



## **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

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Findings and Recommendations  
For the Period January 2004 through December 2008

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Report No. 08-SSD-L

*Keeping Utah  
Financially Strong*

AUSTON G. JOHNSON, CPA  
UTAH STATE AUDITOR



**Auston G. Johnson, CPA**  
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**REPORT NO. 08-SSD-L**

July 1, 2009

Board of Trustees  
Axtell Community Special Service District  
P O Box 21093  
Axtell, Utah 84621

Dear Board Members:

Citizens residing within the Axtell Community Special Service District (District) requested that we review the accounting records of the District and investigate concerns regarding possible mismanagement by members and officers of the District's Board of Trustees (Board). Based on the request, we performed the following procedures at the District for the period January 2004 through December 2008, unless otherwise indicated:

1. We reviewed certain aspects of the District's cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes.
2. We reviewed the District's compliance with state laws regarding the preparation and filing of financial reports and budgets with our office.
3. We reviewed certain instances related to the District's compliance with the Government Records Access and Management Act (GRAMA), which outlines procedures for providing public access to documents and records relating to the conduct of District business. (Period reviewed – 2008)
4. We reviewed purchasing practices of the District to determine that a purchasing policy exists and to determine that purchases were properly approved, were subject to a competitive procurement process (bidding), and were made without bias or preferred treatment to individuals related to the District's Board or officers.
5. We reviewed Board member compensation for compliance with state law. We also reviewed payments to Board members to determine whether they were contracting or functioning as employees of the District.

6. We reviewed fees charged by the District to determine if they were reasonable, consistently assessed, and adopted in a public hearing as required by state law. (Period reviewed – 2007)
7. We reviewed the District’s assessment of an impact fee to determine whether it had been properly adopted and accounted for as required by state law. (Period reviewed – 2008)
8. We reviewed the disbursement of grant funds received in 2001 to determine whether the funds were used in accordance with grant restrictions.
9. We reviewed the organization and retention of certain records to determine whether records were maintained, organized for efficient retrieval, and retained as required by retention schedules.
10. We reviewed certain instances related to the District’s compliance with open meetings laws, which includes providing notice of meetings and hearings and allowing members of the public the opportunity to observe open meetings and comment at public hearings. (Period reviewed – 2008)
11. We reviewed other miscellaneous internal control and state legal compliance matters.

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.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

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. If you have any questions, please call Debbie Empey, Audit Director, at (801) 538-1342.

Sincerely,



Auston G. Johnson, CPA  
Utah State Auditor

cc: Sanpete County Commission

**AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**  
**FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

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# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **1. INCOMPLETE ANNUAL FINANCIAL REPORT AND LACK OF INTERNAL CONTROL AND MAINTENANCE OVER ACCOUNTING RECORDS**

When our office received the initial citizen complaint, we found the following problems regarding financial reporting and accounting:

- a. The District had never filed an annual financial report with our office as required by law. *Utah Code* 17B-1-639 requires that an annual financial report be prepared and filed with our office within 180 days after the close of each fiscal year. In addition, Board members should review financial information at least quarterly and at a sufficient level of detail to allow them to assess the efficient operations of the District, as required by *Utah Code* 17B-1-638.

At our request, the District submitted four years of financial statements to our office; however, the statements contained significant errors, such as recognizing a \$22,500 transfer from savings to checking as revenue and omitting asset and liability information. Since the errors indicated to us that the District was not in conformity with generally accepted accounting principles as prescribed in the Uniform Accounting Manual for Local Districts, we requested and received financial information for the period January 2004 through December 2007 in an effort to assist the District.

Using the financial information obtained from the District and additional information from other government entities, we prepared revised financial statements for the District for 2004 through 2007, making some assumptions.

In our letter to the Board dated September 4, 2008 we indicated that we did not verify the accuracy of financial information submitted (since we were not performing an audit of the financial statements) and made some assumptions in order to prepare the financial statements. We requested that the Board review the information for accuracy, sign a certification indicating that the information was correct and that the Board accept responsibility for the accuracy and completeness of the financial reports and return the certification to our office. We have not received the signed certification from the Board.

- b. While reviewing financial information requested in a. above, we found that the District lacked key internal control procedures and failed to maintain accurate, organized accounting records of money received and disbursed, contributing to the financial statement errors we noted above. For example, the District does not keep a running balance in their check register, perform a bank reconciliation, organize receipts, or maintain documentation supporting the appropriateness of receipts and disbursements. Receipts should be retained, disbursements should be properly approved and include supporting documentation for each payment, and bank reconciliations should be performed to minimize the risk that funds will be inappropriately used.

