



CITY AUDITOR'S OFFICE

FY 2014/15 Financial and Compliance Audit

November 3, 2015

AUDIT REPORT NO. 1601

CITY COUNCIL
Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
Vice Mayor David N. Smith



Enclosed is the City's FY 2014/15 Financial and Compliance Audit reports. The City contracted with the certified public accounting firm of Heinfeld, Meech & Co., P.C. to complete the audits of the City's financial statements and required compliance reports.

The City Auditor's Office monitors the audit contract and submits the reports to the Audit Committee for review. After its November 16, 2015, review, the Audit Committee recommended the Council accept the reports. The financial and compliance audit reports were subsequently accepted by the City Council at its December 2, 2015, meeting.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Kyla Anderson, CIA, CLEA - Senior Auditor

CITY COUNCIL REPORT



Meeting Date: December 2, 2015
 Charter Provision: *Submit the independent audit of the City's annual financial statements to the Council*
 Objective: *Commitment to economic sustainability and transparency*

ACTION

FY 2014/15 Annual Financial Audit. Accept the FY 2014/15 annual financial audit reports submitted by the City's external auditors, Heinfeld, Meech & Co., P.C.

BACKGROUND

The City Charter requires the Council to designate the certified public accountants (CPAs) to perform an independent audit of the City's annual financial statements. The Charter further states these reports are submitted to the Council and shall be a matter of public record.

After performing the annual financial audit, the contracted CPA firm reports on the City's Comprehensive Annual Financial Report (CAFR) and on the annual financial reports of its component units: the Community Facilities Districts (CFDs), the Municipal Property Corporation (MPC), and the Scottsdale Preserve Authority (SPA). For the City to meet its federal funding requirements, the CPA firm also reports on the City's expenditures of federal assistance (called a "Single Audit" report). Further, to meet certain state funding requirements, the CPA firm reports on the City's compliance with its Highway User Revenue Fund (HURF) uses. Later, typically in January, the CPA firm will also report on a Housing and Urban Development (HUD) required financial schedule for the City's federally-supported housing programs and on the City's state-required Annual Expenditure Limitation Report.

The Audit Committee received these FY 2014/15 annual financial audit reports at its November 16, 2015, meeting. After review and discussion with Jill Shaw of Heinfeld, Meech & Co., P.C., the Audit Committee voted 3-0 to recommend the City Council accept the reports.

ANALYSIS & ASSESSMENT

In its *Independent Auditor's Report* on the City's FY 2014/15 comprehensive annual financial report (CAFR), the CPA firm stated the auditors attained reasonable assurance that the financial statements fairly present, in all material respects, the financial position, changes in financial position and cash flows of the specified activities and funds. The Independent Auditor's Report, which is on pages 13 through 15 of the CAFR, also notes in the "Change in Accounting Principle" paragraph that the City adopted a newly applicable accounting standard related to accounting and financial reporting for pensions, but this did not modify the auditor's opinion on the financial statements.

The Independent Auditor's Report describes management's responsibility for the financial statements, the auditors' responsibility in auditing the financial statements, and the level of review the auditors performed on other information contained within the CAFR.

As required, the CPA firm's *Communication with Governance* letter for the CAFR summarizes significant changes in accounting practices, which were required by newly applicable accounting standards; describes sensitive accounting estimates, which the firm found reasonable; and makes other required disclosures. This letter does not identify any matters of concern.

The *Single Audit* reports include the CPA firm's reports on the City's: 1) internal control over financial reporting and compliance based on the financial statement audit and 2) compliance with certain federal funding requirements, internal control over compliance, and the schedule of federal awards expended. The CPA firm did not identify any internal control deficiencies or noncompliance that it considered reportable, and it reported that prior audit findings were corrected. As well, the CPA firm concluded that the City's schedule of expenditures of federal awards, which details federal awards totaling almost \$13.0 million expended during FY 2014/15, was fairly stated.

The CPA firm reported its opinion that the City complied with the state's requirement to use *HURF* monies for authorized transportation purposes.

As with the City's CAFR, the CPA firm issued *unmodified* opinions on the separate annual financial reports of the CFDs, MPC and SPA for FY 2014/15. The firm's *Communication with Governance* letters for each entity did not disclose any matters of concern. In addition, the CPA firm issued an *Independent Auditor's Report* on internal control over financial reporting and compliance based on a financial statement audit for each of these entities, and did not identify any internal control deficiencies or noncompliance that it considered reportable.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

As recommended by the Council's Audit Committee, accept the FY 2014/15 annual financial audit reports submitted by Heinfeld, Meech & Co., P.C.

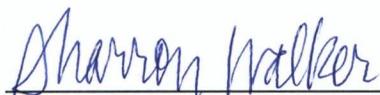
RESPONSIBLE DEPARTMENT(S)

Offices of the City Treasurer (*financial reports*) and the City Auditor (*independent audit*)

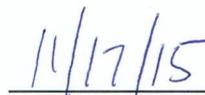
STAFF CONTACTS (S)

Jeff Nichols, City Treasurer, and Sharron Walker, City Auditor

APPROVED BY



Sharron Walker, City Auditor
(480) 312-7867, SWalker@ScottsdaleAZ.gov



Date

ATTACHMENTS:

1. City of Scottsdale Reports

- a. [Comprehensive Annual Financial Report \(CAFR\)](#)
 - i. [Communication with Governance](#)
- b. [FY 2014/15 Single Audit Reporting Package](#)

2. CFDs, MPC, and SPA Reports

- a. [DC Ranch](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- b. [McDowell Mountain](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- c. [Municipal Property Corporation \(MPC\)](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- d. [Scottsdale Mountain](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- e. [Scottsdale Preserve Authority \(SPA\)](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- f. [Via Linda](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)
- g. [Waterfront](#)
 - i. [Communication with Governance](#)
 - ii. [Report on Internal Control over Financial Reporting and Compliance](#)

3. State Compliance Letter

- a. [HURF](#)

City Auditor's Office

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Audit Committee

Councilwoman Suzanne Klapp, Chair
Councilmember Virginia Korte
Councilwoman Kathy Littlefield

City Auditor's Office

Kyla Anderson, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Internal Auditor
Dan Spencer, Senior Auditor
Sharron Walker, City Auditor



The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity.