



**City of Scottsdale, Arizona**  
**Management Letter**  
Year Ended June 30, 2016

Honorable Mayor and Members of the City Council  
City of Scottsdale, Arizona

In planning and conducting our single audit of the City of Scottsdale, Arizona for the year ended June 30, 2016, we performed the following as required by *Government Auditing Standards* (GAS) and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance):

- Considered the City's internal control over financial reporting,
- Tested internal controls over its major Federal programs, and
- Tested compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the City's financial statements and major federal programs.

Any audit findings that are required to be reported by GAS and Uniform Guidance have been included in the City's Single Audit Reporting Package for the year ended June 30, 2016. Our audit disclosed opportunities for strengthening internal controls and instances of noncompliance with laws and regulations that did not meet that reporting criteria. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, contracts, and grant agreements. Those items and our related recommendations are briefly described in the accompanying summary.

This information is intended for the use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. However, this information is a matter of public record, and its distribution is not limited.

We have already discussed these items and suggestions with City 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.

Sincerely,



Heinfeld, Meech & Co., P.C.  
Phoenix, Arizona  
October 27, 2016

**CITY OF SCOTTSDALE, ARIZONA  
MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2016**

Internal Controls Over Revenues

**Finding 1:** For 10 of 20 voided transactions reviewed in the iNovah software system, supervisor approval was not documented.

**Finding 2:** For three of 10 voided transactions reviewed in the Active Net software system, the void was not approved by a supervisor in a timely manner. The City did detect the error and obtained appropriate approval documentation at year end.

**Recommendation:** Supervisor approval should be obtained and documented in a timely manner for any voided transactions related to the cash receipting system.

Internal Controls Over Retainage Payables

**Finding:** For one construction project reviewed that was on-going at year end, the City did not record the associated liability for retainage in the amount of \$202,008.

**Recommendation:** The City should review construction projects to ensure all associated year end liability amounts have been reported in the financial statements.

Internal Controls Over Reporting Operating Leases

**Finding:** The disclosure in the notes to the financial statements for future minimum payments of operating lease rental revenue for the Skysong facility was understated by approximately \$1.7 million.

**Recommendation:** City personnel should review lease agreements that have rate changes on an annual basis to ensure the footnote disclosure for future rental revenue is properly presented.