*Utah Code* 17B-1-633(3)(c) states that the District treasurer will, “keep an accurate detailed account of all monies received.” *Utah Code* 17B-1-632 states that, “The District clerk... shall maintain the financial records ... including a list of the outstanding bonds, their purpose, amount, terms, date, and place payable.”

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

When adequate internal control procedures are not performed, fraud could occur and go undetected. When financial records are not maintained, accurate financial statements cannot be prepared and Board members are unable to make appropriate management decisions.

### **Recommendation:**

**We recommend that the District:**

- a. Prepare and file accurate annual financial reports with our office as required by law, and also submit a signed copy of the financial statement certifications to our office.**
- b. Perform key internal control procedures, such as bank reconciliations and approval of disbursements and maintain adequate accounting records, such as a record of money received and disbursed, supporting documentation, and a running balance in their check register.**

## **2. FAILURE TO PROPERLY FILE AN ANNUAL BUDGET OR PROVIDE PROPER NOTICE OF BUDGET HEARING**

When our office received the initial citizen complaint, we found that the District had never filed a copy of the annual budget with our office as required by law. *Utah Code 17B-1-614* requires that a final budget be prepared and filed with our office within 30 days after adoption. In order to adopt a budget, the District must prepare a tentative budget, make the tentative budget available for public inspection, and hold a public hearing where all interested persons are given the opportunity to be heard.

At our request, the District submitted a 2008 budget; however, the budget contained significant errors, such as incorrectly recognizing a loan re-payment as revenue, not showing comparative financial information for the two previous years, and not including a certification of budget as required by law. Using the budget provided and other financial information obtained, we prepared a revised budget on the standard form provided by our office and made other corrections to bring the budget into compliance with the law.

In our letter to the Board dated September 4, 2008, we requested that the Board review the information for accuracy, sign a certification indicating that the information was correct, accept responsibility for the accuracy and completeness of the budget, and return the certification to our office. We have not received the signed certification from the Board.

The District has submitted their 2009 budget to our office; however, the newspaper advertisement providing notice of the hearing did not include the time of the budget hearing. *Utah Code 17B-1-609* and 610 requires that the time of a budget hearing be included in the newspaper advertisement.

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **Recommendation:**

**We recommend that the District submit a signed copy of the 2008 budget certification to our office. We also recommend that advertisements for budget hearings include the time of the meeting as required by law.**

### **3. LOSSES INCURRED BY DISTRICT WITH NO PLAN FOR MEETING FUTURE FINANCIAL OBLIGATIONS**

While preparing revised financial statements for the District, we noted that the District incurred a \$28,538 loss in 2007, the first year that a loan payment with an irrigation company was due, and a \$3,000 loss was projected for 2008. Information provided by the District indicates that the water system has a maximum of 161 available connections, with approximately 100 connections currently in use and approximately 61 available for sale. If all remaining connections were sold, the impact fee revenue generated would equal about \$282,000 while the District's outstanding loan obligations are in excess of \$600,000. The District will need to carefully consider sources of revenue and the use of funds in order to meet future financial obligations.

### **Recommendation:**

**We recommend that the District prepare a plan to meet future financial obligations.**

### **4. CONFLICTS OF INTEREST**

Two members of the District's Board of Trustees and the District's maintenance employee engaged in activities that are conflicts of interest and may be prohibited by law. The 2006 financial information of an irrigation company shows a \$2,775 payment to the Board's Chairperson for labor to provide fencing around a storage pond. The construction of the storage pond was a joint project between the irrigation company and the District. The fencing was completed by the Board's Chair and another Board member. Accepting employment and receiving compensation for services paid for in part by the District and approved by the Chair himself creates a conflict. In addition, the District's maintenance employee was the president of the irrigation company. This relationship creates a potential conflict of interest as the District negotiates terms and conditions with the irrigation company for joint projects that the maintenance employee may complete.

These activities may be a violation of two separate Utah laws as follows:

- a. *Utah Code* 17B-1-311(1) states that, "No elected or appointed member of the Board of trustees of a local District may, while serving on the Board, be employed by the District, whether as an employee or under contract.
- b. *Utah Code* 67-16-4(1)(d) and (e) prohibits a public officer (the Board's Chair and Board Member) or a public employee (the District's maintenance employee) from accepting, "... other employment that he might expect would impair his independence of judgment... or ... interfere with the ethical performance of his public duties."

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

In our letter to the Board dated March 3, 2008 we requested that the District provide an explanation of the instances noted and any other instances where Board members have been employed by the District as an employee or under a contract. In response to our request for an explanation, some Board members have indicated that the Board members who worked on the fence saved the District money because others would have charged more for the work. However, when we requested that the Board provide information supporting their assertion, such as bids or proposals from other contractors, they said that no other bids were obtained. Without other bids it is not possible to justify the activity as a cost saving measure.

