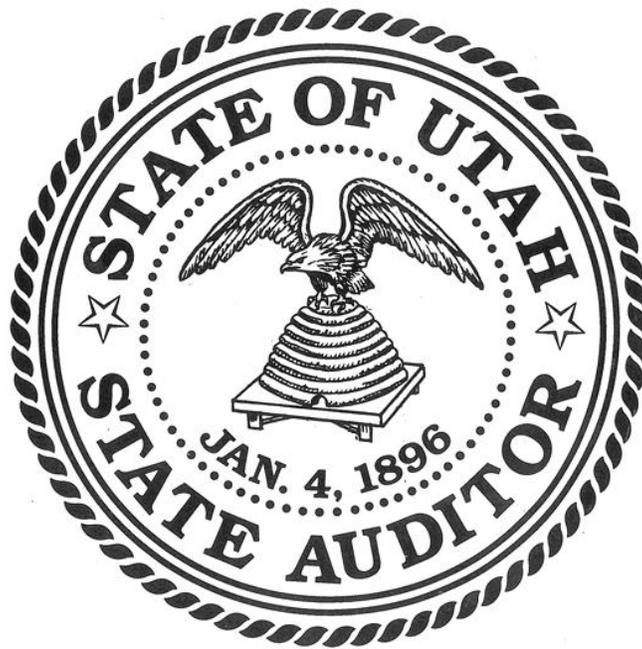


KAYSVILLE CITY

Findings and Recommendations
September 25, 2013

Report No. 12-KAYS-8L



OFFICE OF THE
UTAH STATE AUDITOR



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UTAH STATE AUDITOR

September 25, 2013

Mayor Steve Hiatt and Kaysville City Council
23 East Center
Kaysville, UT 84037

Dear Mayor Hiatt and City Council:

The Office of the Utah State Auditor has investigated multiple allegations related to Kaysville City (the City). We performed this investigation as a result of concerns reported to us through our Hotline. A number of the allegations were unsubstantiated; however, some resulted in identified areas which require correction or improvement, and are included in our findings and recommendations below:

1. ELECTRICAL FUNDS USED TO PURCHASE PROPERTY FOR ECONOMIC DEVELOPMENT

The City used money from their electrical enterprise fund to purchase property for economic development purposes. Electrical enterprise fund revenues are generated from fees charged to rate payers for electrical service, while economic development is an activity unrelated to the purpose for which the fees were assessed. Fees charged for a specific purpose represent an implied agreement with the rate payers and should be used only for activities related to the specific purpose. If an activity does not directly relate to the business of the underlying enterprise fund, then it should be considered a de facto transfer. It does not appear it was the City's intent to mislead citizens; however, best practices dictate that rate payers should be notified prior to the disbursement of any funds for an unrelated activity.

Recommendation:

We recommend that fees charged by the electrical enterprise fund be used only for that purpose unless rate payers are properly notified prior to the commencement of any unrelated activity.

City's Response:

The City used money from the Electric Utility Enterprise Fund to purchase property for the orderly development of commercial properties in the City. Utah Code 10-8-1 and 10-8-2 grants us considerable control over property in our City.

We recognize the position of the State Auditor's Office recommendation of "best practice" calls for additional disclosure where fees charged for a specific purpose may be used for a perceived unrelated purpose. We agree that a "best practice" calls for notification to

ratepayers prior to the disbursement of any funds. In fact, we agree to work with the Legislature to codify the "best practice" recommendation for all cities.

The economic benefit associated with the property transactions has allowed the City to balance costs and benefits and manage the City well. The position of the City has been that there was not a transfer to another fund. All property purchased remained on the financial statement as an asset of the Electric Utility Enterprise Fund. When the property was sold, the proceeds stayed inside the Fund and there was no transfer of land or sale proceeds out of the Fund or to any other fund.

