

A REPORT  
TO THE CITIZENS OF SALT LAKE COUNTY  
BEN McADAMS, MAYOR



An Audit of the Key Controls of  
Utah State Tax Commission

March 25, 2013

**GREGORY P. HAWKINS**

SALT LAKE COUNTY AUDITOR

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March 25, 2013

Ben McAdams, Mayor  
Salt Lake County  
2001 S State St #N2100  
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Utah State Tax Commission

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Utah State Tax Commission in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Utah State Tax Commission and the cooperation from Scott Stevens and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Utah State Tax Commission during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins  
Salt Lake County Auditor

By Larry Decker CPA, CIA  
Sr. Deputy Auditor

cc: Barry Conover, Executive Director  
Scott Stevens, Chief Financial Officer





## Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Utah State Tax Commission. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

## Conclusion

A vulnerability faced by the Utah State Tax Commission is whether sales tax collections are remitted to the correct entity, either a city or county. Essentially, they rely on the taxpayer's tax return to identify where the business is located. One solution to creating more accuracy in location status is to compare the County's business license file to the Utah State Tax Commission's file of businesses by location designation. The Commission's files would then be updated, as needed.

## Findings, Recommendations, and Management Responses

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***Finding # 1 - Sales tax was vulnerable to being remitted to the wrong city or county due to occasional errors in location designation.***

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**Risk Level: Low**

Standard business practice requires that a procedure be implemented to ensure that businesses are designated by the correct city or county in which they are located for remittance of sales tax.

Errors in business location designation were at risk of occurring close to city or county borderlines.

The TC-62 tax return form requires each business to state the city where their business is located. Some businesses may designate their city location based on a zip code or what they think their location is. The Tax Commission relies on taxpayers, and the city or county itself, to ensure that location is coded correctly for sales tax remittance. The Commission also uses the Salt Lake County Street Guide.

When relying solely on the taxpayer to determine business location, some cities or counties may lose out on sales tax due to them.

### ***Recommendation***

We recommend that the Utah State Tax Commission work towards an interface with Salt Lake County's business license file and the Commission's tax address file to help ensure that business locations are coded correctly for sales tax remittance.

***Management Response***

As recommended by the Salt Lake County Auditor, the Tax Commission will work with the County to create a "business license file/sales tax coding file" comparison process that helps ensure business locations are coded correctly for sales tax purposes.

## **Additional Information**

### **Background**

The Utah State Tax Commission collects income, sales, and other taxes statewide. A portion of the sales tax remains with the State, and the rest is remitted to counties and cities. Out of the sales tax rate, 1% is remitted to each city and county for sales occurring in their localities. This is referred to as the “Local Option Tax.” Counties also receive an additional .25% in what is termed the “County Option Tax.” An added tax on restaurant meals, car rentals, and hotel rooms is also remitted to the County.

### **Scope**

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending December 31, 2012. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.