### **Recommendation:**

**We recommend that Board members not contract or be employed by the District and that the Board members and employees not engage in activity that creates a conflict of interest.**

## **5. CHECKS APPROVED BY A RELATED PARTY**

While compiling expenditure information for the financial reports noted above, we reviewed 56 payments to the District's maintenance worker and found 16 checks issued from November 2004 to February 2007, totaling \$4,586, to the District's maintenance worker that were signed only by the Board secretary, who is the maintenance worker's wife. The District does not have a formal written policy regarding the disbursement of funds; however, the District Chair did explain that the District requires two signatures on all checks. Two of these 16 checks were written for \$420 and \$164.14 more than the supporting documentation indicated. The Board secretary should not process checks without a second signature, especially if the check is for a payment to her husband. The second signature should be an internal control that indicates verification that the check is for an appropriate expenditure. Having a related party sign checks without internal control in place could result in fraud occurring and going undetected.

### **Recommendation:**

**We recommend that the District ensure that checks are signed by two persons. We also recommend that payments not be made without adequate supporting documentation.**

## **6. INAPPROPRIATE USE OF DISTRICT FUNDS FOR POST OFFICE EXPENSES**

The District pays operating expenses of the local post office with District funds, which is in violation of Utah state law.

The resolution creating the District indicates that the District was created as a special service district. *Utah Code* 17D-1-201 authorizes special service districts to provide certain services; however, the specified services do not allow for the construction and operation of a post office. We requested financial records detailing construction costs and ongoing expenses related to the post office. Based on an accounting of funds contributed and expenses incurred for the construction of the post office, donations from members of the community covered post office construction costs. However, fees collected for culinary water service are used to pay ongoing expenses of the post office.

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## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

Using public funds for a purpose other than that which they were collected violates state law and undermines public trust and confidence.

### **Recommendation:**

**We recommend that the District comply with state law and cease to use public funds to pay for any expenses of the post office.**

### **7. UNCLEAR RELATIONSHIP WITH IRRIGATION COMPANY**

Responsibilities between the District and an irrigation company are unclear. The District bills and collects a secondary water fee, but has only been authorized by Sanpete County to provide culinary water. The District and the irrigation company have also entered into joint projects incurring debt and constructing infrastructure for the water distribution system. However, there is no formal agreement between the two entities; therefore, we requested, in our March 3, 2008 and September 4, 2008 letters to the Board, that the District clarify the responsibilities between the District and the irrigation company by providing our office with a contract that includes details related to providing culinary and secondary water service to customers, including details regarding ownership and ongoing maintenance responsibilities and services, debt on the assets, and projects that have been jointly entered into. The District has not provided the information requested; therefore, we are unable to determine if the District has executed a formal contract with the irrigation company.

Ownership of assets resulting from joint projects as well as responsibility for maintenance and operation of the infrastructure should be defined to ensure that fees assessed by each entity meet the obligations of that entity and that those who receive a service pay a proportionate share of the service.

### **Recommendation:**

**We recommend that the District formalize the relationship between the District and the irrigation company in a contract and define ownership of assets resulting from joint projects and ongoing responsibilities for the maintenance of joint projects.**

### **8. NONCOMPLIANCE WITH IMPACT FEE LAWS**

The District has not complied with certain impact fee laws. The District charges an impact fee of \$4,619 plus three shares of secondary water in order for a customer to receive culinary water service. *Utah Code 17B-1-111* prescribes the notice and hearing requirements for the adoption of an impact fee. *Utah Code 11-36* requires that impact fees be reasonable for the service provided and that the District prepare a capital facilities plan. These fees must also be separately accounted for, be held in an interest bearing account, and be used within six years of receipt for purposes outlined in the capital facilities plan.

We requested that the District provide our office with the capital facilities plan, evidence of public notice provided and date when the fee was adopted, minutes from the Board meeting adopting the fee and an accounting of the impact fees received and disbursed, and the current account balance. We

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

also requested that the District provide our office with an explanation as to why three shares of secondary water are required and for what purpose the District uses the shares.

As a result, the District provided our office with a recently adopted fee schedule that included the impact fee and an analysis showing how the fee was determined. However, the District has not provided an accounting for the collection and disbursement of impact fee funds and the current account balance, as required by law.

### **Recommendation:**

**We recommend that the District comply with State laws regarding the administration of impact fees.**

### **9. INAPPROPRIATE AND INCOMPLETE POLICIES OVER BOARD MEMBER AND EMPLOYEE COMPENSATION AND RESPONSIBILITIES**

The District has three types of compensation available to Board members and employees (regular, hourly, and a \$500 annual stipend). The District policy provided to our office indicates that the \$500 stipend is for “services rendered”; however, it appears that employees should already be compensated for their services, either through regular or hourly compensation. Providing an additional stipend for “services rendered” represents double compensation.

