

CITY OF SOUTH OGDEN
SUPPLEMENTARY REPORTS
For the Year Ended June 30, 2018



KEDDINGTON & CHRISTENSEN, CPAS
CERTIFIED PUBLIC ACCOUNTANTS

**SOUTH OGDEN CITY
SUPPLEMENTARY REPORTS
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance and Report on Internal Control Over Compliance as Required by the <i>State Compliance Audit Guide</i>	3
Schedule of Findings and Recommendations.....	5



KEDDINGTON & CHRISTENSEN, CPAS

CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA

Phyl R. Warnock, CPA

Marcus K. Arbuckle, CPA

Steven M. Rowley, CPA

**INDEPENDENT AUDITOR'S 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***

Honorable Mayor and
Members of the City Council
South Ogden, Utah

We have audited, in accordance with 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Ogden, Utah as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of South Ogden, Utah's basic financial statements and have issued our report thereon dated December 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of South Ogden, Utah'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 of South Ogden, Utah's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of South Ogden, Utah'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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of South Ogden, Utah'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*.

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.

Keddington & Christensen, LLC

Salt Lake City, UT

December 31, 2018



KEDDINGTON & CHRISTENSEN, CPAS

CERTIFIED PUBLIC ACCOUNTANTS

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA
Steven M. Rowley, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY THE STATE COMPLIANCE AUDIT GUIDE**

Honorable Mayor and
Members of City Council
South Ogden, Utah

Report on Compliance

We have audited the City of South Ogden, Utah's compliance with the applicable state requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor for the year ended June 30, 2018.

General state compliance requirements were tested for the year ended June 30, 2018 in the following areas:

Budgetary Compliance	Treasurer's Bond
Fund Balance	Cash Management
Justice Courts	Enterprise Fund Transfers,
Utah Retirement Systems	Reimbursements, Loans,
Restricted Taxes and Related	and Services
Restricted Revenues	Tax Levy Revenue
Open and Public Meetings Act	Recognition

Management's Responsibility

Management is responsible for compliance with the state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the state 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 state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement 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 for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Compliance

In our opinion, the City of South Ogden, Utah complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2018.

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 the accompanying Schedule of Findings and Recommendations as items 2018-001, 2018-002, 2018-003, and 2018-004. Our opinion on compliance is not modified with respect to these matters.

The City’s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. 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 state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with those state compliance requirements 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 does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a state 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 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 state 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.

The purpose of this report is 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 requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Keddington & Christensen, LLC
Salt Lake City, Utah
December 31, 2018

**South Ogden City
Schedule of Findings and Recommendations
For The Year Ended June 30, 2018**

2018-001: Budgetary Compliance – State Compliance

Finding:

Utah State Code 10-6-123 states, “City officers may not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or as subsequently amended.” During the test work for state and legal compliance it was noted that at the end of June 30, 2018, the City’s Garbage Fund exceeded budgeted expenses by \$13,570, the City’s Ambulance Fund exceeded budgeted expenses by \$25,517, and the City’s CDRA Fund exceeded budgeted expenditures by \$31,082.

Recommendation:

We recommend the City comply with the code section listed above.

City Response:

The City will monitor the budget in a better manner as the year draws to a close and make the necessary amendments if needed. The budget overage in the garbage fund is the result of county-wide recycling issues. The City incurred just over \$21,500 of unbudgeted expenses that were paid for recycle services after the county discontinued their recycling program. The overage in the ambulance fund was an oversight primarily the result of an unusually high amount of overtime paid during the year and higher wages to part-time employees.

2018-002: Deficit Fund Balance - State Compliance

Finding:

Utah State Code 10-6-117 states, “If there is a deficit [net position] in a fund at the close of the last completed fiscal year, the governing body of a city shall include an item of appropriation for the deficit in the current budget of the fund equal to: (a) at least 5% of the total revenue of the fund in the last completed fiscal year; or (b) if the deficit is equal to less than 5% of the total revenue of the fund in the last completed fiscal year, the entire amount of the deficit.” During the test work for state and legal compliance it was noted that at the end of June 30, 2018, the City’s Ambulance Fund had a deficit net position of \$481,623. The fund did not have an appropriation to retire the deficit in the subsequent budget year (there was an appropriation to use net position but not increase it).

