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Honorable Mayor and Members of the City Council
Salt Lake City Corporation

In planning and performing our audit of the financial statements of Salt Lake City Corporation (the City) as of and for the year ended June 30, 2008, in accordance with auditing standard generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiency

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

08-1 Housing Authority Loans

Criteria: It is the City's policy that receivables are recorded in conformity with generally accepted accounting principles.

Statement of Condition: In prior years, the City loaned the Housing Authority a total of \$1,295,000 for the Canterbury Apartment project. The loans were originally booked in the Community Development Block Grant (CDBG) Operating Fund. During the year, the City decided to transfer the loans to the Miscellaneous Grants Fund but failed to eliminate the receivables from the CDBG Fund, essentially double-booking the loans. We proposed an adjustment to eliminate the receivables from the CDBG Fund.

Cause: Controls do not exist, or were not sufficient, to prevent or detect the error.

Recommendation: We recommend that the City take proper measures to ensure that receivables are properly eliminated when transferred between funds.

Effect: If this type of error goes undetected, account balances could be under- or over-stated.

Management's Response: The transfer of loans from one fund to another is very unusual. In addition to the unusual entries to make the transfer, they were mistakenly treated as usual transactions in the subsidiary ledger and as a result, also in the general ledger. Procedures have been established in the Housing and Neighborhood Development Division to notify the Finance Division when unusual transactions that affect receivables occur. These procedures will prevent this error from recurring in the future.

08-2 Property and Equipment

Criteria: It is the City's policy that property and equipment are recorded in conformity with generally accepted accounting principles.

Statement of Condition: We selected a sample of asset additions to test and found that eight motorcycles were traded in for new motorcycles during the year. After reviewing the transaction, we discovered that the motorcycles were recorded at the incorrect cost basis. In total, the cost basis for these motorcycles was understated by \$68,477.

Cause: Controls do not exist, or were not sufficient, to prevent or detect the error.

Recommendation: We recommend that the City take proper measures to ensure assets are capitalized at the correct amount.

Effect: If this type of error goes undetected, account balances could be under- or over-stated.

Management's Response: The Finance Division has set up a template for use when old assets are traded in during the purchase of new assets. Fleet Management's use of this template in their year-end checklist will eliminate this oversight.

08-3 Liabilities

Criteria: It is the City's policy that liabilities are recorded in conformity with generally accepted accounting principles.

Statement of Condition: While reviewing compensated absence summary information for the City, we discovered that the Excel file the City uses to summarize the compensated absence liability contained a formula error. This formula error resulted in an understatement of compensated liabilities of \$196,194.

Cause: Misstatement was the result of an error in calculating the liability.

Recommendation: We recommend that the City take proper measures to ensure that liabilities are stated at the correct amount.

Effect: If this type of error goes undetected, account balances could be under- or over-stated.

Management's Response: Upon discovery, the formula error was immediately corrected and an

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adjusting journal entry prepared to correctly record the compensated absences liability. The corrected formula will be used in the future.

08-4 Inventory

Criteria: It is the City's policy that inventory is recorded in conformity with generally accepted accounting principles.

Statement of Condition: Our audit testing disclosed that fleet inventory had not been updated from the prior year balance. An updated inventory list was obtained from City employees and an adjustment for \$395,624 was booked to update the balance.

Cause: Controls do not exist, or were not sufficient, to prevent or detect the error.

Recommendation: We recommend that the City take appropriate measures to ensure inventory is updated for all departments.

Effect: If this type of error goes undetected, account balances could be under- or over-stated.

Management's Response: The Finance Division has a central checklist for use during our year-end processing. This particular task has been added to the checklist and any needed reminders will be sent out to the people responsible for recording year end inventories.

This report is intended solely for the information and use of the Mayor, City Council, City management, and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Barnett & Maxwell, P.C.

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Salt Lake City, Utah
December 22, 2008