

Town Council and Senior Management
Town of Paradise Valley, Arizona
Paradise Valley, Arizona

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paradise Valley, Arizona (the Town) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weakness

We consider the following deficiency in the Town's internal control to be a material weakness.

Material Audit Adjustments

During our review of accounts payable balances we noted that expenditures related to worker's compensation expense were posted twice in the general ledger. Therefore, audit adjustments of \$90,214 and \$17,980 were required in the General Fund and HURF Fund respectively to properly reverse the duplicate accrual. The accounts payable ledger was properly reconciled to the general ledger, but a subsequent entry was made to record those payments again in an accrued liabilities account.

We recommend the Town review its internal controls over financial statement preparation and year end closing procedures to ensure account balances are accurately reported at their adjusted value. In order to prevent a similar error, the year-end closing procedures should include a reconciliation of unrecorded liabilities to the accounts payable balances to prevent duplicate amounts from being recorded as accounts payable and accrued liability.

Significant Deficiency

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Town's internal control to be a significant deficiency.

Segregation of Duties

Documentation of a supervisor's review and approval of an employee's timecard was not maintained; the timecard was only signed by the employee and the supervisor's indication of review and approval was not documented.

The lack of internal control review procedures puts the Town at risk for a misstatement due to error or fraud. We recommend the Town review internal control procedures over payroll processing to ensure documentation is retained to support a supervisor's review and approval.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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This communication is intended solely for the information and use of management, the Town Council, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Phoenix, Arizona
November 2, 2015