Additionally, the District does not have clear written policies defining the type of work that would be categorized within each type of compensation or the responsibilities of District employees or various positions on the Board. Not having clearly defined job responsibilities creates a further risk of double-compensation. For example, work or services that may be included as regular compensation may be billed again by a Board member or employee as hourly compensation. The Board should clearly define the type of work for which the types of compensation are to be used and also prepare written job responsibilities for Board members and employees.

We reviewed compensation information from 10 different districts that provide similar services and found that 7 of the 10 districts’ board members received no compensation and the other 3 received either monthly or annual compensation and no stipend. The District should consider adopting a monthly or annual amount that compensates Board members for performing their duties as a member of the Board and consider spreading Board member assignments as evenly as possible among Board members to minimize the need for varying compensation amounts between Board members and to minimize the risk of double-compensation.

### **Recommendation:**

**We recommend that the District develop written policies for Board member and District employee compensation and job responsibilities and also consider adopting a monthly or annual amount that compensates Board members for performing their duties.**

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **10. ALLEGED INAPPROPRIATE USE OF GRANT FUNDS**

A citizen complaint alleges that the District misused grant funds. According to grant documents obtained from the Central Utah Water Conservancy District (Conservancy District), the Axtell Community Special Service District received a \$150,000 grant in 2001. The funds were granted by the Conservancy District to complete water system improvements such as looping dead end spurs and installing 28 more fire hydrants. The grant proposal indicated that there were 18 fire hydrants in the system at that time, so there should now be a total of 46. However, a citizen alleged that the system currently has 30 fire hydrants and that one dead end spur has not been looped, indicating that the proposed system improvements were not completed even though the grant money received has been spent. Grant funds should only be spent for items allowed by the grant. In addition, an accurate accounting of the disbursement of grant funds should be maintained as evidence that the District has complied with grant requirements.

In our letter to the Board dated September 4, 2008, we requested that the District respond to this matter; however, no response has been received. Because we have not received the necessary information to conclude on this issue, we are unable to determine if the District spent grant funds in accordance with grant requirements.

#### **Recommendation:**

**We recommend that the District comply with grant requirements and spend grant funds only for their intended purpose. We also recommend that the District maintain an accurate accounting of the disbursement of grant funds.**

### **11. ALLEGED INCONSISTENCIES WITH ASSESSMENTS FOR SECONDARY WATER FEES**

A citizen complaint alleged that the District has not consistently assessed secondary water fees. We requested that the District provide our office with a fee schedule indicating the rates charged, when fees begin to be assessed, and under what circumstances fees are waived. Subsequent to our request, the District adopted a fee schedule and provided our office with a copy. A comparison of the secondary water fee as explained on the fee schedule was made to the October 2007 detail report, to determine if water users were being consistently assessed the \$20 secondary water fee. As a result, 15 water users were identified that appear to live within the irrigation company's boundaries that are not being assessed the \$20 fee as outlined in the fee schedule. In addition, 2 of the 15 are related to either a member of the Board or the Board secretary.

In our September 4, 2008 letter to the Board, we provided the names of individuals that were not assessed the \$20 secondary water fee but appear to live within the irrigation company's boundaries. We requested that the Board review the list and provide our office with an explanation as to why the water users were not being assessed the secondary water fee in accordance with District policy. We have not received a response related to this matter. Because we have not received the necessary information to conclude on this issue, we are unable to determine if there is a legitimate reason that the District did not apply water fees to the users in question. Fees should be consistently applied without bias. When fees are inconsistently applied public trust deteriorates, potential revenue is lost, and misappropriation of funds could occur without detection.

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **Recommendation:**

**We recommend that the District charge secondary water fees consistently and without bias.**

### **12. INAPPROPRIATE DISTRICT POLICIES REGARDING MAINTENANCE OF AND ACCESS TO PUBLIC RECORDS**

This District does not have appropriate policies regarding maintenance of and access to public records as follows:

- a. While working with the District, we noted that formal Board actions such as policies, fees, and resolutions, are often maintained only in meeting minutes. Policies should be kept in a policy manual and other critical documents should be organized so that they can be efficiently accessed.
- b. Our office received citizen complaints regarding denied access to and incomplete or unfulfilled requests for public records held by the District. Certain Board members have indicated to us that they believe the District has satisfied requests for public information. A request for public records made under the Government Records Access and Management Act (GRAMA) requires a response within 10 days and imposes penalties for failing to properly respond to a request.

