that we reported to management of the City in a separate letter dated April 15, 2011.

The City's responses to the findings identified in our audit are described in the responses to the findings and recommendations and recommendations, which accompanies the City's basic financial statements. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the city council, mayor, and various state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HINTON, BURDICK, HALL & SPILKER, PLLC
April 15, 2011



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Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and City Council
Washington City, Utah

Compliance

We have audited the compliance of Washington City, Utah with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Washington City's major federal programs for the year ended June 30, 2010. Washington City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Washington City's management. Our responsibility is to express an opinion on Washington City's compliance based on our audit.

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 OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington 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. Our audit does not provide a legal determination of Washington City's compliance with those requirements.

In our opinion, Washington City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Washington City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Washington City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Washington City's internal control over compliance.

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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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Washington City, Utah, as of and for the year ended June 30, 2010, and have issued our report thereon dated April 15, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the city council, mayor, and various state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HINTON, BURDICK, HALL & SPILKER, PLLC
April 15, 2011

WASHINGTON CITY, UTAH
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:

- Material weakness (es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

- Material weakness (es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

WASHINGTON CITY, UTAH
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II - Financial Statement Findings

Material Weaknesses:

08-01 Material Misstatement Adjustments

Throughout our audit we noted a number of misstatements (and we proposed related journal entries or informed accounting personnel so they could investigate further) that were not initially identified by the City's internal controls. Current audit standards require that we report such audit adjustments as a deficiency when the City's controls do not eliminate such misstatements. Given the magnitude of some of the misstatements (some of which relate to the other specific deficiencies), we believe a material weakness is warranted.

The primary areas affected include capital asset accounting, community center cash clearing and unrecorded or incorrect receivables and liabilities. In working with city personnel to address the various misstatements, it seems that the underlying issue is that key accounting personnel haven't been able to spend adequate time monitoring, reconciling and adjusting fiscal year end balances before we begin our audit. As we work thorough the audit and discuss various issues, balances and adjustments with accounting personnel, it appears that they understand the misstatement. In fact, they typically prepare an adjustment, as opposed to us, to correct the issue.

Recommendation

We recommend that management continue to review the journal entries and discuss them with us to ensure you agree with the entries and understand the purpose and the underlying accounting principles. We also recommend that the City continue to develop a plan to ensure that all significant and material adjustments are posted to the general ledger before the annual audit takes place. The City should continue to improve its internal controls to a level where they will at least identify material misstatements in a timely manner. If accounting personnel are aware of additional adjustments needed as the audit begins, they should let the auditors know at that time.

Significant Deficiencies:

09-01 Accounts Receivable—Utility Funds

As part of our audit we noted differences between the subsidiary schedules (Accounts Receivable by Service report) and the applicable general ledger control accounts. This problem was in part due to the accounting system conversion for utility billings from Caselle to Springbrook. The reconciliation between the Springbrook subsidiary schedules and the applicable general ledger accounts were completed but not in a timely manner. Monthly reconciliations of the subsidiary schedules to the general ledger control accounts provide control over financial reporting and safeguarding the City's assets.

WASHINGTON CITY, UTAH
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II - Financial Statement Findings, Continued

In addition, as part of our audit we noted significant balances in accounts receivable that were for customers who had either not paid in one year, had gone through bankruptcy with no assets left or were deceased. According to the City's existing write-off policy, these accounts should be written off.

Recommendation

We recommend that the City address the existing discrepancies and establish policies and procedures that will provide timely reconciliations on a monthly basis. In addition the City should ensure that its current write-off policies and procedures are adequately designed and functioning. The City should consider the effects of establishing an allowance for uncollectible accounts.

08-02 Electric Fund Inventory

We commend the City's efforts to improve its controls relating to the electric fund inventory and for conducting a year-end inventory count. The City continues to make improvements in the tracking and reporting of inventory (and related balances); however, we noted that the City could strengthen controls over tracking work orders and how the physical inventory count is reconciled to the general ledger accounts for inventory, capital assets and construction in progress.

Recommendation

We recommend that the City continue to perform a physical count of all material inventories at least annually. The count at fiscal year should be reconciled to the City's accounting records including the following accounts: inventory, capital assets and construction in progress. We also recommend that the City consider using a work order system or some other means to properly track inventory, capital assets and construction in progress.

08-04 Segregation of Duties

We noted significant improvements, which were implemented throughout fiscal year 2010, in the segregation of duties within the accounting functions and internal controls over cash receipting. However, the utility clerk supervisor still has the authority to adjust for bad debts with little or no oversight. Consequently, the utility clerk supervisor has custody duties (occasionally), recording duties and authorization duties.

For a complete and proper segregation of duties within the accounting function, no one person should have duties in more than one of the following areas: custody of assets, recording functions and authorization abilities. Management has implemented some mitigating controls such as daily reconciliations between payment registers and receipts registers and monthly bank reconciliations, which are performed by someone who doesn't handle receipts and thus, this is not deemed to be a material weakness; however, proper segregation of duties provide important safeguards and controls to ensure the proper recording, deposit and disposition of the City's funds.

WASHINGTON CITY, UTAH
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II - Financial Statement Findings, Continued

We also noted that controls over golf course cash receipting appear to be lacking as those handling cash also have recording duties. We realize, due to the circumstances, it may be difficult to achieve a complete segregation of duties in remote areas, such as the golf course, particularly when transactions are manually recorded.

Recommendation

We recommend that management consider ways that a further segregation of duties can be achieved within its accounting and administrative functions—particularly in utility and golf course cash receipting. If it's not practical to segregate the duties so that all employees only have duties in one of the three areas, the City should ensure that other mitigating controls, such as independent reviews and approvals, are in place and properly functioning. It's our understanding, in light of the recent changes in this area, that the City does plan to add some additional mitigating controls in the near future. We would be happy to assist the City in the design and/or implementation of job descriptions and duties to properly achieve this segregation.

08-06 Fraud Risk Management Program

The City has apparently not formally developed a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate risks.

Recommendation

We recommend that the City formally develop and adopt a fraud risk management program that is appropriate for the size and complexity of the City, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Section III - Federal Award Findings and Questioned Costs

No significant matters noted

WASHINGTON CITY, UTAH
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Grantor Agency	Federal CFDA Number	Grantor's Number	Expenditures
United States Department of Agriculture			
Water and Waste Disposal Systems For Rural Communities	10.760	Water Revenue Bond Series 2008	\$ 553,355
U.S. Department of Transportation (Passed through the Utah Department of Transportation)			
Highway Planning and Construction	20.205	09-8155 MOD 1	<u>213,503</u>
Total expenditures of federal awards			<u><u>\$ 766,858</u></u>

Note: This schedule has been prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

