



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 (Town) as of and for the year ended June 30, 2019, 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 first 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 have not been identified. We identified deficiencies in internal control described below that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiencies described below to be a material weakness.

Restatement of Beginning Net Position

We proposed and the Town subsequently recorded an entry to restate beginning net position of the governmental activities for an error in the previously issued financial statements. In the prior year, the Town made pension contributions to the public safety personnel retirement system in excess of the required contributions; however, the excess contribution was recognized as an expense in the governmental activities and should have been reported as a deferred outflow of resources.

We recommend the management review the summary of pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense and reconcile the recorded pension activity to the reports provided by the public safety personnel retirement system and to the contributions recorded as an expenditure at the fund level financial statements. Any variances should be investigated and resolved to prevent and detect a similar error in the future.

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 deficiency described on the following page to be a significant deficiency.

Information Technology User Access Rights

During our audit we noted that two management level employees had full user access rights to the financial accounting software. Maintaining segregation of duties and limiting user access rights will mitigate the threat of management override of controls over financial reporting.

We believe the Town should limit user access rights to those functions necessary to perform each employee's job function. Additionally, the Town should ensure user access rights are segregated so an individual does not have access to create, post, alter, and review transactions.

We have already discussed 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.

* * *

This communication is intended solely for the information and use of management, 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Phoenix, Arizona
November 21, 2019