

**CITY OF HOLLADAY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**City of Holladay, Utah  
Single Audit**

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# 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

We have audited 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 27, 2012. We conducted our audit 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.

### **Internal Control over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 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 questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (findings 2012-1 and 2012-2).

### **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 27, 2012.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 the City Council, management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Osborne Robbins & Buhler PLLC". The signature is written in a cursive, flowing style.

December 27, 2012

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

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of the City of Holladay, Utah (the City), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2012. The City's major federal program is 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 its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012.

### Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major

federal program to determine the 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 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 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Osborne Robbins & Buhler PLLC*

December 27, 2012

**City of Holladay, Utah**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<b><u>Federal grantor/pass-through grantor/program title</u></b>			
<u>Housing and Urban Development</u>			
Passed through Salt Lake County:			
Community Development Block Grant	14.218	BV03602C	\$ 6,131
	14.218	BV03662C	19,216
	14.218	BV03629C	126
	14.218	BV03702C	18,760
	14.218	BV03712C	500
	14.218	BV03716C	1,000
	14.218	BV03727C	500
	14.218	BV03729C	500
	14.218	BV03732C	500
	14.218	BV03737C	500
			<u>47,733</u>
<u>Department of Transportation</u>			
Passed through State of Utah:			
Highway Planning and Construction	20.205	STP-HPP-LC35 (157)	570,896
Highway Planning and Construction	20.205	STP-2172(4)21	15,926
			<u>586,822</u>
Total expenditures of federal awards			<u>\$ 634,555</u>

**CITY OF HOLLADAY, UTAH**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

The following are the notes to the Schedule of Expenditures of Federal Awards:

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Holladay, Utah (the City). The City is defined in Note A to the basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the modified-accrual basis of accounting for expenditures of governmental fund types, which is described in Note A to the City's basic financial statements.
- Relationship to Basic Financial Statements – Federal financial assistance expenditures cannot be directly reconciled to the basic financial statements because other non-federal revenues are included in intergovernmental revenues.



**CITY OF HOLLADAY, UTAH**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

Basic Financial Statements

Type of auditor's report issued on the basic financial statements:	An unqualified opinion was issued on the basic financial statements of the City.
Internal control over financial reporting: Material weakness	See findings related to the basic financial statements 2012-1 and 2012-2.
Significant deficiencies not considered to be material weaknesses:	None reported.
Noncompliance:	No instances of noncompliance were found which were material to the basic financial statements.

Federal Awards

Internal control over major programs: Material weakness	No material weaknesses were identified.
Significant deficiencies not considered to be material weaknesses	No significant deficiencies were reported.
Type of auditor's report issued on compliance for major programs:	An unqualified opinion was issued on compliance for the major program.
Audit Findings:	No audit findings required to be reported in accordance with section 510 of Circular A-133 or <i>Government Auditing Standards</i> .
Identification of Major Programs: CFDA #20.205	Highway Planning and Construction
Dollar threshold – type A and type B programs:	\$300,000
Qualifications of the auditee:	The City did not qualify as a low-risk auditee under OMB Circular A-133.

**CITY OF HOLLADAY, UTAH**  
**Schedule of Findings and Questioned Costs - continued**  
**June 30, 2012**

**FINDINGS RELATING TO THE BASIC FINANCIAL STATEMENTS**

The existence of the following significant deficiencies 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.

**2012-1 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 Questioned Costs - continued**  
**June 30, 2012**

*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.

**2012-2 Internal Control over Financial Reporting – Transaction Completeness and Classification**

*Condition:* The internal control structure of the City has focused primarily on the objective of effectiveness and efficiency of operations. However, as a result of our audit, we have identified that the system of internal control contains certain significant deficiencies.

At the onset of the audit process, management had not fully analyzed the accounting ramifications on two of their current redevelopment and road projects. During the audit process, information was obtained that allowed for the full and proper accounting treatment and disclosure of the project costs and of the conveyance of land to a developer. These discrepancies are indicative of a significant deficiency in the internal control system over financial statement presentation and disclosure.

We further noted that certain transactions relating to accounts payable, and accounts receivable were either incorrectly categorized or not properly recorded by management prior to the audit process. The need for correcting entries made during the audit process is also indicative of significant deficiencies within the internal control system over transaction completeness and classification.

*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:* Corrective entries made during the audit process indicate that interim financial information may not be complete, accurate or timely.

*Cause of Condition:* The current internal controls over financial reporting do not effectively capture all of the transactions entered into by the City.

*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 technical assistance, training, and or staff required to mitigate or eliminate those risks.

**CITY OF HOLLADAY, UTAH**  
**Schedule of Findings and Questioned Costs - continued**  
**June 30, 2012**

*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.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

No findings or questioned costs related to federal awards that are required to be reported under OMB Circular A-133 were noted during the audit.

**CITY OF HOLLADAY, UTAH**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2012**

The City has no prior findings on which to report status.