

**Audit Committee
Draft Minutes
November 6, 2009 1:00pm
Council Chambers
1175 East Main Street**

Call to Order

The Audit Committee meeting was called to order at 1:15.

Roll Call

Committee members Nutter, Silbiger, Christensen and Everson were present. Stebbins was absent.

STAFF PRESENT: MARTHA BENNETT, CITY ADMINISTRATOR
 LEE TUNEBERG, ADMINISTRATIVE SERVICES AND FINANCE DIRECTOR
 CINDY HANKS, FINANCE DIVISION MANAGER/ ACCOUNTING DIVISION
 DON ROBERTSON, PARKS DIRECTOR
 MELISSA HUHTALA, ADMINISTRATIVE SECRETARY

Mr. Tuneberg discussed the election of a Chair and gave an overview of what would be discussed.

Everson/Silbiger ms Guy Nutter as Chair. All Ayes.

Approval of Minutes

Audit Committee Minutes of October 29, 2008

Everson identified misspelling of her name on page.

Everson/Nutter ms to approve minutes as submitted. All Ayes.

Presentation by the Auditors

Kenny Allen presented to the Committee the Audit report (see attached). Mr. Allen stated that there were no new significant deficiencies during the audit. There were no difficulties encountered in performing the audit, no uncorrected misstatements, and no disagreements with management. Mr. Allen thanked the staff for their assistance. Kenny discussed how there are FDIC and collateral rule changes each year.

Banks are looking at increasing the percentage involving collateral. Mrs. Christensen stated that the banks will continue to increase collateral percentage as the years continue.

Parks Management Letter:

Mr. Allen presented the Management Report for Ashland Parks and Recreation. He suggested that City and Parks formalize their intergovernmental agreement for accounting services.

Mr. Allen discussed other matters. He stated that over the last year or two there is more risk for investments. Since it is a difficult time to be in investments, investments should be looked at more carefully.

Mr. Allen discussed Local Government Investment Pool. The Pool is an investment even though it is treated as a depository. Ms. Christensen stated that the money is not all in the pool about 44% of the City's portfolio is in a Pool. She stated that the portfolio was recently updated, which includes changes in the banking industry.

Mr. Allen discussed page 43 regarding future earnings. He stated that each year the City looks at the investment pool and figures what the value of each share would be. The Committee questioned how the City would be affected if the pool were to see a large amount of investors leaving. Mr. Allen answered that the loss would be heavier for the City. If all investors leave then the State takes the loss.

Mr. Allen discussed Future Accounting and Auditing Issues: GASB 51 and GASB 54 (see attached). He stated that there is more detail of what reservations and requirements are.

The Committee questioned whether item number three (see attached) in the Parks and Recreation Management letter continues forward as an exception. Mr. Allen answered yes.

The Committee questioned who is in charge of investment policy for the City. Ms. Christensen answered she is who is in charge.

City Management Letter:

Mr. Allen went over the City Management Letter and stated that there were no new deficiencies in the FY 2008-09 audit. Mr. Allen stated the recommendations that were repeated from the report to management for the year ended June 30, 2008 (see attached).

Mr. Allen discussed investments and third parties. The Committee questioned seize and desist orders and if it is addressed in investment policy. Ms. Christensen answered that the City is only allowed in certain securities and certain banks, for example collateralization. She also stated that not just small local banks get seize and desist orders.

Mr. Tuneberg thanked Cindy Hanks and the Accounting group for all their hard work throughout the year. Due to the hard work the audit was done quicker than prior years. Mr. Tuneberg also thanked Melissa Huhtala for putting the CAFR/CUFR documents into new software.

Mr. Tuneberg thanked elected officials for their work and support. Mr. Tuneberg stated that not all agencies do the Audit to the level that the City of Ashland does. He thanked the auditors for their work.

Mr. Tuneberg discussed the CAFR and CUFR replacement pages and stated that there may be more corrections until the final books go to the printer. Mr. Tuneberg stated that both reports have clean audit opinion which can be found on page three for the City and page one for Parks.

Mr. Tuneberg discussed historical information. He stated that the City has gone through several years of decreases in fund balances, but in this last budgetary year the City has tightened belts and has scene improvements in the ending fund balance.

Committee Discussion:

The Committee questioned page 45 in receivables. The Committee questioned why this year's receivables are higher then last years and noticed that Hotel Receivables were not mentioned last year but were this year. Ms. Hanks responded that last year there was a minimum report required by GAP, but recommended more disclosure for this year.

The Committee questioned how long write offs are in the books before determined not collectable bad debt. Mr. Tuneberg answered that each write off has a different schedule.

The Committee questioned whether staff goes to Council to make sure the write offs are within the timeline of debt collected. Mr. Tuneberg answered no, but if there was a prevalent issue then the write off would be taken to Council.

The Committee questioned why the CPI had a decrease in the time frame that says to make the comparison (page 57). Ms. Bennett stated that a specialty use permit for the Forest Service has a cap of \$200,000. The Committee suggested this information to be disclosed.

The Committee questioned where the value of Ashland Community Hospital is reflected. Mr. Tuneberg answered that the original values of the structure is reflected on page 100. Mr. Tuneberg stated that assets stated on page 100 are secure.

The Committee questioned what the interfund loan reflects on page 89. Ms. Bennett answered that it was the purchase of the Clay Street property. It is a loan from the City to the City, meaning the City owns the land and the City got a loan to purchase the land. Since the Food and Beverage Tax has been renewed Parks now has a revenue stream. The first \$625,000 will go to pay the loan.

