

**CITY OF OREM, UTAH
SUPPLEMENTARY REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**



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CITY OF OREM, UTAH
SUPPLEMENTARY REPORTS
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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*

Honorable Mayor and Members of the City Council
City of Orem
Orem, Utah

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, each major fund, and the aggregate remaining fund information of the City of Orem (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Orem'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 which 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 the City's financial statements are free of material misstatements, 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Gilbert & Stewart

GILBERT & STEWART, CPA PC
November 30, 2017



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of the City Council

City of Orem
Orem, Utah

Report on Compliance for Each Major Federal Program

We have audited the City of Orem's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of 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 audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Orem complied, in all material respects, with the types of compliance 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, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of federal program 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 30, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

Gilbert & Stewart

GILBERT & STEWART, CPA PC
November 30, 2017

City of Orem
Supplementary Schedule of Expenditures of Federal Awards
For Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor's Number	Federal Expenditures	Expenditures to Subrecipients
Department of Commerce				
Economic Development Cluster				
Direct Program:				
Economic Adjustment Assistance ³	11.307	05-39-02234	\$ 233,161	\$ -
Total Economic Development Cluster			233,161	-
Total Department of Commerce			233,161	-
Department of Housing and Urban Development				
CDBG Entitlement Grant Cluster				
Direct Program:				
Community Development Block Grant	14.218	B-16-MC-49-0002	512,603	140,129
Total Entitlement Grant Cluster			512,603	140,129
Total Department of Housing and Urban Development			512,603	140,129
National Endowment for the Arts & Humanities				
Passed through Department of Heritage and Arts:				
Local Arts Agency Grant	45.025	170082	2,625	-
Total National Endowment for the Arts & Humanities			2,625	-
Department of Homeland Security				
Passed through Department of Public Safety Division of				
Emergency Services and Homeland Security:				
Emergency Management Performance Grant (EMPG)	97.042	EMPG PROJECT-2015-DEM-014	2,910	-
Emergency Management Performance Grant (EMPG)	97.042	EMPG-2016-DEM-047	8,250	-
Emergency Management Performance Grant (EMPG)	97.042	EMPG-2017-DEM-046	8,250	-
Total Department of Homeland Security			19,410	-
Department of Justice				
Passed through Commission on Criminal and Juvenile Justice:				
Violence against Women Act Grant (VAWA)	16.588	17-VAWA-13	11,400	-
Victims of Crime Act Grant (VOCA)	16.575	16-VOCA-41	56,465	-
Bulletproof Vest Partnership Program Grant	16.607	6B06	413	-
Justice Assistance Grant (JAG)	16.738	16A198	5,688	-
Total Department of Justice			73,966	-
Department of Transportation				
Highway Safety Cluster				
Passed through Utah Department of Public Safety:				
State and Community Highway Safety Grant	20.600	DD170805	9,088	-
Total Highway Safety Cluster			9,088	-
Total Department of Transportation			9,088	-
Executive Office of the President				
Direct Program:				
High Intensity Drug Trafficking Areas (HIDTA) Program	95.001	G-16-RM0030A	40,980	-
High Intensity Drug Trafficking Areas (HIDTA) Program	95.001	G-17-RM0030A	136,257	-
Total Executive Office of the President			177,237	-
Total Federal Financial Assistance			\$ 1,028,090	\$ 140,129

See notes to the Supplementary Schedule of Expenditures of Federal Awards.

CITY OF OREM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Orem under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)*, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of activities related to the City expenditure of Federal awards. The schedule has been prepared on the same basis of accounting as the financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City of Orem does not use the 10% de minimis cost rate as allowed under Uniform Guidance

NOTE C - ACCOUNTS RECEIVABLE

The financial statements include accounts receivable from Federal programs. These receivables are recorded according to the same basis of accounting as the financial statements. The receivables reflect Federal awards that have been expended by yearend and not yet reimbursed.

NOTE D

The Economic Adjustment Assistance amount reported as expenditures in the *Schedule of Expenditures of Federal Awards* is defined by the *Compliance Supplement* as follows, and is required to be reported in the aforementioned schedule:

Economic Adjustment Assistance Revolving Loan Funds CFDA 11.307
as of and for the Fiscal Year Ended June 30, 2017

Balance of Revolving Loan Funds (RLF) outstanding:	\$ 307,263
Cash and investment balance in the RLF	75,037
Administrative expenses paid out of RLF income during the fiscal year	5,000
Unpaid principal of all loans written off during the fiscal year	<u>1,302</u>
Total EDA RLF	\$ 388,602
Federal share of RLF	<u>60%</u>
Federal expenditures of the Economic Adjustment RLF	<u>\$ 233,161</u>

The above calculated federal expenditure is not deemed to be a major federal program as the amount does not represent actual expenditures of the Revolving Loan Funds by the City. Actual Expenditures of the City in relation to the RLF were \$5,000 during the year, which were less than the major federal program threshold.

