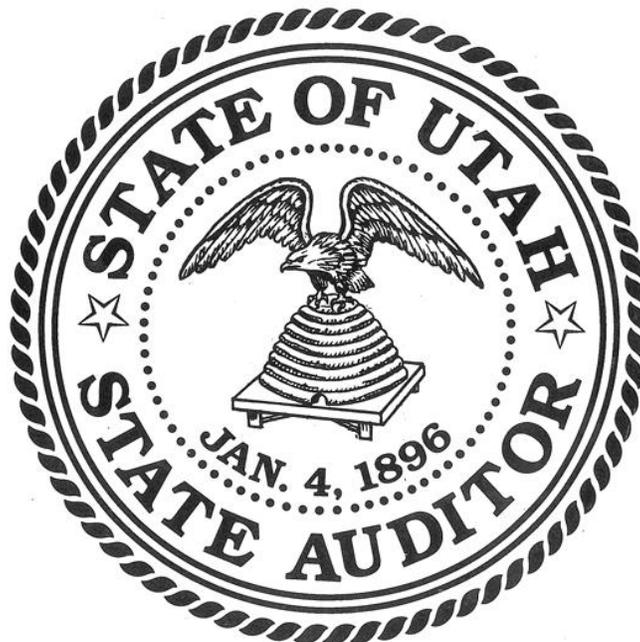


EMIGRATION IMPROVEMENT DISTRICT

Findings and Recommendations
For the Period January 2014 through June 2015

Report No. EMIG-14-SP



OFFICE OF THE UTAH STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Van Christensen, CPA, CFE, Audit Director
Leslie Larsen, CPA, CFE, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. EMIG-14-SP

August 24, 2016

Board of Trustees
Emigration Improvement District
PO Box 58945
Salt Lake City, UT 84158

Dear Board Members:

We have performed the procedures described below to certain aspects of Emigration Improvement District's (District) internal control and compliance for the period January 2014 through June 2015. The purpose of these procedures is to investigate allegations of nepotism, improperly imposing and collecting fees, and improperly using District funds. We performed the following procedures at the District:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciling duties for adequacy of separation of duties for internal control purposes.
2. We reviewed the District's compliance with certain laws and policies and procedures regarding nepotism, and imposing, and collecting fees.
3. We scanned disbursements for reasonableness and proper approval.
4. We inquired with the State Division of Drinking Water regarding certain allegations of fraud or misrepresentation by the District.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the District's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the District's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the District during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Leslie Larsen, Audit Supervisor, at 801-538-1348 or leslielarsen@utah.gov.

Sincerely,

Van Christensen, Audit Director
801-538-1364
vchristensen@utah.gov

cc: Eric Hawkes, Financial Manager

EMIGRATION IMPROVEMENT DISTRICT
FOR THE PERIOD JANUARY 2014 THROUGH JUNE 2015

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EMIGRATION IMPROVEMENT DISTRICT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2014 THROUGH JUNE 2015

BACKGROUND

The Emigration Improvement District (District) was formed in 1968 by action of the Salt Lake County Commission for the purpose of providing water and sewer services to most residents of Emigration Canyon. The District's system serves multiple subdivisions within the Canyon. The remaining residents obtain water from individual water systems on their premises or one of a few small systems that serve 15 homes or less. The District is directed by an elected three member board of trustees (Board) who appoint a manager to oversee the day-to-day activities.

1. LACK OF FORMAL WRITTEN POLICIES AND PROCEDURES

The Board has not formally adopted written purchasing policies as required by *Utah Code* 17B-1-618. In addition, the District does not have formal written policies and procedures establishing internal controls over cash receipt and disbursement processes. Formal written policies facilitate continuity and the consistent application of internal controls over time.

The term "internal controls" is used to describe processes put in place by the governing body, management, or others, to provide consistent and efficient operations, including reasonable assurance that funds will be properly safeguarded. Proper internal controls include separating certain responsibilities so that no one person has the ability to improperly use money without detection.

Recommendation:

We recommend that the District prepare and adopt formal written policies and procedures over purchasing, as required by *Utah Code* 17B-1-618, and establish internal controls over all financial activity such as cash receipts and disbursements.

District's Response:

The District is in the process of updating its policies and procedures to fully comply with this recommendation.

2. WEAKNESSES IN BOARD'S REVIEW OF ACCOUNTING RECORDS

The District has inadequate separation of duties. Separation of duties weaknesses exist when the same individual has the ability to authorize transactions, adjust the accounting records, prepare reconciliations, and access assets such as cash/checks. Inadequate separation of duties could allow errors and fraud to occur without detection. The District employs an independent contractor to perform accounting and management services on behalf of the District. To compensate for this weakness of having only one person perform all accounting

EMIGRATION IMPROVEMENT DISTRICT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2014 THROUGH JUNE 2015

functions, the Board performs reviews of the accounting records. However, we believe there are weaknesses in the Board's reviews as follows:

- A Board member reviews the bank reconciliations only once per year. Someone other than the District's Manager, who prepares the bank reconciliations, should review the bank reconciliations on a monthly basis. This review should include obtaining source documents, such as the bank statements and images of cancelled checks, directly from the bank to ensure that documents have not been altered to conceal inappropriate activity.
- The Board also performs the remaining reviews of the accounting records, such as a review of accounts receivable and accounts payable, on an annual basis only. These reviews should be performed at least quarterly in order to detect any errors or potential misappropriation in a timely manner.

We also believe the Board's reviews can be strengthened by adding the following components:

- The review of a detailed accounts receivable adjustment report, which is an important step to ensure that all customer payments are being properly recorded in the accounting system. Unusual or frequent accounts receivable adjustments can be a potential fraud indicator.
- Verification that the check sequence is maintained from one period to the next and that no checks have been misappropriated.

Recommendation:

We recommend the District strengthen the Board reviews by:

- **Ensuring a Board member performs a monthly review of the bank reconciliations.**
- **Performing the remaining reviews on at least a quarterly basis in order to detect errors or potential misappropriation in a timely manner.**
- **Obtaining source documents, such as bank statements, cancelled checks, and other documents, directly from the bank to verify that documents have not been altered.**
- **Including a review of a detailed accounts receivable adjustment report and verifying proper check sequence from one period to the next.**

District's Response:

The District is in the process of updating its policies and procedures to fully comply with this recommendation.