SALT LAKE CITY COUNCIL STAFF REPORT

DATE:	February 11, 2005
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, Brenda Hancock, Mark Stephens, DJ Baxter

KEY ELEMENTS:

<u>Comprehensive Annual Financial Report</u> – In December, the Department of Management Services issued the City's Comprehensive Annual Financial Report for the year ended June 30, 2004. 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.

<u>Required Communications from Auditor</u> – 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 Stephens from Deloitte & Touche will be present to give the "required communications."

<u>Management Letter</u> – 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. A separate letter form City managers regarding the management letter is also included.

MATTERS AT ISSUE:

During the financial audit, the auditors noted three internal control weaknesses. These observations are summarized on page 2 along with a synopsis of the responses from City managers. Please refer to the auditors' letter for a more comprehensive discussion of the observations and recommendations.

Separation notices are not always signed by the department supervisor – The auditors noted two instances where a separation notice was not signed by a supervisor.

Response – The Human Resource Management Division provided training for the applicable payroll administrator. Monitoring procedures have been established to ensure that future separation notices contain the appropriate approval.

Access to data center – Nineteen programmers have universal access to the computer room. Physical access to the computer servers should be limited to ensure that only employees that have a specific job function to the data center are granted access.

Response – Information Management Services (IMS) implemented this recommendation as soon as it was brought to the City's attention. Access rights will be reviewed every six months to ensure that only those who have job function that require access to the computer room are allowed to enter.

Network user access codes – Not all individual users have unique user access codes. Some locations have one user access code for multiple users.

Response – IMS is in the process of reducing the number of operating systems from three to two. This will help resolve unique user access codes and improve the compliance to network security controls. In locations where multiple users access a single computer, IMS will explore the use of biometric authentication such as fingerprint readers.

Deloitte.

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December 10, 2004

The Honorable Mayor and Members of the
  City Council of Salt Lake City Corporation
451 South State Street
Salt Lake City, Utah 84111

Dear Honorable Mayor, Members of the City Council,
  and Affected Departments and Offices:

In planning and performing our audit of the basic financial statements of Salt Lake City Corporation (the "City") for the year ended June 30, 2004 (on which we have issued our report dated December 10, 2004), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the City's internal control. Our consideration of the City's internal controls would not necessarily disclose all matters in the City's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining internal control, and of the objectives of and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the City's internal control and its operation that we consider to be a material weakness as defined above.

We did note other matters relating to the City's internal control and certain other accounting, administrative, or operating matters. Our observations and recommendations are presented below.

INTERNAL CONTROL, ACCOUNTING, AND ADMINISTRATIVE MATTERS

Employee Termination

Observation: When an employee terminates, a Separation Notice must be signed by the department supervisor and retained by Human Resources. We noted two terminated individuals within Public Services whose Separation Notice was not signed by the proper authority. The termination policies requiring Department Supervisor signature for termination was not followed by the Public Services Department and Human Recourses Department. The individual was terminated and correctly removed from the payroll system, but the correct signature was not present for termination.

Recommendation: Human Resources should monitor Separation Notices for proper approval.

Member of
Deloitte Touche Tohmatsu

INFORMATION MANAGEMENT SERVICES

Physical Access to the Data Center

Observation: There are 19 programmers that have universal access to the data center and multiple access cards exist for the Plaza security team.

Risk Impact: This access is not necessary for some of these individuals to perform their job functions. There is increased risk that systems in the data center may be inappropriately accessed and changed.

Recommendation: Management should review the physical access list and ensure that only employees that have a specific job function to the data center are granted access.

Novell and NT Security

Observation: The Novell NetWare network and NT network security controls could be improved. Not all individual users have unique user access codes. Some locations have one user access code for multiple users.

Risk Impact: The existence of shared user accounts makes it impossible to maintain accountability for all activities and changes made to the systems. If inappropriate or fraudulent changes were made to the systems, management would be unable to determine which individual initiated those changes.

Recommendation: Management should require that all NetWare and NT accounts be in compliance with the City's Information Protection Guidelines and Procedures.

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This report is intended solely for the information and use of the Mayor, City Council, affected departments and offices of the City, and oversight governmental agencies and is not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of the recommendations.

Yours truly,

Deloitte & Touche LLP

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and government accounting and financial reporting standards.

Limitations

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

ROCKY J. FLUHART
CHIEF ADMINISTRATIVE OFFICER

SALT LAKE CITY CORPORATION
DEPARTMENT OF MANAGEMENT SERVICES
ACCOUNTING AND FINANCIAL REPORTING

ROSS C. "ROCKY" ANDERSON
MAYOR

February 7, 2005

The Honorable Mayor and Members of the
 City Council of Salt Lake City Corporation
451 South State Street
Salt Lake City, Utah 84111

Dear Mayor and Members of the City Council:

As Management, we respond and have or will address Deloitte & Touche's observations and recommendations contained in their letter dated December 10, 2004. For purposes of clarity, each observation has been recited, as we received it in draft form, and our response is below the applicable observation.

Observation: When an employee terminates, a Separation Notice must be signed by the department supervisor and retained by Human Resources. We noted two terminated individuals within Public Services whose Separation Notice was not signed by the proper authority. The termination policies requiring Department Supervisor signature for termination was not followed by the Public Services Department and Human Recourses Department. The individual was terminated and correctly removed from the payroll system, but the correct signature was not present for termination.

Management Response: We took immediate action to correct the approval process. Human Resources has provided technical assistance and oversight to departments, ensuring that appropriate managers sign termination documents, and has counseled the payroll administrator in Public Services. The Public Services Department is now following the correct procedure. Both Human Resources and Payroll staff have committed to auditing separation notices and taking corrective action relative to appropriate signatures and approval processes.

Observation: There are 19 programmers that have universal access to the data center and multiple access cards exist for the Plaza security team.

Management Response: This issue was immediately resolved as soon as it was brought to our attention. We will review the access rights every six months to insure that only those who have job functions that require access to the computer room are allowed to enter.

Observation: The Novell NetWare network and NT network security controls could be improved. Not all individual users have unique user access codes. Some locations have one user access code for multiple users.

Management Response: The Novell Networks are being replaced by Microsoft networks. That project should be completed during FY 2005. This will reduce the complexity of our current network. We currently have three different operating systems (Novell, Microsoft and UNIX).

Reducing the number of different operating system significantly simplifies and reduces the cost to use biometric authentication (fingerprint readers, proximity readers, electronic tokens, etc.) to assists with password synchronization. This will help resolve unique user access codes and single access codes for multiple users. This will improve the compliance to network security controls as noted in the recommendation.

Sincerely,

Gordon Hoskins, Finance Director