

**NORTH OGDEN CITY
AUDIT COMMITTEE
MEETING MINUTES**

April 15, 2021

The North Ogden City Audit Committee convened in a regular meeting on April 15, 2021 at 6:32 p.m. Notice of time, place, and agenda of the meeting was posted on the bulletin board at the municipal office and posted to the Utah State Website on April 13, 2021. Notice of the annual meeting schedule was published in the Standard-Examiner on December 12, 2021.

Committee:

Phil Swanson	Committee Chairman
S. Neal Berube	Committee Member
Charlotte Ekstrom	Committee Member
Thayne Shaffer	Committee Member
Randy Winn	Committee Member
Katie Gerard	Committee Member

Staff:

Jon Call	City Manager/Attorney
Evan Nelson	Finance Director
Jami Jones	HR/Treasurer

Visitors:

Dallin Barker
Stefanie Casey
Kevin Burns

Committee Chairman Phil Swanson called the meeting to order. Council Member Charlotte Ekstrom offered the invocation and led the audience in the Pledge of Allegiance. The Committee Members and City Staff briefly introduced themselves.

Consent Agenda

1. **Discussion and/or action to consider December 7, 2020 Audit Committee meeting minutes.**

Committee member Shaffer motioned to approve the December 7, 2020 Audit Committee meeting minutes. Mayor Berube seconded this motion. The motion passed unanimously.

Active Agenda

2. **Public comments**

There were none.

3. **Discussion and/or action of the Fiscal Year 2020 Audited Financial Statements**

Finance Director Evan Nelson referenced the copies of the Financial Report that had been distributed to the Council Members, as well as posted online. He explained that he would overview the findings of the auditors, as well as give the auditors themselves the chance to speak on their findings and recommendations. He highlighted page three of the report, which stated that by the end of the fiscal year 2020, their net position was \$91 Million, which was an increase of about \$6.8 Million. He stated that the City's sales tax revenue bond had an outstanding amount of \$1.2 Million, and the City might pay the sales tax bond off in full that year as they had the money to do so, and that they thought it might be good to do as the City might issue more bonds for the public safety building.

Finance Director Evan Nelson said there had been changes to their accounting methods, specifically in the way that they reported that they had property tax revenue, as well as the reporting of road maintenance projects.

Finance Director Evan Nelson briefly touched on the next several pages of the document, and highlighted page six. He said that the City had \$3.4 Million in restricted impact fees, with \$1.6 Million that was specifically restricted for redevelopment projects. He then discussed page eleven, which showed that the City had five significant commitments at the end of 2020. Those had been to UDOT, the purchase of a Wells Fargo building, a

sewer realignment project, the disposition of three garbage trucks purchased by the City, and a community park and pond project.

Finance Director Evan Nelson said that the actual expenditures of the past fiscal year had been about \$1.4 Million less than what had been accounted for in the budget, which he noted was a positive thing. He asked if there were any questions, or things that the Committee Members wanted to note.

Committee Chairman Phil Swanson asked for clarity as to what was meant by “prior period adjustment.” He summarized that the overall financial position of the City was good, and thought they could do even better as they addressed their significant commitments.

Committee Member Randy Winn commented on page 24, which stated that they had taken a \$154,000 loss in their internal service funds. Finance Director Evan Nelson explained that those were their proprietary funds, which included their water and sewer funds. He also stated that the internal service funds were specific to the motor pool fund, and that they basically transferred money from the General Fund to meet the needs for that particular year, rather than having money that always sat in the fund. He said that it was not a “cash out” expense although they recognized it as an expense, which was why it showed a negative balance. He said that the City had replaced water meters throughout the City over the last several years, and that they were tracked as expenses rather than capital improvements, and that they needed to be replaced every couple of years.

Committee Member Randy Winn also noted that on page 54 of the document, the general property tax was below what they had budgeted for. Finance Director Evan Nelson replied that the county issued the property tax rate, and then the City Council could choose to increase that amount. The City Council gave a number to the Committee, and sometimes the money that was collected did not match up exactly with the number from the City Council. Committee Member Randy Winn asked if they had also changed the way that they accounted for property taxes, and it was replied that they had. It was further clarified that since people paid property tax throughout the year and sometimes people paid their taxes late, they had chosen to make accounting changes in order to clarify which year the taxes were for. It was summarized that due to delinquent property taxes, the actual number collected was usually lower than what was anticipated when the rate was set. In short, the amount that was assessed would almost never be the amount that was collected, but it was still standard practice to enter the assessed number into the budget as it would be impossible to guess how many people would pay their property tax late.

