

Management and  
The Honorable Mayor and the City Council of the  
City of Sedona, Arizona

In planning and performing our audit of the financial statements of the City of Sedona, Arizona (City) for the fiscal year ended June 30, 2008 we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on internal control.

However, during our audit, we became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated October 19, 2008 on the financial statements of the City of Sedona, Arizona.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**COURT RECEIPTS**

<i>Condition</i>	Base fine and surcharge amounts were not always calculated correctly.
<i>Context</i>	Two of twenty court receipts tested.
<i>Criteria</i>	Minimum Accounting Standards for Arizona Courts (MAS) and internal control procedures.
<i>Effect</i>	Noncompliance with MAS and internal control weakness.
<i>Cause</i>	Clerical error.
<i>Recommendation</i>	In order to comply with MAS and strengthen internal controls, base fines and surcharges should be calculated based on the rates set by MAS.

## COMPUTER CONTROLS

<i>Condition/ Context</i>	Back-up files were not required to be tested to ensure proper data recovery and business continuity.
<i>Criteria</i>	Internal control procedures.
<i>Effect</i>	Internal control weakness.
<i>Cause</i>	City oversight.
<i>Recommendation</i>	In order to strengthen internal controls, back-up files should be tested periodically to ensure proper data recovery and business continuity.

## ACCOUNTS RECEIVABLE

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|-------------------------------|---|
| <i>Condition/<br/>Context</i> | The City has a policy regarding collection procedures for past due accounts; however, it does not have a policy addressing bad debt write-offs.   |
| <i>Criteria</i>               | Accounting principles generally accepted in the United States of America (GAAP).  |
| <i>Effect</i>                 | An immaterial overstatement of accounts receivable.   |
| <i>Cause</i>                  | The City has not established a policy to determine what percentage of accounts are uncollectible.   |
| <i>Recommendation</i>         | In order to comply with GAAP, the City should establish a policy for determining the percentage of accounts receivable deemed uncollectible. In addition, a contra account to accounts receivable should be established to account for those uncollectible receivables. |
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| <i>Condition/<br/>Context</i> | Accounts receivable subsidiary ledgers were not reconciled to the general ledger monthly.  |
| <i>Criteria</i>               | Internal control procedures.   |
| <i>Effect</i>                 | An immaterial difference existed between the subsidiary ledgers and the general ledger.  |
| <i>Cause</i>                  | City oversight.  |
| <i>Recommendation</i>         | In order to strengthen internal controls, accounts receivable subsidiary ledgers should be reconciled to the general ledger monthly and any variances should be investigated and resolved. |

We wish to thank the City staff for their support and assistance during our audit.

This report is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

*Cronstrom, Osuch + Company, P.C.*

Cronstrom, Osuch & Company, P.C.

October 19, 2008