Although it is not necessary for our office to issue formal GRAMA requests to the District for information, we have also had difficulties receiving requested information from the Board. In our letter to the Board dated March 3, 2008, we requested several items from the Board. We issued a follow-up letter to the Board, dated September 4, 2008, wherein we noted that it had been over six months since our initial request and many of the requested items had still not been received. As a result, we were unable to conclude on many of the issues noted in the September 4, 2008 letter, and there continues to be several issues which are currently not resolved because the Board has not provided us with all of the requested information. This illustrates that our experience of not obtaining complete information from the District is consistent with citizen complaints.

- c. A fee schedule provided to our office on December 4, 2008 by the District states that, "An hourly rate of \$15 per hour will be charged for requesting meeting minutes." This policy may violate *Utah Code* 63G-2-203(2)(c) and (5)(b) which do not allow a governmental entity to charge for the first 15 minutes of a record search or to charge for allowing a requestor to inspect or view a record. It is reasonable to assume that meeting minutes which are properly prepared and organized would normally take less than 15 minutes to locate. In addition, if a person is requesting to view the minutes, then no charge should be assessed.

To allow the public appropriate access to the District's records and obtain transparency in government, the District should have a policy and procedure for handling public records requests that conforms to the State GRAMA law, including but not limited to defining how long and in what manner records are to be retained, which records are considered public information, how requests for public information should be made and filled, and when fees can be charged for photocopying and research.

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **Recommendation:**

**We recommend that the District adopt policies and procedures regarding public records including:**

- a. Compiling formal actions such as policies, fees, and resolutions in a policy manual.**
- b. Handling record requests in accordance with the State GRAMA law and provide records as required by law.**
- c. Organizing critical documents so they can be easily accessed, and determining whether fees can be charged for photocopying or research.**

### **13. UNREASONABLE REQUIREMENTS FOR PLACING ITEMS ON DISTRICT MEETING AGENDAS**

The District's policy requiring a citizen to provide ten days advance notice for an item to be placed on a meeting agenda is too restrictive. The District's newspaper notice for their November 13, 2008 hearing stated that, "Additional agenda items need to be in writing ten days prior to the meeting..." and then provided the post office box of the Board's Chair with no other contact information. This requirement indicates that a mailed written request is required. Since the advertisement was first published in the Gunnison Valley Gazette on October 30, 2008, a member of the public only had four days, one of which was a Sunday without mail service, to mail a request in order for an item to be received by the ten day requirement. In addition, the District does not have regularly scheduled meetings and has not published an annual meeting schedule; therefore, a member of the public has no other way of anticipating when to send a written request to be placed on a meeting agenda. Therefore, the District's requirement is unreasonable.

*Utah Code 52-4-202* requires that a public body give not less than 24 hours public notice of each meeting agenda. Therefore, the District has sufficient time to prepare an agenda without requiring ten days advance written notice.

### **Recommendation:**

**We recommend that the District modify their policy to allow a reasonable amount of time for a citizen to request that an item be placed on a meeting agenda.**

AXTELL COMMUNITY SPECIAL SERVICE DISTRICT  
RESPONSE TO THE LETTER FROM THE STATE AUDITORS  
DATED JUNE 1, 2009

1. INCOMPLETE ANNUAL FINANCIAL REPORT AND LACK OF INTERNAL CONTROL AND MAINTENANCE OVER ACCOUNTING RECORDS.

A. Axtell CSSD *disagrees*

The Axtell CSSD filed their signed 2008 financial report on June 1, 2009. Members of the board have reviewed this 2008 financial information. The error that existed with placing the \$22,500.00 as revenue has been corrected to show paying down the debit. Asset and liabilities are also included on the report. Enclosed with this letter is our signed 2007 financial report.

Since the Board has received training about the reports and was introduced to the "Little Manual for Local Districts" on March 20, 2008 much effort, time and money has been put into complying with the required financial reports, meeting guidelines and other requirements.

In December of 2008 the Board contacted the CPA firm *HintonBurdick* to help with financial reports. In an effort to improve our accounting and reporting. We have also purchased a software program (quick books). only to discover our computer needed to be upgraded to run the software program. The Board agreed and approved the purchase of a new computer.

B. The Axtell CSSD is keeping an organized accounting of money received and disbursements. In June of 2008 the board voted a Board member, Don Despain, to be the Treasurer. The District Treasurer is keeping an accurate detailed account of all monies received, and the clerk is maintaining the financial records, receipts are being retained and disbursements are being properly approved with supporting documentations. Bank reconciliations have been performed for the years 2007 and 2008. In recent meeting with our CPA, he stated our finances tied in to the penny from 2007 to 2008.

Last year Dwight Inouye, a County Commissioner stated our records looked excellent, several years ago another County Commissioner, Bruce Blackham, looked at several years of year end reports and stated our finances and records were really something to be proud of.

