

# Audit Comments and Disclosures Required by State Regulations



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DANIELS PLLC

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QUINCY  
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YAKIMA

## INDEPENDENT AUDITORS' COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

ACCOUNTING

AND

### **Accounting Records**

CONSULTING

We found the records of the City to be generally well maintained and adequate to meet the City's needs.

SERVICES

### **Internal Accounting Control**

See letter "Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."

MEMBER OF

### **Debt Limitation**

McGLADREY

The City did not exceed its debt limitation during the year ended June 30, 2005.

NETWORK

### **Budget Compliance**

We reviewed the budgets for 2004-2005 and 2005-2006, and the procedures used in their preparation, adoption, and execution. The budgets were prepared, adopted, and executed substantially in compliance with the Local Budget Law.

### **Insurance and Fidelity Bond Coverage**

We examined the insurance policies and fidelity bonds relating to City coverage. We ascertained that such policies were in force at June 30, 2005. We are not competent by training to state whether the insurance coverage in force at June 30, 2005, is adequate.

### **Programs Funded by Outside Sources**

Programs funded by the federal government were not tested in conformity with requirements of OMB Circular A-133 as the amount of expenditures under such programs was below the amount required for audit of such program expenditures.

### **Highway Funds**

The City appears to have complied with legal requirements pertaining to the use of revenue from taxes on motor use fuel.

### **Accountability of Funds**

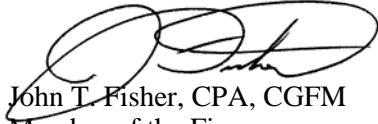
No elected officials of the City were entrusted with funds.

### **Collateralization of Public Funds**

We reviewed the City's compliance with legal provisions regarding collateralization of public funds on deposit with depositories. Cash on deposit met the minimum collateral requirements throughout the year ended June 30, 2005.

### **Public Contracts and Purchasing**

We reviewed and tested, to the extent deemed necessary, the City's adherence to legal requirements regarding awarding of public contracts and found that legal provisions were complied with.



John T. Fisher, CPA, CGFM  
Member of the Firm  
LeMaster & Daniels PLLC  
Yakima, Washington  
October 14, 2005



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

ACCOUNTING

AND

CONSULTING

SERVICES

Honorable Mayor, Members of the  
City Council and City Manager  
City of Milton-Freewater  
Milton-Freewater, Oregon.

MEMBER OF

McGLADREY

NETWORK

We have audited the financial statements of the City of Milton-Freewater, Oregon, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. 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 City of Milton-Freewater, Oregon's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Milton-Freewater, Oregon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the following paragraph.

Adjusting journal entries performed upon the City's accounting records do not require approval from department heads. The same level of control exercised over purchase transactions should also be applied to adjustments to the accounting records. Lack of department head approval can lead to unapproved transactions being recorded. Procedures should be implemented to ensure that all nonstandard journal entries are approved by the appropriate level of management.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted certain matters that we have reported to management of the City of Milton-Freewater, Oregon in a separate letter dated October 14, 2005.

## Compliance

As part of obtaining reasonable assurance about whether the City of Milton-Freewater, Oregon's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, Members of the City Council, the City Manager, 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.

A handwritten signature in cursive script that reads "LeMaster & Daniels PLLC".

Yakima, Washington  
October 14, 2005