

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Oro Valley, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Town of Oro Valley, Arizona's basic financial statements, and have issued our report thereon dated January 8, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 75.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Oro Valley, Arizona's internal control over financial reporting (internal control) to determine the 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 Town of Oro Valley, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Oro Valley, Arizona's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item FS-2018-001 that we consider to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Oro Valley, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Town of Oro Valley, Arizona's Response to Finding

Town of Oro Valley, Arizona's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Town of Oro Valley, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
January 8, 2019

**TOWN OF ORO VALLEY, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2018-001

**Repeat Finding:** No

**Type of Finding:** Significant Deficiency

**Description:** Communication of Financial Information

CRITERIA

The Town is responsible for establishing procedures to ensure that all financial transactions are communicated to the Finance Department and captured in the Town's financial records.

CONDITION

The Town's current procedures were not adequate to ensure that transactions which occurred outside of the Finance Department were reported to the appropriate individuals for recording in the Town's general ledger. This led to the following errors:

- Street infrastructure contributed to the Town was not captured in capital asset records.
- Impact fee credits issued to developers were not recorded in the Town's general ledger.
- A cash contribution received was incorrectly recorded as deposits payable.

CAUSE

When the Town updated its development impact fees and Town ordinance in 2014 to comply with State law changes, formal written internal procedures were not developed to establish the necessary forms and processes for administering and accounting for impact fee credit agreements. The primary source of documentation was held in email communications and internal spreadsheets.

EFFECT

Without sufficient procedures to ensure all financial transactions are recorded there is risk the Town's financial statements will be misstated.

CONTEXT

The Town received \$2.5 million in street infrastructure in the current year which was not added to the Town's capital asset records. Additionally, \$630,830 in impact fee credits were issued in exchange for the contributed infrastructure. Of these credits, \$199,000 were drawn on and used by developers during the fiscal year. The Town did not record transactions related to the impact fee credits, resulting in a misstated general ledger. Also, a cash contribution of \$133,000 was incorrectly recorded as a deposit payable.

RECOMMENDATION

The Town should implement procedures to ensure that all transactions and pertinent financial information is being communicated to the Finance Department and captured in the Town's financial records.

**TOWN OF ORO VALLEY, ARIZONA  
SCHEDULE OF FINDINGS AND RESPONSES  
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**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Finding Number:** FS-2018-001

VIEWS OF RESPONSIBLE OFFICIALS

Officials from the Community and Economic Development Department, Public Works Department, Legal Department, and Finance Department are developing the formal written procedures and forms necessary to properly account for impact fee credit agreements. These procedures will be completed by February 15, 2019, and will be followed by training with all key staff involved in collecting, approving, managing and accounting for impact fees and impact fee credit agreements. It is important to note that while the Town did not have formal written procedures in place, all information related to the value of infrastructure constructed and impact fee credits was readily available and able to be entered into the Town's financial records through journal entry posting.