

The Lindon City Council held a special meeting beginning at 6:00 p.m. on **Tuesday, February 25, 2014** in the Lindon City Center, City Council Chambers, 100 North State Street, Lindon, Utah.

REGULAR SESSION – 7:00 P.M.

Conducting: Jeff Acerson, Mayor

PRESENT

Jeff Acerson, Mayor

Matt Bean, Councilmember

Randi Powell, Councilmember

Van Broderick, Councilmember

Jacob Hoyt, Councilmember

Carolyn Lundberg, Councilmember

Adam Cowie, City Administrator

Kathryn Moosman, City Recorder

ABSENT

1. **Call to Order/Roll Call** – The meeting was called to order at 7:05 p.m.

2. **Presentations/Announcements** –

a) **Oath of Office Ceremony** – The newly appointed Councilmember, Carolyn Lundberg, was sworn into office by Mayor Jeff Acerson to fill the remainder of the vacant Council term which will end in January 2016. Mayor Acerson and the Council welcomed Councilmember Lundberg and expressed their congratulations to her and their appreciation for her willingness to serve the citizens of Lindon.

b) **Mayor/Council Comments** – There were no comments at this meeting.

3. **Open Session for Public Comment** – Mayor Acerson called for any public comment not listed as an agenda item. There were no public comments.

CURRENT BUSINESS

4. **Action Item – Planning Commissioner Appointment**. The Council will consider the recommendation of Mayor Acerson to appoint Robert (Bob) Wily to the Lindon City Planning Commission. If appointed, it is anticipated that Mr. Wily will serve a full term on the Commission ending in February 2017.

Adam Cowie, City Administrator, gave a brief summary of this agenda item explaining that Bob Wily was an applicant for the previous vacant Council seat. Mr. Cowie noted that the day after the Council member appointment meeting, Mr. Wily contacted the City with an interest to volunteer in other capacities in the City. Mr. Cowie further explained that Mayor Acerson and Councilmember Bean have spoken with Mr. Wily and they have indicated that he is able and eager to begin serving as a Planning

Commissioner. Mr. Cowie stated that staff appreciates Mr. Wily's willingness to serve
2 the City and noted that he has been contacted regarding his potential duties. Mr. Cowie
4 then referenced Mr. Wily's letter of appointment that will be signed by the Mayor if
appointed by the Council tonight.

5 Mayor Acerson called for any further discussion or comments. Hearing none he
6 called for a motion.

8 COUNCILMEMBER POWELL MOVED TO APPROVE MAYOR
10 ACERSON'S RECOMMENDATION TO APPOINT ROBERT M. WILY TO THE
12 LINDON CITY PLANNING COMMISSION TO SERVE A THREE-YEAR TERM
14 ENDING ON THE LAST DAY OF FEBRUARY 2017, OR UNTIL HIS SUCCESSOR
16 HAS BEEN APPOINTED. COUNCILMEMBER BRODERICK SECONDED THE
18 MOTION. THE VOTE WAS RECORDED AS FOLLOWS:

20 COUNCILMEMBER POWELL AYE
22 COUNCILMEMBER BEAN AYE
24 COUNCILMEMBER BRODERICK AYE
18 COUNCILMEMBER LUNDBERG AYE
14 COUNCILMEMBER HOYT AYE
THE MOTION CARRIED UNANIMOUSLY.

5. **Action Item** – *Financial Audit Report for Fiscal Year 2012-2013.* Representatives
from Keddington & Christensen, LLP and Lindon City Finance Director, Kristen
Colson will present for the Mayor and Council's acceptance, the city's annual
financial audit report for fiscal year ending June 30, 2013.

26 Adam Cowie, City Administrator, gave a brief summary of this agenda item. He
explained that the audit was performed by an independent auditing firm. Keddington &
28 Christensen, LLP (K&C) who was hired by the City last year to perform the audit for the
2012-13 fiscal year ending June 30, 2013. Mr. Cowie noted that over the last several
30 months their firm has been reviewing the City's financial records, policies, and
procedures. Mr. Cowie stated that they have now completed the audit including their
32 findings and recommendations.

34 Mr. Cowie noted that Staff recommends that the City Council accept the Fiscal
Year 2012-13 audit as presented. He directed the Council to reference the 2013 Annual
Financial Statements and 2013 Supplementary Report (included in council packets). Mr.
36 Cowie noted that representatives from Keddington & Christensen, Brent Christensen and
Angie Broadhead are in attendance along with Kristen Colson, the Lindon City Finance
38 Director to present the report and to answer any questions the Council may have.

