

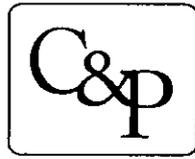
TOWN OF MIAMI, ARIZONA

Government Auditing Standards
Reports

June 30, 2011

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**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***

To the Town Council
Town of Miami, Arizona

We were engaged to audit the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Miami, Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 30, 2014. We did not express an opinion on the Town of Miami's financial statements because the scope of our work was not sufficient to enable us to express such an opinion. Except as discussed in the preceding sentence, we conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Miami, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Miami, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Miami, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all of the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Miami, Arizona's financial statements are free of 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*.

The Town of Miami, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town of Miami, Arizona's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Colby & Powell

May 30, 2014

TOWN OF MIAMI, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-01 – Records Storage and Retrieval

Condition - During our audit we noted that important accounting records could not be located when needed for audit purposes. These records included detailed supporting documents and subsidiary ledgers and journals.

We believe that this deficiency is a deficiency in internal control over financial reporting.

The causes of the problem appear to be (a) lack of a clearly specified system for filing records, (b) failure of those who removed records from the files to indicate who took the record, (c) failure to return the record to the files or misfiling it when it was returned, and (d) lack of specific policies for removing prior year records from the files to a designated storage space. The result was that employees spent nonproductive time searching for need documents. In several instances needed documents were unable to be located. This condition could also present problems when documents are needed in support of tax returns and other reports subject to audit by us or other governmental agencies.

While the Town has made improvement in its recordkeeping since the prior audit, there were still items that could not be located during the audit process. We recommend that the following steps be taken: (1) Decide on a systematic manner of filing documents, for example, vendor bills alphabetically by vendor name, journal entries by month, and so on. Describe the system in an accounting manual or post a description on the filing cabinets or in the storage room so that employees will know how to find and refile documents. (2) Also, decide on when records should be removed from more accessible files to other storage areas. For example, some organizations keep current and prior year records in the accounting department or in storage rooms on the Organization's premises and store older records at an off-premise secure location. (3) Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.

We also noted that various accounting records, such as monthly accounts receivable detail reports could not be provided. It is our understanding that the Town's computer system does not allow for some accounting reports to be generated after the month end date has passed. Therefore, it is important to produce certain detailed reports at specific time periods, and to maintain these records for possible analysis by users such as management, independent auditors, or other governmental bodies.

This deficiency is considered to be a material internal control weakness. This is a repeat finding.

Response - Staff has made significant progress in organizing, and storing important records. Management will continue to emphasize and practice goods records management.

TOWN OF MIAMI, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-02 – Internal Control over the Preparation of the General Ledger

Condition - The year-end general ledger was not prepared or reconciled on a timely basis. The year-end general ledger prepared and presented to us for audit also contained errors, inconsistencies, and omissions.

The original general ledger software used by the Town during the audit period became inoperable sometime after the end of the audit period. A new accounting software system was installed and the entire fiscal year general ledger was recreated. Information for the new general ledger was derived from bank statements, copies of return checks, and other sources rather than from original source documents. Many of the entries in the general ledger were summary in nature and did not include sufficient useful detail.

The general ledger is the backbone of the financial reporting system and is key to the proper safeguarding of assets. The importance of a properly reconciled and timely prepared general ledger cannot be overstated.

Management should assess the adequacy of the design of its policies and procedures related to preparation of the general ledger and design appropriate controls and procedures as necessary. When developing control policies and procedures for a process, management should consider where errors or fraud could occur that would cause a material misstatement in the financial statements and which policies or procedures, if operating properly, would prevent or detect the error or fraud on a timely basis. Special care should be taken to include all financial transactions in the general ledger.

Employees should be instructed and properly trained to perform appropriate activities, such as an accuracy and completeness check, approval, and review, as part of their daily activities, and appropriate, timely investigations and corrective actions should be taken if errors are identified by the check and review process. The policies and procedures management develops, documents, and communicates should include routine transaction processing and recording matters as well as nonroutine matters such as journal entries and revenue recognition. The policies and procedures should also include the identification of those positions responsible for the policy and for performing the steps or procedures; and for handling questions about, or exceptions to, the policy. The policies and procedures can be documented in a number of ways, including narratives, flowcharts, or checklists.

This deficiency is considered to be a material internal control weakness. This is a repeat finding.

Response - The Town is implementing controls and procedures, and assigning specific personnel to prepare and reconcile the general ledger and bank accounts on a timely basis. Several staff members have been receiving training on the operations of the new accounting software. It is expected that this training along with adequate staffing will help correct this finding.

TOWN OF MIAMI, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-03 – Reconciling Accounts to Supporting Documentation

Condition - Few of the general ledger accounts were reconciled to supporting documents or subsidiary ledgers.

In order to make the financial reports generated by the accounting system as meaningful as possible, the Town should reconcile the general ledger accounts to supporting documentation or subsidiary ledgers on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Bank statements were not reconciled to the appropriate general ledger accounts until just prior to the beginning of the audit fieldwork. Timely preparation of complete and accurate bank reconciliations is a key to insuring that cash receipts and disbursements are properly recorded. Other account balances, such as accounts receivable, accounts payable, loan balances, etc., should also be adjusted to the correct balances on a monthly basis. These reconciliations and adjustments will ensure meaningful and accurate financial statements.

This deficiency is considered to be a material weakness. This is a repeat finding.

Response - The Town is continuing to implement adequate procedures and assigning specific personnel to reconcile accounts, especially bank accounts, on a regular and timely basis.

TOWN OF MIAMI, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-04 –Debit Card Transactions

Condition - We noted during the audit that debit card transactions are not being properly authorized before used to purchase goods or services. We also noted that the receipts supporting the debit card purchases are given to finance personnel with no indication as to the purpose of the expenditure or which department made the transaction.

Debit card transactions are similar to other cash transactions, such as petty cash, and require strong internal control procedures to prevent errors or misuse.

We recommend that preapproval, such as a purchase order by the department head, be used for all debit card purchases. This type of preapproval will not only help in the prevention of errors and irregularities but also in the proper classification of expenditures. Employees should be held accountable for their use of Town debit cards.

This deficiency is considered to be a significant deficiency.

Response – The Town agrees with this recommendation and will take steps to strengthen the internal control over the use of debit cards.

TOWN OF MIAMI, ARIZONA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-05 – Control the Numerical Sequence of Checks Used

Condition - During our audit testing of the cash accounts, we noted that checks were not used in numerical sequence.

To prevent unauthorized use and ensure that all checks issued are recorded in the proper period, we recommend that all checks be used in order. Additionally, tight control should be maintained over used and unused checks to prevent misuse and to make sure that all checks issued are recorded in the appropriate period.

We recommend that management periodically review the cash disbursement journal to determine that checks are being written in numerical sequence. Also, the sequence of used and unused check numbers should be accounted for periodically.

This deficiency is considered to be a significant deficiency. This is a repeat finding.

Response - Management concurs with this finding and is continuing to implement periodic procedures to review that checks are issued in numerical sequence.