
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: February 13, 2004

SUBJECT **Salt Lake City's Comprehensive Annual Financial Report and Letter to Council and Mayor on Internal Controls**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Management Services
Gordon Hoskins

CC: Rocky Fluhart, Gordon Hoskins, Ken Cowley, Tim Campbell, Mark Stevens, DJ Baxter

KEY ELEMENTS:

Comprehensive Annual Financial Report – The Department of Management Services recently issued the City's Comprehensive Annual Financial Report for the year ended June 30, 2003. The CPA firm Deloitte & Touche audited the financial statements. A representative of the CPA firm and representatives from the Department of Management Services will be present at the work session to answer questions that the Council may have regarding the annual financial report.

Management Letter – In performing the audit, the auditors reviewed the City's internal control structure in order to determine auditing procedures. Although the audit was not designed to provide complete assurance on the internal control structure, the auditors noted certain matters in a letter submitted to the Council and Mayor. The recommendations contained in this letter are designed to help the City make improvements and achieve operational efficiencies. City managers have included a response to the recommendations.

Single Audit Report on Federal Grants – As part of the financial audit, the auditors performed tests of the City's compliance with laws, regulations, contracts, and grants. The single audit report includes a schedule of expenditures of federal awards for the year totaling over \$23 million (pages 5-8). Grant expenditures include almost \$8 from the U.S. Department of Housing and Urban Development and \$14 million from the U.S. Department of Transportation for airport improvements and for the intermodal hub.

Required Communications from Auditor – Auditing standards require the auditor to inform the oversight body of any matters that represent a significant deficiency in the design or operation of the internal control structure, significant audit adjustments, disagreements with management, and difficulties encountered in performing the audit. Mark Stevens from Deloitte & Touche will be present to give the "required communications."

MATTERS AT ISSUE:

During the financial audit, the auditors noted a few internal control weaknesses. These shortcomings are summarized below along with a synopsis of the responses from City managers. Please refer to the auditors' letter for a more comprehensive discussion of the observations/recommendations and for the complete responses from City managers.

Formal policies and procedures on fraud – The City has not formalized its policies and procedures with regard to fraudulent financial statement reporting and misappropriation of assets.

Response – The City will begin the process of formalizing these policies and procedures.

Review and approval of bank reconciliations – Bank reconciliations are not reviewed and approved by someone independent of the preparer.

Response – The preparer's supervisor now reviews and initials bank reconciliations.

Segregation of duties relating to issuing payments – Accounts payable checks are both printed and mailed in the Accounting Office. The auditors recommend additional segregation of duties.

Response – The Finance Director will look for alternatives to split responsibilities or improve check writing and mailing controls.

Access to traffic and parking ticket master file – The ability to make changes to the court's master file should be limited to only a few authorized individuals, and an audit trail should record the name of the person making each update.

Response – Subsequent to the audit, the update capability has been limited to the Traffic Section Manager and the Court Director, and an update log tracks changes by individual.

Segregation of duties relating to court cashiers – Cashiers receiving payments for parking or traffic tickets should not have authority to reduce fines for tickets.

Response – Although cashiers still have the ability to reduce citations, several new controls have been put in place to limit cashiers' ability to pocket part of the payments and reduce fines for tickets to cover the fraud.

Control over computer source code – If code changes need to be made to the City's interactive fund accounting system (IFAS), programmers make these changes on the same server as the production application is running on.

Response – During the audit, the City's Information Management Services Division was in the process of a hardware upgrade and a test server was not in use. A test server was installed shortly thereafter, and testing does not affect production data.

Unsecured computer files – Writable files were found on the UNIX environment that should have been secured to prevent unauthorized changes.

Response – Procedures have been implemented to secure these files so that they can be changed only by system administrators.

Computer password controls – Some computer password controls are out of compliance with the City’s password requirements (e.g., no password required, passwords of less than five characters, passwords that don’t expire, unique password not required).

Response – The City has taken corrective action in response to most of the password inconsistencies noted and will be working with specific users to resolve the remaining discrepancies.

Physical access to the computer server room – Access controls to the servers in the computer center allow access to programmers and security personnel that don’t need access.

Response – Access privileges are now limited to those that have a specific job function in the server room.

The single audit report contained one finding relating to a federal grant at the Airport, which reimbursed the Airport for a portion of additional or revised security requirements imposed on or after September 11, 2001. The grant was for the specific time period of September 2001 through September 2002. Federal grant regulations require that the Airport develop a methodology for tracking the various activities performed by the police officers so that there is support that the grant funds were used for additional, incremental security as opposed to existing security costs. The urgency and one-time nature of the grant made it very difficult to implement such additional procedures.

Note: Deloitte & Touche will follow up on all of the recommendations in about six months when they begin the field work for the next annual financial audit.