40 Mr. Christensen opened the discussion by stating that part of their jobs, as
auditors, is to talk to and educate the Council, as the auditors hired by the City Council,
42 who is the governance of the City, and who has the responsibility for the financial report
that is going out to the citizens is good and correct. He noted that Lindon has good
44 internal controls and with some fine tuning is a very functional city. We have audited the
accompanying financial statements of the governmental activities, the business-type
activities, each major fund, and the aggregate remaining fund information of Lindon City
46 Corporation as of and for the year ended June 30, 2013, and the related notes to the

financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Mr. Christensen stated that nothing tonight will come as a shock to the Council, and noted if they had found anything wrong they would have let the Council know by now. Mr. Christensen commented that they take management integrity very seriously and they look at all of the controls going in and going out of the city and they also look at the money moving around the city. Mr. Christensen commented that they do take fraud very seriously. He mentioned that they also audit for Utopia and UIA, which is controversial but very transparent, and they recently completed a thorough audit of Utopia and have not found, in the last few years, any issues or major problems and they feel that Utopia is on board.

Mr. Christensen stated that the audit took a little longer than anticipated but there were some valid reasons. He added that he doesn't feel there will be any problems next year with the timing. They felt that everything went smoothly and management was straightforward with their information and were not hiding anything and handled everything with integrity. They tested the City's internal controls to understand what is happening and make sure the city is not at risk in any area. And to also to design how many procedures are in place. For the most part, they feel that Lindon has good internal controls and anything mentioned will just be "fine tuning" of a very functioning organization. Mr. Christensen stated that they design their auditing procedures to a point that they can give an opinion that overall the city financial statements can be relied upon. Our responsibility is to express opinions on these financial statements based on our audit.

Mr. Christensen re-iterated that if they had found anything wrong the Council would have been notified already. He noted that there were not any disagreements with management and gave the information requested in a timely manner. Management is responsible for the preparation and fair presentation of these financial statements. Mr. Christensen stated that their audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lindon City Corporation's financial statements as a whole. Mr. Christensen then referenced their opinion as follows:

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of Lindon City Corporation as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Major Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ms. Broadhead addressed the Council at this time. She noted they have audited Lindon City with the general and major state program compliance requirements for the year ending June 30, 2013. Ms. Broadhead stated that their responsibility, as auditors, is to express an opinion on the City's compliance based on their audit. She noted this audit was conducted in accordance with applicable financial auditing standards. Those standards require that they perform the audit in order to obtain reasonable assurance

about whether noncompliance with the compliance requirements could have a material
2 effect on the major assistance programs or general compliance requirements. An audit
4 includes examining evidence about the City's compliance with these requirements and
6 performing such other procedures as considered necessary in the circumstances. Ms.
8 Broadhead stated that they believe their audit provides a reasonable basis for their
10 opinion, however, their audit does not provide a legal determination of the City's
12 compliance with those requirements.

Ms. Broadhead then presented the findings and audit opinion as follows:

Opinion

In our opinion, the City complied, in all material respects, with the general compliance
12 requirements for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those
16 requirements, which are required to be reported in accordance with the *State of Utah*
18 *Legal Compliance Audit Guide* and which are described in the accompany *Schedule of*
20 *Findings and Recommendations* as items 3, 4, and 5.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal
22 control over compliance with the compliance requirements referred to above. In planning
24 and performing our audit, we considered the City's internal control over compliance to
determine the auditing procedures for the purpose of expressing our opinion on
26 compliance, but not for the purpose of expressing an opinion on the effectiveness of the
City's internal control over compliance. A *deficiency in internal control over compliance*
28 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
30 detect and correct, noncompliance on a timely basis. A *material weakness in internal*
control over compliance is a deficiency, or combination of deficiencies, in internal
32 control over compliance, such that there is a reasonable possibility that material
noncompliance with a compliance requirement will not be prevented, or detected and
34 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
36 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
38 paragraph of this section and was not designed to identify all deficiencies in internal
control that might be deficiencies, significant deficiencies, or material weaknesses in
40 internal control over compliance. We did not identify any deficiencies in internal control
over compliance that we consider to be material weaknesses, as defined above. However,
42 material weaknesses may exist that have not been identified. We did identify a certain
44 deficiency in internal control, described in the accompanying *Schedule of Findings and*
Recommendations as finding 3 that we considered to be a significant deficiency.

City's Response to Findings

The City's response to the findings identified in our audit is described in the
2 accompanying *Schedule of Responses to Auditor's Findings*. The City's response was not
3 subjected to the auditing procedures applied in the audit of the financial statements, and,
4 accordingly, we express no opinion on it.

6 **Purpose of Report**

This report is intended solely to describe the scope of our testing of internal control and
8 compliance and the results of that testing, and not to provide an opinion on the
effectiveness of the City's intern

10 Ms. Broadhead then gave the Financial Audit and Government Auditing Standards
12 Findings as follows:

14 **1. Misstatements in the Financial Statements (Material Weakness)**

16 **Finding**

18 During our audit, we noted misstatements in the financial statements that were not
20 prevented or detected and corrected by the City's internal control. Among these
misstatements were errors affecting prior periods resulting in adjustments to general fund
balance and governmental activities net position of \$394,586 and \$560,336, respectively.
22 During the audit, we proposed the following adjustments that were material to the
financial statements as follows:

