

## SALT LAKE CITY COUNCIL STAFF REPORT

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**DATE:** February 7, 2003

**SUBJECT** **Salt Lake City's Comprehensive Annual Financial Report and Letter to Council and Mayor from Auditors**

**AFFECTED COUNCIL DISTRICTS:** Citywide

**STAFF REPORT BY:** Gary Mumford

**ADMINISTRATIVE DEPT.** Management Services  
**AND CONTACT PERSON:** Gordon Hoskins

**CC:** Rocky Fluhart, David Nimkin, Gordon Hoskins, Elwin Heilmann, Mark Stevens

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### 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, 2002. The CPA firm Deloitte & Touche audited the financial report. 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.

Changes in Accounting Policy – In fiscal year 2002, the City adopted changes in accounting policy as required by the Government Accounting Standards Board. The major changes reflected in the Comprehensive Annual Financial Report are: (1) adding management's discussion and analysis as required supplementary information, (2) changing from "combined" financial statement that do not eliminate inter-fund transactions to basic financial statements that do eliminate most inter-fund transactions, (3) capitalizing and depreciating infrastructure assets retroactively to at least fiscal year 1980, (4) capitalizing and depreciating retroactively those assets formerly reported in a general fixed asset account at cost without any depreciation shown on the statements, (5) adding an additional statement for governmental funds that reports transactions on a full accrual basis with reconciliation to statements prepared using modified accrual basis of accounting, (6) adding information that compares original adopted budget to final amended budget, (7) providing more detail in the notes to the financial statements, and (8) changing the format and captions of many statements. Implementing the new accounting standards delayed the financial report about one month compared to past years.

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.

Required Communications from Auditor – Recent statements on 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:**

The auditors’ reported observations are listed below. Recommendations relating to the observations and management’s responses are contained in the letter from the auditors.

1. Management does not have formal written policies and procedures with regard to fraudulent financial statement recording and misappropriation of assets.
2. Manually prepared journal entries sent from the decentralized departments for posting by the City’s Accounting office do not always include proper supporting documentation.
3. Certain fixed asset items purchased in the Police Department were recorded incorrectly. Specifically, a service contract was capitalized instead of expensed, and another fixed asset was capitalized as the payments were made rather than at the time of purchase and for the total purchase price.
4. Signed accounts payable and payroll checks are routed back to the preparer and initiator of the check for mailing, rather than to someone who is independent of the process. Additionally, undeliverable checks are returned to the accounts payable clerks, who again, are not independent of the preparation of checks or authorization of payment.
5. The City does not currently have a comprehensive business continuity plan in place. The lack of business continuity planning and testing can increase the difficulty and expense associated with restoring processes after a disaster or disruption.
6. Computer programmers are currently responsible for both programming changes and for moving changes into the production environment on in-house developed applications. There are insufficient controls in place to ensure that only authorized and properly tested programs are moved into production, resulting in an increased risk of unauthorized or improperly tested changes affecting production data.
7. Unix computer accounts are created for all new employees, regardless of whether access is required for performance of their job related duties. This has resulted in a significant number of inactive and redundant user accounts, which could provide intruders with unnecessary opportunities to gain access to the Unix system with little risk of detection.
8. Novell NetWare network computer security configuration in a few cases falls below the standards established in the City’s Information Protection Guidelines and Procedures, and below common business practices. Weak passwords increase the risk of unauthorized access to the City’s information system and resources, and inappropriate password change intervals increases the risk of unauthorized access as passwords become common knowledge among system users.

**Options:** The financial auditors will follow up on these recommendations in about six months when they begin the field work for the next annual financial audit. The Council may wish to follow up on these recommendations in connection with the review and adoption of the budget, or the Council may wish to request a written progress report within about 90 days.