NOTE E

Community Development Block Grant Funds have been used to setup revolving loan funds to assist eligible individuals and businesses. The outstanding loan balances at year end are:

Individual Loans	\$ 182,290
Business Loans	226,906

CITY OF OREM, UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the basic financial statements.
2. No instances of noncompliance material to the basic financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. No significant deficiencies in internal control over the major federal award programs were reported in this schedule.
4. The auditor's report on compliance for the major federal award program for the City of Orem expressed an unmodified opinion on the major federal program.
5. There are no audit findings that are required to be reported in accordance with 2CFR Section 200.516(a).
6. The following program was tested as a major program: Community Development Block Grant, CFDA# 14.218.
7. The threshold for distinguishing Types A and B programs was \$750,000.
8. The City of Orem qualified as a low-risk auditee.

FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS—PRIOR YEAR AUDIT

None



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
AS REQUIRED BY THE *STATE COMPLIANCE AUDIT GUIDE***

Honorable Mayor and Members of the City Council
Orem City, Utah

***Report On Compliance with General State Compliance
Requirements***

We have audited Orem City's ("the City") 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, 2017.

General state compliance requirements were tested for the year ended June 30, 2017 in the following areas:

Budgetary Compliance
Fund Balance
Utah Retirement Systems
Justice Court
Restricted Taxes and Related Revenues
Open and Public Meetings Act
Treasurer's Bond
Enterprise Fund Transfer
Tax Levy Revenue Recognition

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 that 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 of the City's compliance.

Opinion on General State Compliance Requirements

In our opinion, Orem City, complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the State Audit Guide and which are described in the accompanying Schedule of State Compliance Findings and Recommendations as item 2017-1. Our opinion on compliance was not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of State Compliance Findings and Recommendations. 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 Financial Reporting

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.

We noted matters involving internal control over compliance which we are submitting for your consideration. These matters are described in the accompanying Schedule of State Compliance Findings and Recommendations as item 2017-1.

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.

Gilbert & Stewart

November 30, 2017

CITY OF OREM, UTAH
SCHEDULE OF STATE COMPLIANCE FINDINGS AND RECOMENDATIONS
JUNE 30, 2017

STATE COMPLIANCE FINDING – CURRENT YEAR

2017-1. FUND BALANCE REQUIREMENTS

Finding:

Utah State Code Section 10-6-116 (2) states that the committed, assigned and unassigned fund balance of the general fund not exceed 25% of the total revenue of the general fund for the fiscal year under audit. During our testing we noted that the City's committed, assigned and unassigned fund balance in the general fund exceeded the 25% limit.

Recommendation:

We recommend that the City review the fund balances and current year revenues, and make necessary budget adjustments to be in compliance with the State compliance requirement.

City's Response:

The City is aware of exceeding the 25% limit and has plans to appropriate the necessary amount of fund balance through a budget amendment which is to take place in February 2018.

STATE COMPLIANCE FINDING – PRIOR YEAR

2016-1. FUND BALANCE REQUIREMENTS

Finding:

Utah State Code Section 10-6-116 (2) states that the committed, assigned and unassigned fund balance of the general fund not exceed 25% of the total revenue of the general fund for the fiscal year under audit. During our testing we noted that the City's committed, assigned and unassigned fund balance in the general fund exceeded the 25% limit.

Recommendation:

We recommend that the City review the fund balances and current year revenues, and make necessary budget adjustments to be in compliance with the State compliance requirement.

City's Response:

See response in current year finding 2017-1.

2016-2. TREASURER'S BOND

Finding:

Utah Administrative Code R628-4-4 states that the Treasurer should be properly bonded. The basis used is all budgeted revenue for the previous year. During our testing we noted that the Treasurer was not bonded for the correct amount.

Recommendation:

We recommend that annually the City review the total budgeted revenue for the previous year and determine if the Treasurer is bonded for the correct amount.

City's Response:

The City has taken the necessary changes to ensure the Treasurer is bonded for the correct amount.

