



# CENTERVILLE CITY

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Incorporated in 1915

Mayor

Paul A. Cutler

City Council

Tamilyn Fillmore

William Ince

Stephanie Ivie

George McEwan

Robyn Mecham

City Manager

Steve H. Thacker

August 1, 2017

Citizens of Centerville  
Honorable Paul Cutler, Mayor, Centerville, Utah  
Centerville City Council  
250 N Main Street  
Centerville, Utah 84014

Dear fellow citizens and interested party:

In February of 2017, certain questions became evident with regard to the Financial Statements and records of the City of Centerville. While there had been prior minor indications of accounting discrepancies there was no issue which raised significant concern. This was to a large degree due to reliance on the fact that the books, records and financial statements of the City had been audited for over 25 years, and that for more than the last ten years the City had received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. This caused City leaders to not aggressively pursue what were thought to be minor questions. The delivery of the 2016 audited financial statements brought more focus to the questions, and a serious effort was undertaken, primarily by Steve Thacker (City Manager), Marcus Arbuckle (contract accounting advisor and CPA), and William Ince (City Councilman) to fully investigate questions and resolve any improper prior decisions or actions.

All records were open and available to the investigators completing the review. Whenever there are irregularities of any sort, due to the responsibility of safeguarding public funds, there is a need to have confidence that there have been no defalcations or thefts. While this was not a primary concern, because the City of Centerville has maintained good separation of duties and internal controls with regard to cash receipts and disbursements, records were scrutinized, to reassure City Officials and citizens of the integrity of City government and the proper control of City Funds. After a four month review, we did not find any indication of a misappropriation of City Funds.

However, we found that over a 15 year period a number of errors and omissions occurred. A detailed listing of issues is attached to this letter describing the problems, but essentially we found the following:

1. Incorrect and untimely payments were made due to poor understanding and control of RDA documents. All funds have been recovered or are in the process of being recovered.
2. Incorrect classification of payments resulted in a misallocation of expenses between accounting periods, and in some accounts receivable not being timely recognized. Our review indicates all such occurrences have been located.
3. Certain transactions, mandated by prior City Councils and legal agreements, were not completed and properly monitored. These have been corrected.
4. There were misallocations between certain governmental and proprietary funds in past years. All have been corrected in 2017.

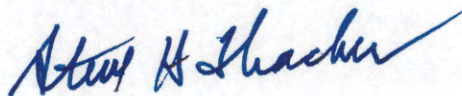
5. There were misallocations between restricted and unrestricted funds in prior periods. All have been corrected in 2017.

There have been personnel and organizational changes as a result of the investigation. The former Finance Director resigned on April 8, 2017. Additional help has been brought into the City accounting organization to prevent a recurrence of the situation. It is noteworthy that the City has declared its intent to seek a property tax increase in 2017. There is no implication that these financial issues are the cause of the proposed increase. However, had more correct information been available to prior City Councils, a tax increase might have occurred sooner.

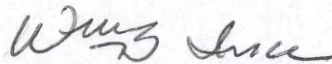
We believe the Citizens of Centerville, The Mayor, and the City Council can take renewed confidence in the City's accounting and Financial Reports.

For your information, a letter, comparable to this letter has been sent to John Dougall, Utah State Auditor, reporting the situation, the steps which have been taken, and what has been determined. Additionally, we have invited the Utah State Auditor to provide us with additional steps which should be taken to protect the Citizens of Centerville City, should he have such suggestions.

Respectfully,



Steve H. Thacker, Centerville City Manager



William B. Ince, City Councilman

## City of Centerville

### Listing of Accounting Issues for July 31, 2017 Letter

#### Issues and concerns

1 The financial closing and reporting process was flawed because Centerville accounting personnel were not reconciling detail ledgers to general ledger accounts, resulting in auditors needing to "adjust virtually every balance sheet account" during the audit.

2 Interim financial reports were issued without properly closing the books, completing journal entries, and reconciling general ledger accounts to pertinent detail. The result was that interim statements were not always accurate.

3 Cemetery Perpetual Care Fees were not separately accounted for as ordered by the City Council in 2002. Perpetual care fees should have been segregated and expenditures specifically authorized.

4 RDA Theater Reserve funds, restricted and unrestricted, were not properly segregated, authorized, and monitored.

5 Computation and timing of RDA tax increment payments was not well documented, and at times flawed, resulting in early payments, excessive payments, and poor records. Although no specific losses occurred, such could have occurred if not corrected.

#### Resolutions

Reorganization and personnel changes specifically assign these responsibilities on an ongoing basis. Management is more aware of this requirement.

Accounting department reorganization plans for and accomodates all necessary tasks.

Cemetery expenditures and perpetual care receipts since 2002 have been reviewed, and expenditures authorized by the City Council. Proper future treatment is now part of the accounting process.

All transactions have been reviewed and proper distinction between restricted and unrestricted funds completed and separated.

All RDA tax increment payments have been reviewed both by management and by external financial bond advisers. All incorrect payments have been corrected or claims for return of funds made or are in process.

- 6 Payments on major contracts, which are outside of routine operations, were not controlled and properly handled on multiple occasions, resulting in accounts receivable not being recorded, payments not being beneficially allocated between restricted and unrestricted funds, misallocation between funds, and an unusual accumulation of unresolved due to and due from entries.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.
- 7 There was inadequate attention to restrictions on funds, resulting in an incorrect tabulation of restricted funds amounts, and a potentially disadvantageous allocation between payments which were from restricted or unrestricted funds, which could subject the City to being required to return funds, because the time to use such funds had expired.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.
- 8 Monthly and annual cash transaction cutoffs were poorly observed resulting in excessive adjustments on bank reconciliations. At the same time, bank reconciliations were not always completed timely resulting in minor accumulating errors and interperiod differences.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.
- 9 Numerous adjustments were required in computations of debt service payments and developer deposit payments between interest and principal amounts resulting in the need for multiple adjustments of account balances.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.
- 10 The impact of certain issues above, resulted in the City having deficit fund balances, which is in conflict with Utah Code Section 10-6-116. It is very difficult for the City to budget additional to update budgets timely, even though money is available, when accounting information is not current.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.

11 Utah Code Section 10-6-123 states that the City may not make or incur expenditures or encumbrances in excess of total appropriations for any department in any year. Deficiencies in the accounting process, as organized, accentuated the difficulties of year end budget updates to stay in compliance with State Law.

More knowledgeable attention to accounting detail on an ongoing basis, because of accounting department reorganization, is correcting this problem.