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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

City Council  
City of Cedar Hills

We have performed the procedures enumerated below, which were agreed to by the City Council of the City of Cedar Hills, solely to assist you with respect to the accounting and financial records of the City of Cedar Hills (City) for the fiscal years ended June 30, 2010 and 2011, and for the period from July 1, 2011 through May 21, 2012.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and any exceptions are as follows:

1. The mayor of the City of Cedar Hills has a credit card issued by a financial institution and held in the name of the City. We verified the status of the credit card with the financial institution. The mayor's credit card was issued on March 8, 2012, and was activated on March 15, 2012.

We obtained a statement of all charges made on the card from the date the card was activated (March 15, 2012) through May 21, 2012, and matched the charges to supporting documentation. There were a total of two charges made on the card, each under \$32.

There were no instances of noncompliance with the City's documented policies and procedures regarding the use of credit cards as a result of applying these procedures.

2. We verified all depository accounts with financial institutions held in the name of the City. We verified the signatory authority for each account. We compared the account numbers provided by financial institutions to accounts on the City's accounting records. We verified that the mayor is not an authorized signatory on any of the City's depository accounts.

We noted that City personnel removed signatory authority with financial institutions for two terminated employees in May 2012.

We tested on-line bank transfers for eight months during the period from July 1, 2009 through May 21, 2012. We obtained all bank or depository statements issued by the financial institutions for the months tested. We matched transfer outflows to transfer inflows for each transfer.

We noted the following exception:

- We noted one transfer of \$32,607.30 from the City's "general" Public Treasurers Investment Fund (PTIF) on June 30, 2010, did not reach the intended account, which was the Cottonwood Well Capital Facility Replacement Fund (#5291-XXXXX). Upon further investigation, we found that the funds had been transferred to the Cottonwood Improvement District's account (#XXX-5291). We verified that the funds were subsequently returned to the City on July 1, 2010.

No other exceptions were noted as a result of our procedures.

3. We obtained the City's procurement policies and related internal control documentation. We selected a sample of 450 disbursements from July 1, 2009 through May 21, 2012. For each disbursement:
  - a. We obtained supporting documentation and compared the supporting documentation to the City's procurement policies. We verified the following for each disbursement tested:
    - 1) The disbursement was compliant with the City's documented procurement policies, including obtaining telephone bids and written bids, or whether the purchase was done on a state contract or with a sole source provider.
    - 2) The disbursement was supported with appropriate documentation, including receipts, purchase orders, invoices, etc.
  - b. We inspected the cancelled check copies for each disbursement and verified that each check included the required two signatures by authorized signatories and we vouched the payee and amount to the City's check disbursement register.

We noted the following exceptions as a result of our procedures:

- Two check disbursements tested (July 2011 and February 2010) had only one signature. The check numbers, vendor and amounts follow:

<b>Check Number</b>	<b>Vendor</b>	<b>Amount</b>
32066	Black Clover	\$49.25
29192	Tanner Lacey	\$40.00

- One check disbursement tested (September 2009) had no signatures.

<b>Check Number</b>	<b>Vendor</b>	<b>Amount</b>
28406	Home Depot	\$523.61

We noted that this disbursement was related to a Home Depot credit card account held in the name of the City. We learned that Home Depot credit card payments are typically made via an electronic funds transfer (EFT) and not by check. The City's accounting information system automatically produces a check, even though an EFT will be generated; the check is subsequently voided after the EFT is processed. However, in this specific instance, the unsigned check was mailed to the vendor, and the vendor presented the unsigned check to the bank and the bank honored the check.

- One check disbursement tested did not have a purchase order which is required by the City's procurement policies. Supporting documentation included a contract, which was signed by the former City Manager and attested by the City's former Deputy Recorder. This contract obligated the City to compensate the individual performing the service, or risk breach of contract. Upon completion of a portion of the contracted services, the City issued a check to the individual. Upon further investigation, we noted that the individual performing service under the contract was a relative of the City Manager, and that other City personnel would not sign the purchase order based on their understanding there was a potential conflict of interest.

We noted no additional matters as a result of our procedures.

4. We obtained and reviewed the minutes from the City Council meeting held on December 15, 2010, which documented the City Council's approval of the use of accrued recreation impact fees to construct a Community Recreation Center (CoRC).

We verified that the PTIF (depository) account holding the unspent accrued recreation impact fees is included in the Capital Projects Fund (a Governmental Fund).

We obtained the general ledger detail from the Capital Projects Fund and matched each entry to an invoice noting that the cost was related to the construction of the CoRC. The total of the costs expended for the CoRC as of June 30, 2011, totaled \$371,726.

We further noted that the CoRC costs accumulated in the Capital Projects Fund were transferred to the City's Golf Course Fund (a Proprietary Fund) as of June 30, 2011. The amount of the construction in progress transfer was \$371,726, and matched the amount expended on the construction of the CoRC from the Capital Projects Fund through June 30, 2011.

Because of the basic difference in accounting for governmental funds (modified accrual basis – expenditures on capital assets are not capitalized) and accounting for proprietary funds (full accrual basis – expenditures on capital assets are capitalized), the transfer of the construction in progress costs to the City's Proprietary Fund (Golf Course Fund) was necessary in order for the costs to be capitalized in the City's Proprietary Fund for the fiscal year ended June 30, 2011. The accounting for the construction in progress transfer from the Capital Projects Fund to the City's Proprietary Fund (Golf Course Fund) is compliant with applicable accounting standards.

We noted no exceptions as a result of our procedures.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City Council of the City of Cedar Hills and is not intended to be and should not be used by anyone other than those specified parties.



June 18, 2012