

HYRUM CITY CORPORATION
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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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

To the Mayor and Members of the City Council
Hyrum City Corporation

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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Hyrum City Corporation as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hyrum City Corporation's basic financial statements and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hyrum City Corporation'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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hyrum City Corporation'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*. However, we noted certain immaterial instances of noncompliance that we have reported to management in the accompanying Schedule of Findings, Recommendations and Responses.

City's Responses to Findings

Hyrum City Corporation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Recommendations and Responses. Hyrum City Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wiggins & Co., PC

Brigham City, Utah 84302
November 28, 2016

INDEPENDENT AUDITOR'S REPORT AS REQUIRED BY THE *STATE COMPLIANCE AUDIT GUIDE* ON:

- COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS
- INTERNAL CONTROL OVER COMPLIANCE

To the Mayor and Members of the City Council
Hyrum City Corporation

Report on Compliance with General State Compliance Requirements

We have audited Hyrum City Corporation's compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016, in the following areas:

- Budgetary Compliance
- Fund Balance
- Utah Retirement Systems Compliance
- Justice Courts
- Utah Public Finance Website
- Restricted Taxes and Related Revenues
- Treasurer's Bond
- Open and Public Meetings Act
- Impact Fees

The City did not have any state funding classified as a major program during 2016.

Management's Responsibility

Management is responsible for compliance with the general 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 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 could have a direct and material effect on the City 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. However, our audit does not provide a legal determination on the City's compliance.

Opinion on General State Compliance Requirements

In our opinion, Hyrum City Corporation, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the *State Compliance Audit Guide* and which is described in the accompanying schedule of findings and recommendations and responses as item 16-3. Our opinion on compliance is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings, recommendations and responses. 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 of compliance, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City 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 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 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 general 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.

Purpose of Report

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.

Wiggins & Co., PC

Brigham City, Utah
November 28, 2016

HYRUM CITY CORPORATION
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

OTHER MATTERS

16-1. Purchase Orders

Condition:

We noted that many purchase orders are not prepared or approved on the date of the order. Because of this, the City made a few duplicate payments for purchases. These overpayments occurred because invoices were presented twice for payment of items purchased. This is a continuing finding.

Criteria:

Strong internal controls suggest that purchase orders be completed when orders are placed. Those purchase orders should then be matched and attached to related invoices. This reduces the possibility of overpayments. It is also a means to verify the agreed upon price up front with the parties, notify the City administration of the purchase and give the vendor the assurance that the party they are dealing with has authority to order on behalf of the City.

Cause:

The City's purchasing policy does not specifically require City staff to complete purchase orders at the time that items are ordered.

Effect:

Without matching purchase orders and invoices together, the City does not know which items have been paid. Thus, City staff has the potential to make duplicate payments for the same items. This could also result in fraudulent purchases or billings.

Recommendation:

We recommend that the City change their purchasing policy to require purchase orders be completed when orders are placed. When the item and corresponding invoice has been received, the purchase order and the invoice should be matched up prior to presentment for payment.

Response:

The Mayor, City Administrator, and City Treasurer will continue to meet with department heads to remind them of the policy. The Mayor, City Administrator, and City Treasurer will require department heads to turn in their purchase orders before the check run.

HYRUM CITY CORPORATION
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

OTHER MATTERS

16-2. Billing

Condition:

The electric department prepares its own billings for construction reimbursements and sends them to sub developers. A sub-developer was billed in December 2015 and payment was not received until August 2016. The City accounting records had no billing data and did not record a receivable. The City accounting staff were not aware of the revenue generated until the check was received in August.

Criteria:

Proper monitoring of accounting matters is necessary to ensure proper recording of transactions. Accounting staff need to be aware of all transactions performed by all city department heads. Accounting related issues should be performed centrally and not by individual departments.

Cause:

The City allows the electric department to perform their own billing, mailing and collection of construction reimbursements.

Effect:

Allowing individual departments to perform their own billing gives departments the ability to circumvent the accounting procedures followed by the City. The City may not recognize revenue in the proper period. Because the individual departments are not setup to perform monthly billings, there is an economic cost to this situation. Interest or late fees are not always charged and follow-up on overdue billings is not performed on a consistent basis. This also allows a risk for fraud, where payments could be made directly to employees without detection by the City.

Recommendations:

We recommend that all billing functions be done by the accounting staff. This would provide better oversight over billing functions and allow the amounts billed to be recorded in the accounting records at the time of billing.

Response:

The Electrical Superintendent will continue preparing the bill. After the bill is generated it will be submitted to the City Administrator for approval. Once approved the bill will be given to the Deputy Recorder to be submitted to the developers. A copy will then be given to the City Treasurer to add as a receivable.