Recommendation:

We recommend the City comply with the code section listed above.

City Response:

The FY 2019 budget adopted by the City Council included an appropriation of 5% of the fund’s revenue from the last completed fiscal year as part of the budget document. However, the way it was put into place will not reduce the fund’s deficit. This was discussed with the auditors so that it can be implemented correctly in the future.

2018-003: General Fund Fund Balance – State Compliance

Finding:

Utah State Code 10-6-116(2) states, “The accumulation of a fund balance in the city general fund may not exceed 25% of the total revenue of the city general fund for the current fiscal period.” During the test work for state and legal compliance it was noted that at the end of June 30, 2018, the City’s general fund fund balance exceeded 25% of the fund’s total revenue for the current year by \$295,364.

Recommendation:

We recommend the City comply with the code section listed above.

South Ogden City
Schedule of Findings and Recommendations (Continued)
For The Year Ended June 30, 2018

City Response:

For many years the City has applied the guidance set for by the State Auditor's Office that utilized the 'estimated revenue taken from next year's budget' when calculating the fund balance requirements. Unbeknownst to the City that guidance has changed to the 'current fiscal period'. However, the City still feels it is within the guidelines as the \$3,182,099.61 of general fund balance only \$2,328,393.93 is unrestricted and this falls below the 25% requirement of \$2,784,354.55. The FY 2019 budget also includes an Appropriation of General Fund Balance of \$719,470.

While discussing this in more detail with the auditors the City Council has committed monies within the general fund balance and has been viewed by the City then as restricted monies for calculation purposes. As it turns out the committed monies perhaps should not be removed from the calculation of 25%. The City will consider this change moving forward in to future years.

2018-004: Interfund Transfers from an Enterprise Fund – State Compliance

Finding

Utah State Code 10-6-135.5(4)(a) states, "At least seven days before holding an enterprise fund hearing, a governing body shall: (i) provide the notice ... by: ... (D) if the city has a website, prominently posting the notice on the city's website until the enterprise fund hearing is concluded; and (ii) if the city communicates with the public through a social media platform, publish notice of the date, time, place, and purpose of the enterprise fund hearing using the social media platform." Utah State Code 10-6-135.5(6)(a) states, "If a governing body adopts a budget ... that includes ... a transfer of money from an enterprise fund to another fund, the governing body shall: (i) within 60 days after adopting the budget ...: (A) mail a notice to users of the goods or services provided by the enterprise for which the enterprise fund was created, if the city regularly mails users a periodic billing for the goods or services." During the test work for state and legal compliance it was noted that the city posted the notice to its website 5 days before the hearing, did not post the notice to its social media platforms, and did not notify customers in their monthly bills that the budget had been adopted.

Recommendation

We recommend the City comply with the code sections listed above.

City's Response

The City posts all public notices, agendas & public hearing information, on the state's transparency website and there is a widget that automatically links to the City's website. However, the City put a new website into place and that link no longer exists. So it is quite possible that when the agenda was posted to the City's website it was only 5 days before the public hearing.

The City did not notify utility customers in their monthly bills after the budget was adopted in regards to the alleged enterprise fund transfers. This requirement is very confusing to residents, costly to the City, time consuming and really serves no legitimate purpose. The State and or State Auditor needs to consider repealing this. The initial public notice with all of the necessary information is sent to all utility users and when the budget is adopted it is posted on the City's website, thus giving notice that the budget was adopted. A separate mailing giving notice of the budget passage is often viewed that a second amount is being transferred from the enterprise funds and generates a plethora of questions and phone calls from the residents. When the required process is explained they get frustrated and express that they feel it is misleading, redundant and a waste of employee's time and City resources.