2. CITY DEPARTMENTS NOT CHARGED FOR UTILITY SERVICES

The City does not charge City departments for electricity and other utility services used. Not charging a City department for utilities used is in substance a non-cash transfer to another fund without following the notice and hearing requirements found in *Utah Code* 10-6-135. *Utah Code* sections 10-6-107 and 10-6-156 direct the Office of the Utah State Auditor to analyze and evaluate accounting, budgeting, and reporting practices and experiences of cities and prescribe a uniform system of accounting that conforms to generally accepted accounting principles (GAAP). To comply with the direction noted in these statutes, the Office of the Utah State Auditor has prepared the *Uniform Accounting Manual (UAM)*. *UAM*, 2012 revision, Section A.03.01 states that "City departments should pay for utility services at the same rate charged to other customers of the utility." This guidance in the *UAM* is designed to conform with GAAP and assist cities in complying with *Utah Code* 10-6-135.

Recommendation:

We recommend that the City meter and bill City departments for utility services at the same rate charged other customers of the utility. We also recommend that the City review previous years' City department utility usage and reimburse the utility funds for services used.

City's Response:

City utility enterprise funds have provided utility services to City buildings and facilities as part of the overall operations of the City. Your letter indicates that not charging a City department for utilities used is in substance a non-cash transfer. Furthermore, your letter recommends that the City meter and bill City departments for utility services and review the previous year's utility usage and reimburse the utility funds for services used.

*During the current budget year we agree to establish a practical method to record all inter-fund transactions and agree to follow the recommendation to charge City departments for utility services or follow the notice and hearing requirements found in *Utah Code* 10-6-135. It is not feasible to go back and calculate the usage for previous years and reimburse the enterprise funds.*

3. CITY DEPARTMENTS EXCEEDED BUDGET

Certain City departments have exceeded their budget for seven of the last eight years. We noted that actual expenditures were in excess of the total appropriation within departments and not for the General Fund in total. *Utah Code 10-6-123* requires that expenditures not exceed total appropriations for any department in the budget as adopted or as subsequently amended.

Recommendation:

We recommend the City take additional steps, as necessary, to ensure compliance with *Utah Code 10-6-123*.

City's Response:

It was noted in your letter that certain City Department expenditures were in excess of the appropriation for that department in various years. While the City has always operated within the total General Fund budget, we accept the recommendation and will take necessary steps to ensure department expenses do not exceed their annual allocation.

4. INCONSISTENT BID SOLICITATION

The City did not use uniform and consistent information when soliciting bids for the purchase of computer equipment. Uniform and consistent purchase solicitations give all potential bidders an equal opportunity to respond and give the City a basis to fairly and accurately evaluate the bids.

Recommendation:

We recommend the City ensure all purchase solicitations are uniform and consistent.

City's Response:

*Your letter indicates that the City did not use uniform and consistent information when soliciting bids for the purchase of computer equipment. While the City believes this was an isolated occurrence, we accept the recommendation to ensure that all potential bidders are given fair and equal opportunity to respond and give the City a basis to fairly and accurately evaluate bids as prescribed in *City Purchasing Procedures*.*

5. UNCLEAR PURCHASING POLICY

The City's written purchasing policies and procedures are unclear and contradictory in some places. We noted, however, that the City's "purchasing flowchart" is clear and concise.

Recommendation:

We recommend the City clarify its written policies and procedures to mirror the information included in the City's "purchasing flowchart."

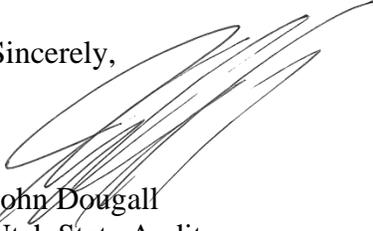
City's Response:

While the City "purchasing flowchart" is clear and concise, your letter stated that the City's written purchasing policies and procedures may be unclear and contradictory in some cases. The City accepts your recommendation and will take appropriate action to have the written policies and procedures correspond with the "purchasing flowchart".

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the City's internal control or any part thereof. Accordingly, we do not express such opinions. Had we performed additional procedures or had we made an audit of the effectiveness of the City's internal control, other matters might have come to our attention that would have been reported to you.

By its nature, this letter focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the City, and we look forward to a continuing professional relationship. Please contact me if you have any questions.

Sincerely,



John Dougall
Utah State Auditor

cc: Dean G. Storey, Finance Manager
John Thacker, City Manager