



HEINFELD, MEECH & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



January 3, 2012

Honorable Mayor and Members of the Town Council  
Town of Oro Valley, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oro Valley, Arizona for the year ended June 30, 2011, and have issued our report thereon. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibilities under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, and OMB Circular A-133**

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Town of Oro Valley, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Town of Oro Valley, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Town of Oro Valley, Arizona's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Town of Oro Valley, Arizona's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of Town of Oro Valley, Arizona's compliance with those requirements.

### **Other Information in Documents Containing Audited Financial Statements**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and communicated to management throughout the planning and performance of the audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas that were tested.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Town of Oro Valley, Arizona are described in Note 1 to the financial statements. Management has informed us there were no new accounting policies adopted during the year, nor were there any changes in the application of existing policies. We noted no transactions entered into by the Town of Oro Valley, Arizona during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The disclosures in the financial statements are neutral, consistent, and clear.

As described in Note 1, the Town of Oro Valley, Arizona implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle. GASB Statement No. 54 established standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any uncorrected misstatements and/or audit adjustments that we deemed to be material.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter provided to us at the conclusion of the audit.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town of Oro Valley, Arizona's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Responsibility for Fraud**

It is important for both management and the Town Council to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document is provided as a courtesy and provides some basic steps that should be taken to help prevent fraud from occurring in your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the Town Council in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

The information in this letter is intended solely for the use of the Town Council and management of Town of Oro Valley, Arizona and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

## **Steps Management Should Take in Preventing the Occurrence of Fraud**

**First and Foremost, acknowledge that fraud can and does occur** – Fraud occurs in organizations often because management provides the perpetrator with a substantial amount of authority and a high degree of trust. Consequently, management performs limited or no review of the individual's work. Recognizing that fraud can occur in any organization, including your own, is the first step in prevention.

**Clearly communicate to employees the behavior that is expected of them** – Believe it or not, ignorance has been cited as a common cause of fraud. Some employees have been trained to commit fraudulent acts without knowing what they were doing, just assuming that "that's the way it's done".

**Take strong action against employees who commit fraud** – Call the police or other law enforcement agency and press charges. Failing to do so sends a message to other employees that management doesn't take fraud seriously.

**Provide employees an opportunity to report the occurrence of fraud or other abuse anonymously** – In a recent survey, one in five employees said they were personally aware of the occurrence of fraud in the workplace. Eighty percent said they would be willing to report fraud if they did not have to identify themselves. Management can establish a fraud hotline, "suggestion boxes," or other means to enable employees to bring the occurrence of fraud to its attention without requiring employees to give their names.

**Conduct your own activities on a high ethical level** – Employees will follow the lead of the governing body and management, whether that lead is ethical or not. More than what is said or included in a policy manual, the actions of the governing body and management establish behavioral norms.

**Be alert to changes in employee attitudes, behavior and lifestyles** – Because of day-to-day contact, management is in the best position to observe the unusual – attitudes that are hostile or defensive toward management or the organization in general, changes in behavior that are inconsistent with employees' normal disposition or lifestyles that are not reasonable based on the employees' level of compensation. Matters that may be of particular concern include:

- Indications of dissatisfaction with compensation, or a lack of promotion
- Indications of gambling
- Indications of drug use or excessive use of alcohol
- Indications of financial distress
- Indications of severe stress

## **Steps Management Should Take in Preventing the Occurrence of Fraud**

**Perform thorough background checks on all new employees** – Call former employers and educational institutions for verification of previous employment and education. Beware of "gaps" in employment or educational history. Consider obtaining a credit report (if authorized by the candidate) before employment.

**Require uninterrupted vacations for all employees and establish a schedule of rotation of employee responsibilities** – More than just good management, rotation of duties provides a strong disincentive to commit fraud. In addition, it provides an opportunity to discover fraud that has already occurred.

**Establish a budget** – The governing body/management should establish an operating budget and monitor actual results on a regular basis. Any significant variances should be investigated.

**Monitor exception reports** – Unprocessed transactions should be carefully examined for propriety. This includes revenues, expenses, purchasing and payroll transactions.

**Control the mail** –The mail should be picked up by an employee who has no responsibilities related to the handling or recording of deposits, accounts receivable records or revenues. All remittances should be directed to a post office box. Limiting access to the organization's mail is essential in preventing the unauthorized negotiation of cash receipts.

**Control the bank statements** – Similarly, the bank statements should be picked up by an employee who has no related responsibilities and delivered to the management or other person independent of the reconciliation process. This person should review the contents of the statements before they are reconciled. Specific items to be alert to include:

- Missing checks
- Checks issued out of sequence
- Unknown payees
- Checks that appear to have been altered
- Checks not signed by authorized signatories
- Other unusual items

**Account for sequences** – Whether it is checks, invoices, credit memoranda, receiving reports, shipping documents, or other pre-numbered items, all sequences should be accounted for. Voided documents should be defaced to prevent unauthorized use and retained to complete sequences.

## **Steps Management Should Take in Preventing the Occurrence of Fraud**

**Control general journal entries** – Management should either make or personally review and approve all general journal entries. Supporting documentation should be reviewed before approving general journal entries. In particular, the following items should be investigated:

- Entries made to unrelated accounts
- Entries made to receivables or revenues at or near the close of a period
- Entries made by persons whose responsibilities are not consistent with the accounts being adjusted

**Obtain reasonable fidelity bond coverage** – If the unthinkable occurs, insurance coverage is the most likely means of recovery of amounts misappropriated. The amount of coverage should be reviewed periodically for adequacy.

**Evaluate the internal control framework** – Lastly, evaluate the internal control framework of your organization. One particular useful evaluation tool is available in the Committee of Sponsoring Organization's (COSO) guidance on internal control over financial reporting for smaller organizations. This guidance may be obtained through the AICPA's website at [www.cpa2biz.com](http://www.cpa2biz.com) (product #990017).

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