2. FAILURE TO PROPERLY FILE AND ANNUAL BUDGET OR PROVIDE PROPER NOTICE OF BUDGET HEARING

Axtell CSSD *disagrees*

The Axtell Community Special Service District held a board meeting on October 29, 2008 to review the tentative budget. The budget was approved by the Board, copies were available to the public. The date November 13, 2008 was set for the public hearing. At the public hearing the budget was formally adopted. The budget was filed to State Auditors office on December 3, 2008. As stated previously the \$22,500.00 revenue error has been corrected. The budget certification was submitted showing information from two previous year. Enclosed is a copy of our signed 2008 budget certification.

We as Board members are very frustrated that our Utah tax dollars are going to pay a state auditor to compile a letter to a Special Service District ( with a population of less than two hundred) , which would include a line item stating that the District had left off the "time" in a local advertisement announcing a public meeting . Despite the error this was one of our most attended Board meetings. We are taking the time and effort to respond with culinary waterdollars to say the time was left off accidentally, this was simply an over sight. This is an out rage.

### 3. LOSSES INCURRED BY DISTRICT WITH NO PLAN FOR MEETING FUTURE FINANCIAL OBLIGATIONS.

*Axtell CSSD disagrees*

Axtell CSSD has filed a 2007 & 2008 financial statement which states the District had an income of \$884.62 in 2007 and an income of \$30,085.54 in 2008. The State noted the District had incurred a loss of \$28,538.00 in 2007 and another projected loss of \$3,000.00 in 2008 this is not accurate. The District is very careful with their resources and plans to meet their debit obligations.

For this very reason we were very surprised and disappointed to receive another letter from the State. These letters are very time consuming and costly to respond to for our very small, small district. In our July 28, 2008 board meeting Claudia Jarrett, Dwight Inouye, Mark Anderson three of our Sanpete County Commissioners, many members of our community and concerned citizens of Axtell attended. Each line item from the auditor letter dated March 3, 2008 and other concerns were reviewed, discussed and resolved. At this time the board members, community members, all present agreed to move on.

In our 2009 meetings we have not had one disgruntled community member that has voiced a concern. We are wondering if this letter is beyond constructive criticism, beyond clear communication and understanding, crossing the line looking for and finding fault. The Axtell SSD has made some errors in the past, and probably will in the future. Isn't that how we learn? But we are putting forth a 'good faith' effort to improve and do our best. We are honest hard working people, who want to serve the community and improve the culinary water system for all who choose to live in Axtell. Most of the board members are farmers, ranchers, educators, who work very hard in their day jobs to come home to families, farming and chores and then volunteer to serve the community. We not only want to comply to the State requirements because they are required, but to do the right thing for our neighbors, friends and the people we associate with on a daily basis, the same people who voted us into office. There is no office, no office hours the District meets in a the corner of a shed donated by a member of the community, we refer to as the town shed. We share this shed with parts, pipes and tools.

### 4. CONFLICTS OF INTEREST

*Axtell CSSD disagrees*

In a small community the size of Axtell many men in the community have served on both the Willow Creek Irrigation board and the Culinary water board. It is true, in 2006, the President of the Board installed a fence around the storage pond and was paid \$2,775.00 by Willow Creek Irrigation Company for doing the work. In the past our maintenance man was the President of Willow Creek Irrigation. This is typical of a small rural community, most of the men on the Culinary Water Board own water stock in Willow Creek Irrigation Company. In March of 2008 we hired a new maintenance employee who is not related to a board member, and does not belong to the Willow Creek Irrigation Board.

### 5. CHECKS APPROVED BY A RELATED PARTY

*Axtell CSSD disagrees*

In June of 2008, Don Despain a board member was voted to be the District Treasurer (as mentioned in line item #1). He and the President of the Board currently are the signatures that are required to sign the District checks. Also, (as mentioned in #4) the District has hired a new maintenance man who is not related to the secretary or a member of the board, he was hired March of 2008. Enclosed is the supporting documents for the amount of \$420.00 for 580 Backhoe work to connect the water at the new home of Kelly Peterson dated March 16, 2007 and for November 2006 maintenance in the amount of \$164.14.

## 6. INAPPROPRIATE USE OF DISTRICT FUNDS FOR POST OFFICE EXPENSES

Axtell CSSD *disagrees*

The Post Office was built with culinary water funds that were paid back to the District in full. A letter was sent to all culinary water users, residence of Axtell, and a notice was posted in the Post Office for people to please donate money to pay the up keep and utilities for the Post Office. The letter also stated we would not be charging an additional .50 for the Post Office maintenance on their culinary water bill.