Finance Director Evan Nelson said that the City had for many years had brought in one auditor for their annual audit, to meet the requirements of State law. About four years ago, they had decided to bring in two separate firms, one who prepared their documents and one that conducted the audit. He touched on the rationale behind this decision, and thanked both of the firms for their politeness and professionalism during the process.

Finance Director Evan Nelson listed some of the main categories that were part of the financial audit, and said that was related to the processes that they used throughout the year in preparation for the financial close. Specifically, he said that in the past, they had not included sick leave, but the auditors had advised them to do so, and so that was one change for the current year. He said that they also used to report their accounts payable in the General Fund, and the auditors had asked them to allocate their accounts payable into the appropriate account for clarity. He said that they had also done a lot more research in regard to the agreement with the Marriott property located up the hill, and had determined which parcels of land had and had not been developed. They had found that some fees were still owed to the Marriott property, and felt that they were in a better place with the agreement that they had with Marriott now. He reported that they had shown their updated findings to the Marriott, and they had come to consensus on the amount still owed to them.

Finance Director Evan Nelson concluded some of these issues and material weaknesses had actually led to the delay of the audit, which had originally been due in December of 2020. He said that there were some receivables on the books that had not been looked at in five years, and so they had had to write them off. He said that some of the auditors that they had worked with in the past had overlooked some issues, which had finally been dealt with. Committee Member Katie Gerard said that it was important that all of their major accounts had finally been looked at with the depth that they should have been. It was also noted by one of the auditors that there was no indication that there had been any willful fraud on behalf of the City employees, and any mistakes or discrepancies were simply accounting errors. He added that they now put policies and processes in place to avoid such errors in the future. He observed that next year, the audit process should be more efficient as they would have less issues to deal with. It was mentioned that this was the first year that the auditing firm worked with North Ogden City.

Committee Chairman Phil Swanson said that the decision that they had made to not have the same firm for their audit and for the preparation of their financial documents had helped to lead them to the position that they were in now. Finance Director Evan Nelson noted that they paid a lot of money for their audits, and he felt that they had not gotten

their money's worth in the last several years, until Gary and Marcus's firm had come to the City. He felt that it was good to bring in a fresh set of eyes every couple of years. Committee Member Katie Gerard asked what the selection process for the audit had been, and Finance Director Evan Nelson said he was unsure what they had done in the past to pick a firm. He reiterated that he was very pleased with the work that the auditing firm had done that year, and also voiced his opinion that he was glad that they had created the audit committee.

A Committee Member asked now that the auditors had made suggestions, what the City management's responsibility was to ensure that there was follow through. He said that in the future, they should focus on what the next steps would be after the audit, rather than just focus on what audit firm they chose to work with. It was briefly discussed that depending on the size of a City, they might have their own team of consultants, or they might outsource consultation to a third-party firm. Committee Chairman Phil Swanson noted that it was good to keep in mind what were their own responsibilities, and what was under the jurisdiction of the auditors.

A Committee Member asked if their accounting software had been changed, and Finance Director Evan Nelson replied that they mostly worked on the translation of the City's software to the software used by the auditors to generate the reports that they needed. An auditor said that the second auditing firm had learned most of the things that they needed to do in order to make sure that the numbers were both correct, and presented in the correct way to the public. Finance Director Evan Nelson said that they were in better shape to ensure that the two systems matched up correctly than they had been last year, but there was still room for improvement. Committee Member Katie Gerard compared it to a small business that used multiple POS systems and QuickBooks, and needed to synchronize the information from all their platforms in order for it to make sense for the IRS.

A Committee Member inquired if the issues had arisen only due to the City's accounting procedures, or if there was a systemic issue with the software. He asked if the suggestions and changes that the auditors had made would prevent the issues from taking place next year, and if their software would be sufficient enough to pass their information off to the auditors. One of the auditors explained that the general software used by the City only went so far, and the financial statements that the firm produced converted the cash base to full accrual, which was not on the books for the City. He said that while most of the information could be produced by the City's books, the government-wide financial statements were on a higher level, along with the Enterprise Funds. He said that

the full accrual basis listed things like sidewalks and City streets as assets, which regular accounting would not do. The Committee Member who had posed the original question confirmed that once the City took the new procedural considerations from the auditors into account, they should not expect to have any issues with the transfer of data from the City to the auditing firm.