HYRUM CITY CORPORATION
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

STATE COMPLIANCE

OTHER MATTERS

16-3. UTAH PUBLIC MEETINGS WEBSITE

Condition:

The City did not upload the City Council meeting and work session minutes to the Utah Public Meetings website within three days of being approved.

Criteria:

Utah Statute 52-4-203(4)(e) requires the City to post their City Council meeting minutes on the Utah Public Notice Website within 3 days after the minutes are approved.

Cause of Condition:

The City posted the agenda's to the website but did not post the City Council meeting minutes within 3 days of being approved.

Effect:

The City has had 2 years to comply with this statute. The State is requiring all governmental units to adhere to these rules. The City must abide by all state statutes or could face potential sanctions.

Recommendations:

We recommend that the City start posting all work session and council meetings immediately after approval to the Utah Public Meetings website.

Response:

The City Recorder will post the minutes to the Utah Public Meetings website before leaving City Council Meeting the night they are approved or within three days of the meeting minutes being approved.

HYRUM CITY CORPORATION
STATUS OF PRIOR YEAR FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

OTHER MATTERS

15-1. REVIEW OF JOURNAL ENTRIES

Condition:

In our testing, we found many journal entries did not have the required accompanying supporting documentation to help the reviewer understand why the entry was being made. Most of the documentation was located, but it was not with the entry when the reviewer approved it. We also proposed audit adjustments to accounts that had incorrect journal entries posted to them. This is a continuing finding.

Criteria:

The City policy requires that all journal entries have accompanying supporting documentation and that they be reviewed and approved by someone other than the preparer prior to the keying of the entries into the general ledger system.

Cause:

At times the documentation is already stored in other areas or offices. Some of the backup is made up of lengthy reports. The City was trying to be as efficient as possible with storage.

Effect:

The purpose of this policy is to ensure that the entries are proper and reasonable and the reviewer has all the necessary information for approval. If the information is not present, the reviewer must make assumptions or search again for the documentation. This has caused some entries to be incorrect and the financial statements to be misstated.

Recommendation:

We recommend that City policy be followed and the required supporting documentation accompany each journal entry for submission for approval. The reviewer should be familiar with the City's accounts to determine the entries are appropriate. The preparer and the reviewer should review the accounts after the entries are posted to see that they were corrected as intended.

Status:

Implemented.

HYRUM CITY CORPORATION
STATUS OF PRIOR YEAR FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

OTHER MATTERS

15-2. CASH DISBURSEMENT TESTING

Condition:

While testing cash disbursements, we found a few disbursements where the documentation was missing and could not be located.

Criteria:

The City's policies require that all disbursements have the accompanying documentation attached to the disbursement copy or a reference to bulk documentation so that the employee signing the cash disbursement check can review the documentation to ensure that the expenditure/expense is proper and is coded to the proper account.

Cause:

The City Treasurer is not ensuring that the disbursement documentation is attached or referenced on the check stub before it is filed away. Also, City personnel should ensure that storage of the disbursement documentation is in a secure location and done by personnel with some knowledge as to the necessity of filing the documentation so that, if necessary, it can be easily located.

Effect:

If the documentation is not properly attached or referenced on or with the disbursement check copy, then it is difficult to locate in the event that future questions arise.

Recommendations:

We recommend that the cash disbursement documentation be attached to the check copy and filed in an orderly manner and in a secure location so that it can be easily referenced in the event of future concerns or needs.

Status:

Implemented.

HYRUM CITY CORPORATION
STATUS OF PRIOR YEAR FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

OTHER MATTERS

15-3. PURCHASE ORDERS

Condition:

We noted that many of purchase orders are not prepared or approved on the date of the order. Most are dated at the date of the invoice or later. This is an ongoing finding.

Criteria:

The City policy requires that purchase orders be completed when items or services are ordered. This is to verify the agreed upon price up front with the parties, notify the City administration of the purchase and give the vendor the assurance that the party they are dealing with has authority to order on behalf of the City.

Cause:

The City's staff does not appear to have the necessary training in the proper use of purchase orders and their purpose in the purchasing process.

Effect:

The effect of using the purchase orders improperly is that you don't have the assurance of an agreed-upon price; the vendor does not have the assurance that the individual is authorized by the City and the administration may not be aware of the purchase in advance. This could result in overpayments to vendors and fraudulent purchases or billings.

Recommendations:

We recommend that the City provide training to the City staff for the purchasing policy. The levels where purchase orders are required should be adequate to protect the City without causing undue paperwork for the staff involved.

Status:

Not implemented. See current year findings.