## 7. UNCLEAR RELATIONSHIP WITH IRRIGATION COMPANY

Axtell CSSD *Disagrees*

The Axtell CSSD and Willow Creek Irrigation will always have a working relationship because the districts water comes from Willow Creek Irrigation Company, both the secondary water and culinary water. The Axtell SSD has 311 shares of Willow Creek water. A few years ago we were maxed out on our source of providing culinary water to those who were wanting to move into our district. As board members of ASSD it was our governing responsibility to find or provide culinary services, that would protect and provide more water resources to those moving in. That is why we put a secondary water system. Willow Creek Irrigation applied for the loan and we pay Willow Creek Irrigation a yearly payment for the distribution lines. This has benefited Axtell CSSD greatly. We can now have double the amount of culinary hook ups to our system. This project was all approved by the State Board of Water resource. We charge \$20.00 per month per hookup for the secondary service, this money is used to make our payment to Willow Creek Irrigation. This charge has been voted on and approved and is also a part of our fee schedule.

## 8. NONCOMPLIANCE WITH IMPACT FEE LAWS

Axtell CSSD *disagrees*

On November 13, 2008 in a public hearing the fee schedule was voted on and adopted and a copy was sent to the State. This fee schedule includes the impact fee of \$4,619.00 plus three shares of Willow Creek Irrigation along with other requirements.

In a letter sent to your office on June 18, 2008 we responded to question #7 Impact Fees (from your letter dated March 3, 2008). We sent you the information from Franson-Noble & Associates (our engineering firm) the calculations they used to determine our impact fee, our source capacity study information was also contained in this letter and the information concerning requirement for Willow Creek Shares of water. This letter also included the minutes dated August 1, 2001 when the Board approved the impact fee of \$4,619.00 plus shares of Willow Creek Irrigation. A copy of this letter and the information is enclosed.

Franson Noble & Associated, Inc. our engineering firm stated that the Axtell CSSD does not need a capital facilities plan, because the population in our district is under 5,000. A source capacity study was done. Impact fees have been determined by the Board with the help of Franson & Noble to be reasonable for the service provided. These fees are being separately accounted for in an interest bearing account.

## 9. INAPPROPRIATE AND IMCOMPLETE POLICIES OVER BOARD MEMBER AND EMPLOYEE COMPENSATIONS AND RESPONSIBILITIES

Axtell CSSD *disagrees*

The Axtell CSSD pays each Board member and the clerk a one time year end salary for attending meetings. The President of the Board receives an additional monthly amount for the added responsibilities of being the President of the Board.

A yearly one time amount is paid for billing the monthly statements. Billing statements is considered regular monthly activities which includes mailing the culinary water statements and all the work associated with the monthly billing activities, such as: entering meter readings that calculate water usage, and overrun amounts, entering individual payments to culinary water accounts, job responsibilities that occur regularly every month of the year.

Employees such as the maintenance man and clerk, are paid hourly rates for job responsibilities that do not occur regularly each month. For example; one month the maintenance person may have to repair or replace a meter, or fix a leak on a water line. These repairs are different each month and sometimes none existent, in addition to taking water samples and meter readings duties that are included in his job description. An hourly rate paid to the clerk is for job responsibilities that also do not occur regularly every month. For example; reviewing and typing board minutes, typing meeting notifications, responding to letters, making phone calls, typing and sending letters to delinquent past due accounts, year end financial reports, quarterly financial reports and working with the new software program, working with the CPA, etc. These job responsibilities do not occur every month and they require different amounts of time depending on the situation when they do occur. The Treasurer is also paid an hourly rate to account for monies coming into the District and depositing the monies into the checking account. The time spent on financial reporting has dramatically increased since March of 2008 when the District was introduced to the "Little Manual for Local Districts". This line item was actually discussed at length in our Board meeting on July 10, 2008. More than several members of the community spoke out in support of the Board members compensation, especially for the President of the Board. Many people clapped showing their support for the comments that had been made in support of the Board. According to our minutes this line item was resolved in our community in the minutes of our July 28, 2008 meeting.

## 10 ALLEGED INAPPROPRIATE USE OF GRANT FUNDS

Axtell CSSD *disagrees*

The 2001 grant funds were not misused. All the pipe is in the ground. The entire east side of the Axtell special district has been looped in and is finished. One 30 ft area needs to be finished on the west side of the district. We have all the parts and have scheduled to finish this project, currently the work has stopped because contractor we hired has had a serious accident.