The auditor, Gary (no last name given), explained that they needed to give different levels on the financials of a City, unlike a business, which could be more consolidated. He said that since the General Fund and the Water Fund each got their own opinion, and so it was important for accounts payable to match the appropriate fund. He said that they had had to move several funds around in order to clarify, and he commented that internal service funds were especially tricky as they changed from an Enterprise Fund to a governmental fund when they were moved. He said that it had taken a while for everything to be put into its proper place, and said that it would be time-consuming to go through every change that he had made to the accounts payable.

The auditor further stated that there was about \$5.5 Million that had been added to the depreciation schedule for roads in the Capital Assets Funds, for ongoing maintenance. He said that since all maintenance, except for the rebuilding or addition of a lane, actually counted as repairs, which should have been counted as an expense and not depreciation. He also reiterated that they had updated the way that property tax was accounted for, as well as readjusted the ways that fees were accounted for at the aquatic center. He elaborated that since many people paid in advance for services at the aquatic center, such as swim lessons, the City could not count those payments as revenue until the service had actually been delivered.

Mayor Berube asked how sick leave was accounted for, and the auditor said that it could be counted as compensation since it could be cashed out if an employee did not use it. He said that overall, it was a tricky thing to manage from an accounting standpoint because it was impossible to know when someone would get sick. He also touched on retirement, which he said was easier to anticipate as most people retired in a specific age range or after a certain number of years that they had been with the company.

The auditor expanded on the phrase "prior period adjustments," which he said was when they had to correct previous audits and change numbers retroactively. He said that it was not something that was done in the private sector, but it happened frequently in the government as numbers from previous years could still have an impact on the current year. He said that since everything was cumulative, it was important to make sure that previous year's audits were accurate.

The auditor went over the state compliance, and said that they had to give an opinion on the North Ogden's compliance with state laws. He said that they had a weakness in regard to the Open and Public Meetings Act, as they were supposed to post their minutes once they had been approved. The auditors had found the minutes of several meetings that had not been posted, and that was a material weakness. He said that while on occasion, one or two meetings might be missed, but North Ogden was missing many minutes from their website, or the minutes had been posted late. He said they needed to have an internal control to ensure that the minutes were posted on time. The auditor said that the City was also deficient in the public treasury's bond, as there was a requirement for a certain amount of bonds to be held in the treasury, depending on the City's revenue. Finance Director Evan Nelson said that a bond was now in place, up to \$1 Million dollars.

Auditor Gary said that they were not supposed to have a deficit fund balance, and North Ogden did. He said in the event that they did have a deficit, they were required to set aside 5% of the next year's budget to start working themselves out of their negative balance. He said that North Ogden had actually set the 5% aside, although the way that they represented it in their books was inaccurate and made it appear that they had not done so.

Auditor Gary spoke next about the General Fund, and said that per state law they could only have a fund balance be more than 25% of their revenues. North Ogden was in excess of that amount, and so he said that they would have to move the excess money to the Capital Projects fund, which did not have a limit. He said that that adjustment should be one of the last things for them to do, near the end of the audit. Finance Director Evan Nelson noted that they would transfer the money soon. Committee Member Katie Gerard said that she understood why the residents were upset with some things, such as the deficit, and said that the transfer of the money would help the public to understand their City's actual financial position.

Auditor Gary touched on budgetary compliance, and said that since North Ogden was a class four city, they were required to present their financial statements every month, not every financial quarter as they currently did. Finance Director Evan Nelson said that they were not willfully in violation of the requirement, and said that they were genuinely unaware of the requirement that they needed to present each month. There was a short discussion about how long North Ogden had been a class four city, and it was mentioned that there were generally more errors or accidental fraud in smaller towns as they did not have a team of accountants and auditors as larger cities did.

Auditor Gary talked about the Interfund loan, and said that there was a set procedure when money was transferred between funds. He said that there needed to be an interest rate, as well as a public hearing when funds were moved, and said that the City had done neither of those things. He said that they needed to go back and calculate what the interest should be on funds that had already been moved, and said that the State Code should have stipulated what the rate was, as well as what the maximum lifespan of the loan could be.

Auditor Gary said that the impact fees report needed to be sent to the State of Utah, and the law required that the report be in a certain format. He noted that North Ogden's report had missed several of the things that were required by the state, and he pointed out the changes that they needed to make so that the next time they filed they would comply. He elaborated that it was important to keep track of impact fees because the City had to find a way to spend them within a set amount of time, or they had an obligation to give them back if they never actually completed the projects that the fees were collected for.