- a) Revenues relating to the year under audit that had not been received as of year-end
had not been recognized in the financial statements as revenues and receivables.
Adjustments included state B&C roads funds of \$77,120, Franchise taxes of \$8,658,
and other miscellaneous taxes for \$24,255. This adjustment also resulted in sales tax
revenue, B&C roads funds, and other tax revenues that were recognized during the
fiscal year that belonged in the prior fiscal year, resulting in a prior period adjustment
to the General Fund's fund balance and governmental activities' net position of
\$394,586.
- b) Property tax levies were not recorded as accounts receivable and deferred revenue in
accordance with GASB 33 *Accounting and Financial Reporting for Non-exchange
Transactions*. Adjustments were made to the General Fund and the Redevelopment
Agency Fund for \$1,615,407 and \$1,070,000, respectively.
- c) A grant received by the City and subsequently disbursed to Orem City for the Lindon
Hollow Creek Realignment Project had not been properly accounted for. The
disbursement was fully capitalized as an asset when \$267,703 of the disbursement
should have been recorded as an expenditure for the City, in order to properly account
for the grant.
- d) Invoices relating to the fiscal year under audit had not been accrued as payable and
expense in the amount of \$138,661.
- e) Compensated absence accruals previously included all accrued employee sick leave.
Adjustments to correct compensated absence accruals to reflect the balance that
should be accrued in accordance with governmental accounting standards totaled
\$165,750, which was also a prior period adjustment to the governmental activities'
net position.

- 2 f) Notes payable to Utah Infrastructure Agency and the corresponding notes receivable
from the City's residents for financing of hookup costs to the fiber optic network
4 were not recorded in the Telecommunications fund in the amount of \$406,063 as of
the end of the fiscal year. The amount not reported as notes payable and notes
receiveable in the prior fiscal year totaled \$277,200.
- 6 g) Capital outlays for police vehicles of \$428,029 and the Lindon View Park property
8 purchase of \$100,000, as well as the related financing in the same amounts, were not
recorded as the full expenditure and other financing source in the governmental fund
10 financial statements. Because the budgets were not prepared in accordance with
generally accepted accounting principles, these adjustments caused fund expenditures
12 to be over budget for both the General Fund and the Capital Projects Fund.
- 14 h) An escrow account held by Orem City with funds contributed by Lindon City in fiscal
year 2011 of \$540,375 was still being reported on the financial statements as the
City's cash. The money held in escrow had been spent by Orem City in fiscal year
16 2012 and should have been reported as construction in progress in that year.

18 **Recommendation**

20 We recommend that the City implement internal control procedures to prevent or detect
material misstatements.

22 **2. Signed Checks Returned To Check Preparer (Significant Deficiency)**

24 **Finding**

26 During our audit, we noted that the accounts payable clerk prepares the checks and mails
them once they have been signed. This employee has custody of assets (checks) and
recording responsibilities. This provides the opportunity for the employee to reroute
checks from the City for personal benefit and subsequently adjust accounts payable to
28 hide the theft.

30 **Recommendation**

32 We recommend that the City arrange to have a person separate from the accounts payable
process be responsible for mailing the checks once they have been signed.

34 There was then some general discussion regarding the audit findings.
36 Councilmember Hoyt inquired when the audit is due and how does Lindon City compare
to other cities. Mr. Christensen stated that the audit is due December 31st and there can
38 be penalties imposed if late. He stated that they find errors 95% of the time in most cities
because they spend so much time on the audit and have the experience to detect the
errors.

40 Councilmember Bean asked about the finding related to the police vehicles and did
42 the lease rules change recently. Mr. Christensen explained that it is a Capital lease and it
was not set up properly. Councilmember Bean also asked about an interlocal agreement
44 and to make sure we are tracking it. Mr. Christensen stated that the payments are made
to them, as a loan to them, and then the State Auditors allow the cities to write it off and
it is being tracked.

Mr. Cowie expressed his appreciation to the auditors and Ms. Colson for their hard work and for the valuable information presented. Mayor Acerson called for any further discussion or comments. Hearing none he called for a motion.

COUNCILMEMBER HOYT MOVED TO ACCEPT THE AUDIT REPORT AS PRESENTED FOR FISCAL YEAR ENDING JUNE 30, 2013. COUNCILMEMBER BRODERICK SECONDED THE MOTION. THE VOTE WAS RECORDED AS FOLLOWS:

COUNCILMEMBER POWELL	AYE
COUNCILMEMBER BEAN	AYE
COUNCILMEMBER BRODERICK	AYE
COUNCILMEMBER HOYT	AYE
COUNCILMEMBER LUNDBERG	AYE
THE MOTION CARRIED UNANIMOUSLY.	

Mayor Acerson called for any further comments or discussion from the Council. Hearing none he called for a motion to adjourn.

Adjourn –

COUNCILMEMBER POWELL MOVED TO ADJOURN THE MEETING AT 6:45 P.M. COUNCILMEMBER LUNDBERG SECONDED THE MOTION. ALL PRESENT VOTED IN FAVOR. THE MOTION CARRIED.

Approved – March 18, 2014

Kathryn Moosman, City Recorder

Jeff Acerson, Mayor