## 11. ALLEGED INCONSISTENCIES WITH ASSESSMENTS FOR SECONDARY WATER FEES

Axtell CSSD *disagrees*

The 15 people on your list were not being assessed for secondary water because they have not been hooked on to the system. The District does not charge people for the Secondary water until they are hooked on to the system receiving secondary water service. The contractor that has been working on the secondary system hook ups, had an accident this Spring, work on the secondary hook ups has stopped for now. The following is the list of 15 culinary water users that were not being charged for secondary water that live within the Willow Creek Irrigation System and their status to getting hooked up:

1. Joan Gillies -hook up complete and is currently being charged
2. Bryan Young -hook up complete and is currently being charged
3. Dennis Anderson - partial not finished
4. Guy Palmer, owns land currently has no home or livestock
5. Clyde Kramme owns land currently has no home or livestock
6. Dan Erickson - scheduled to be hooked on
7. Rex Olsen - scheduled to be hooked on
8. Randy Carter - schedule to be hooked on
9. Francis Thornahlen - scheduled to be hooked on
10. Micaela Gonzales - scheduled to be hooked on
11. Susan Bard - scheduled to hooked on
12. Walt Kling - scheduled to be hooked on
13. Dean Mecham - refused (no relation )
14. Elwood Sorenson - Gunnison Irrigation ( has another source of secondary water)
15. Bernitta Mecham - Gunnison Irrigation (has another source of secondary water)

## 12. INAPPROPRIATE DISTRICT POLICES REGARDING MAINTENANCE OF AND ACCESS TO PUBLIC RECORDS.

*Axtell CSSD disagrees*

The District has a separate manual for policies and meeting minutes. There has only been two requests for minutes from the Axtell SSD in many, many years. One request was unreasonable requesting every time there had been a motion made and board approval for five different items from the past twenty seven years. After some discussion the citizen did not pursue the minute request. The District to date has never charged anyone for receiving a copy of the minutes. The intent of the \$15.00 charge was for time beyond 15 minutes for research, compiling and copying. The District also has a new form for citizens to fill out to request minutes that states the minutes will be returned ten days from the date of the request. The Board is continually trying to improve recordkeeping and accounting to better serve the community.

## 13. UNREASONABLE REQUIREMENTS FOR PLACING ITEMS ON DISTRICT MEETING AGENDAS

*Axtell CSSD disagrees*

It was Bruce Blackham, the County Commissioner who suggested we request a ten day time frame for items to be put on the agenda for the purpose of preparation. The minutes state this motion was made and approved by all board members. The District has been putting public notices concerning our board meetings in the paper when it is not legally required to, to help increase awareness to the community of the public Boards meetings, we have been advised not to do this. In the future only the meetings required will be advertised in the local newspaper.

If you have any questions, please contact Travis Blackburn @ 435-528-3852, President of the Axtell Community Special Service District.

Sincerely,

  
Travis Blackburn

# **AXTELL COMMUNITY SPECIAL SERVICE DISTRICT**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2004 THROUGH DECEMBER 2008**

### **AUDITOR'S CONCLUDING REMARK:**

We are disappointed that the District has chosen to respond negatively to the findings and recommendations rather than working to improve the weaknesses noted. Based on the evidence we obtained and based on the District's inability or unwillingness to provide certain information we requested, the findings we have issued are both accurate and appropriate. While the District's responses say they disagree with each finding, much of the detail in their explanations validate and confirm the accuracy of the findings and recommendations. In general, we find the District's response to be inappropriate, inaccurate, inconsistent, and often completely unresponsive to the findings identified.

While it is not necessary to point out each inaccuracy in the District's response, one inaccuracy must be mentioned. The financial statements prepared by the District for the years ended 2007 and 2008 intentionally do not include all expenses and, therefore, do not comply with generally accepted accounting principles. As a result, the income reported of \$884 for 2007 and \$30,085 for 2008 is significantly overstated. As stated in the finding, we are concerned that the District's revenue sources will not be sufficient to cover the obligations to which the District has committed.

Again we encourage the District to review each of the findings and recommendations and take appropriate action to correct the deficiencies identified to facilitate the effective and transparent operation of the District.

# AXTELL COMMUNITY SPECIAL SERVICE DISTRICT

## ISSUES RESOLVED

<b>Issue:</b>	Failure of Board members to obtain training as required by law.
<b>Status:</b>	Resolved – The Board received training on March 20, 2008
<b>Issue:</b>	Improperly adopting fees without providing notice and following public hearing requirements as required by law.
<b>Status:</b>	Resolved – The District provided our office with a fee schedule on August 12, 2008 and stated that it was properly adopted in a public hearing.
<b>Issue:</b>	Inappropriately conducting business in a closed meeting in violation of State law.
<b>Status:</b>	Resolved – The Board has stated that they now understand the law and will only enter into a closed meeting as allowed by law.
<b>Issue:</b>	Lack of a competitive procurement and purchasing policy.
<b>Status:</b>	Resolved – The District sent us a letter dated December 3, 2008, indicating that a procurement and purchasing policy had been formally adopted.
<b>Issue:</b>	\$35,000 loan made to a private irrigation company without a written loan agreement.
<b>Status:</b>	Resolved – The District prepared a formal loan agreement, dated July 28, 2008 with the irrigation company and provided our office with a copy of the agreement on August 12, 2008.