Finance Director Evan Nelson said that several residents had voiced concerns over the deficit, and asked if that was something that they should be concerned about. Auditor Gary said that overall it was not a concern since it was more important to provide amenities for the City. He gave an example of the fire station, which was necessary to be built, even though they had to go negative to get the funds for it. He pointed out that if they had waited to raise the money with impact fees, it would have taken years to get the sufficient funds, and some things needed to be done immediately. He did note that when a City grew quickly, as North Ogden had, they typically were not able to provide things like water and sewer maintenance to the expanding population with only the revenue from impact fees, and generally would go into a deficit. He summarized that overall, it was not an inherently bad thing to have a negative balance as it typically happened when cities expanded, but they needed to have a plan in place to recover the funds in the long run.

A short discussion followed in which the Committee Members discussed that their previous auditors had not pointed all these things out to them, and that they wished that they had been aware of all of the requirements that they were not in compliance with for the State. They discussed the possibility of taking classes or some kind of additional training that would bring them up to speed. They acknowledged the amount of work that the auditors had done, and considered the need to have additional outside help that would assist in educating the Committee on what they needed to know for future audits and state compliance laws. Finance Director Evan Nelson said that he needed to have a bigger

team, as he mostly worked on his own and so there were many things that got missed. Committee Member Katie Gerard also noted that there was a large difference between regular accounting and the accounting that needed to be done at the governmental level, and Auditor Gary agreed that someone with traditional CPA training would have a hard time becoming familiar with how cities were audited. It was reiterated that previous auditors should have pointed out to the Committee that there were many issues that needed to be addressed, and Auditor Gary said that he would be willing to pass along some suggestions of people who might be able to help Finance Director Evan Nelson prepare for their audit.

City Manager/Attorney Jon Call spoke about the Interfund loan, which he said the City had never done before, and said that the auditors that they had been working with at the time had given them bad advice. He said that they did not know that they were doing the loan incorrectly, and said that they had erroneously put their trust in the auditors to give them accurate advice. Auditor Gary said that general practice for most cities was when they had a third party auditing firm come in to have in-house employees that understood the work that they did, and had enough expertise to manage and oversee the auditors. It was discussed that they could also outsource the management if the City was smaller or they did not have staff members who understood the work of the auditors, but they needed to have some kind of system in place to manage the auditors that came in. It was noted that one of the challenges of a citizen legislature was that not everyone was an expert in their fields, and that they needed to at least have enough knowledge to know that the experts that they worked with did a good job.

4. Discussion and/or action of the March 31, 2021 Quarterly Financial Report

Committee Chairman Phil Swanson moved the discussion onto item four, which was the discussion and interaction on March 31, 2020, quarterly financial report, and he pointed out that there was no quorum or requirement to talk about the subject under the Open and Public Meeting Act, but he thought it was good that they chose to do so in the interest of being open and transparent with their public. Committee Member Katie Gerard agreed that it was helpful to go over the financials of the City for the residents.

Finance Director Evan Nelson detailed the quarterly report that ended in March 2021, and explained that the initial sheet was the summary, and then the packed gave more details of the full financial report for the City. He commented that he knew there was software that consolidated the information, and he would look into that option for future reports.

Finance Director Evan Nelson noted that sales tax has been great that year, and they were nearly \$400,000 ahead of projection. He said that the numbers had been influenced by the pandemic, and it looked like while they had started the year very high, they were now falling into a more moderate and expected trend, and he projected that they would end the fiscal year about 14% above initial projections.

Finance Director Evan Nelson went over revenues and expenditures, and said that 75% of the fiscal year was elapsed. Finance Director Evan Nelson said it was okay when revenues go over 75%, and that some expenditures came earlier in the year and were not evenly distributed over the course of the year. He pointed out specifically, that the \$36 transportation utility fund had mostly been refunded. A Committee Member said for context, in 2016 a \$3 monthly fee for transportation utility had been implemented by the City to raise money for road problems, and it was collected for about five years until Pleasant Grove City had been sued over this same type of fee. The court had ruled in favor of the group, and the City had halted the fee and moved it to an additional property tax. The Committee Member said that one year of the fee had been refunded per year due to the pandemic, but the remaining four years that it had been collected had yet to be refunded, and they were currently waiting on the decision of the court. The money was in a fund that would not be used, as they might have to return the money to the residents.

Finance Director Evan Nelson noted that they had made some expenditures on capital projects in the Water Fund, and the expenditures would be moved on the balance sheet at the end of the fiscal year, and would no longer show up as expenditures. A Committee Member asked if the piping was included in the expenditures, and Finance Director Evan Nelson said it was. He said that due to the pandemic, there had been a resin shortage, and so the price for piping increased greatly each month, so they had decided to buy piping in bulk in January to avoid the inflation in cost. Finance Director Evan Nelson continued, and said that expenditures showed a transfer from the transportation impact fee fund into the Capital Improvement fund for an ongoing road project, with 100% budgeted as expected. Finance Director Evan Nelson said sewers and stormwater expenditures were under budget for the full year, and RDA and CDA revenues were higher than budgeted. A Committee Member asked if the increase of RDA revenue would go into repayment for the RDA debt, and Finance Director Evan Nelson said it would, and that the CDA fund was only in its second year of generating money as it had been recently triggered. He said that it built over time, and they so far had more money in it than they had last year. He said that \$149,000 was currently in the fund, and they would transfer that before the end of the fiscal year.

Finance Director Evan Nelson detailed that the General Fund department expenditures were all at or under, except for the streets department, and he felt that would come more in line as they got closer to the end of the fiscal year. He said that any budget amendments would be proposed in June, although on April 27 they would also be proposed at the City Council public hearing. They discussed that the decision to purchase the piping in bulk had been counted as a budget adjustment since they had made one big purchase rather than several smaller ones. It was explained that the budget amendments were usually reserved for bigger purchases. Committee Chairman Phil Swanson noted that anything outside the budget must be proposed to the City Council as a budget amendment, and it was noted that the City generally came in under budget in most of their departments. Committee Chairman Phil Swanson said that the City had responded well to the COVID-19 pandemic in a fiscal sense, as the departments had tightened their budgets and then sales tax had increased as people bought more locally.

A Committee Member asked about the recent Supreme Court ruling which stipulated that cities could choose to collect online sales tax, and asked if that had had an impact on the City. Finance Director Evan Nelson said that the City had benefited from online sales tax, and said that he received monthly reports that showed where the majority of their sales tax came from, and that most of those stores were online stores. It was discussed that it would be very detrimental to the City if online sales tax only went to the state, and that it was in their favor that they were able to collect sales tax from purchases made online.

The Committee came to the consensus that while a monthly report would be required for the City Council, the Committee would continue to do quarterly reports for their own purposes. It was decided that the public would be invited, and they would focus on the correction of some of the weaknesses that the auditors had found, as well as search for help for Finance Director Evan Nelson to reduce his workload.

5. Public Comments

Committee Member Katie Gerard opened the floor to citizen Dallin Barker from North Ogden. Dallin Barker referenced the earlier conversation about the auditors, and mentioned that he felt help was necessary for Finance Director Evan Nelson as in addition to his career, he was also a busy Bishop and family man. He also suggested that City Manager/Attorney Jon Call could have his duties split, as due to the growth of the City he was also stretched a bit too thin. He felt that as the City grew, they could justify a full time City Manager as well as full time attorney. City Manager/Attorney Jon Call

responded, and stated that there were ongoing discussions over that exact topic. He agreed that it would make sense to have another staff member to help alleviate his workload. A Committee Member noted a full time planning director would be hired soon, and they thought that would help as well.

Committee Member Katie Gerard then opened the floor to citizen Stephanie Casey, who voiced her frustration over some of the discussed issues. She said that she was unsure exactly how to articulate her opinion, and gave her thanks for the discussions that had taken place in regard to how to rectify some of the City's financial issues.

Committee Chairman Phil Swanson thanked the Committee Members for their attendance, and adjourned the meeting.

6. **ADJOURNMENT**

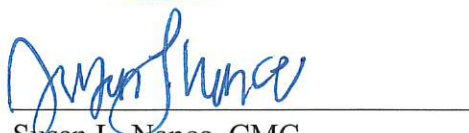
Committee Member Ekstrom motioned to adjourn the meeting. Committee Member Winn seconded the motion. All in attendance voted in favor.

The motion passed unanimously.

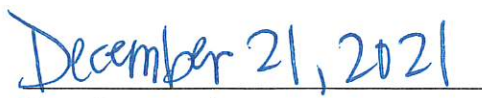
The meeting adjourned at 8:55 p.m.



Phil Swanson, Committee Chairman



Susan L. Nance, CMC
City Recorder/Committee Member



Date Approved