Public Input-

None

Signing the Annual Letter-

Mr. Tuneberg asked if there were any issues that would prevent the Committee from accepting the report and signing the annual letter allowing the comprehensive annual financial report to Council.

Everson/Silbiger ms that the Committee signs the annual letter accepting the City's audit and financial report. All ayes.

The letter was submitted for the Committee members to sign.

Review of Audit Contract

Mr. Tuneberg discussed the Audit contract renewal. He stated that Fiscal Year 2009-10 is the third year of a three year contract with Pauly, Rogers and Co., PC. There is a possibility of two, one year extensions of the contract. Lee discussed the options of extending the contract with Pauly, Rogers and Co. or to go out and bid for a new auditor. He stated that three years ago Pauly, Rogers and Co. was the only one to bid now there are more options.

The Committee stated that it is recommended to bid. Ms. Christensen stated that she is happy with auditors and supports extending the contract another year.

The Committee questioned staff as to whether or not they would prefer to bid or extend the contract. Cindy Hanks stated she would prefer to extend the contract.

The Committee stated that it is a good idea to extend the contract as it may be difficult to switch. The Committee stated that by going out to bid may cause the price to go up a big chunk. The Committee also stated that five years is usually the longest a contract should go.

After hearing the Committee's comments Mr. Tuneberg stated that it sounded as though the group is okay with extending the contract with Pauly, Rogers and Co.

Everson/Nutter ms to extend the contract with Pauly, Rogers and Co. All Ayes.

Mr. Tuneberg stated a quote from Kenny Allen. Due to the Audit being done in such a successful manner the price for audit will be reduced for next year. Mr. Tuneberg stated that the audit was successful because of staffs hard work and dedication. The book was written entirely by staff and is electronic format, therefore making it much easier for the auditors.

One difficult thing during this years audit was the actuarial study. Mr. Tuneberg stated that four or five years ago there were more problems and since then staff has been correcting those issues. Staff has been working on internal controls, cross training, documenting and thinking about audit all year round which brings the City a successful audit!

Mr. Tuneberg suggested the Committee getting together again in March to lay out all information and talk about new requirements to plan for the audit. By March there will be an informal update on comments that the auditor made on internal controls.

Adjournment

The meeting was adjourned at 2:50 p.m.

Respectfully Submitted,

Melissa Huhtala
Administrative Secretary
Administrative Services Department

**CITY OF ASHLAND
ASHLAND, OREGON**

**2008-2009
MANAGEMENT REPORT**



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 28, 2009

City of Ashland
City Council and Audit Committee

In planning and performing our audit of the financial statements of City of Ashland as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered City of Ashland's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal controls. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

The Auditing Standards Board issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, effective for audits of financial statements for periods ending on or after December 15, 2006. This statement requires auditors to evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses, and if so communicate them in writing to those charged with governance.

SAS No. 112 specifically identifies a few common control deficiencies which must be addressed in each audit to determine if a significant deficiency exists, and based on our evaluation we have identified significant deficiencies in the design or implementation of internal controls, which are noted below.

We consider the following deficiencies to be significant deficiencies in internal control:

There were no new significant deficiencies during the 2008-09 audit. The following are our recommendations for the previous year. The comments are repeated from our report to management for the year ended June 30, 2008, for perspective.

1. We noted that the City does not have a written internal control policies and procedures document. In applying SAS 112 we believe that the City should adopt formal policies/procedures for all accounting areas, especially as it pertains to internal controls and the identification of key controls. Our audit did not uncover significant deficiencies pertaining to these areas other than the items noted below, however the policies/procedures in place are not in writing. We recommend at a minimum that the following areas be addressed (this constitutes a partial list, other areas of internal control should be addressed):
 - o Controls over expenditures to ensure that there are no fraudulent checks or checks written in error - Who tracks the check sequence, who reviews the canceled checks back from the bank, who has custody of checks, and who is authorized to approve disbursements?
 - o Detailed explanation of the controls over cash accounts, including how many people it takes to open/close an account, controls over wire transfers, and review of bank reconciliations.
 - o Controls over cash receipting – How do you ensure that receipts are always given, and that all receipts are recorded in the general ledger. How often are deposits taken to the bank.
 - o What internal controls and monitoring is used for reviewing and ensuring that the financial statements are accurate and are in conformance with GAAP (the control procedure here would be sending staff to training on new pronouncements, etc.)
 - o Any internal audit functions, antifraud programs, etc.
 - o Monitoring of internal controls by management and the governing body to ensure that controls are functioning properly and are evaluated when systems, the environment, and employees change.
 - o Other areas that could be discussed - capital asset accounting, employee dishonesty insurance, physical security of documents, payroll processing/timesheets, and any other applicable financial areas.
 - o Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the City address their segregation of duties issue in their internal control policies and procedures.

Status: During FY 2008-2009 Finance staff developed an internal controls document that outlined the controls in place including those incorporated within other established policy, operations and procedures documents. The documents and the process of revising or updating other referenced (subordinate) documents were approved by Council in May, 2009. The intent is to review, revise and/or update each element when significant changes are made with all elements receiving at least a departmental review every three years.

2. We noted that the Information Technology (IT) department does not have a cohesive written internal control document that details out their internal controls over their internally developed utility billing system. We also noted that there was no cohesive written internal control document that details the general controls over all computers and systems City-wide. We recommend that the City develop written internal control procedures for these areas. We also recommend that that IT department have an external review of the processes and controls from an outside entity.

Status: IT has developed a comprehensive policy on pass word protection and it is currently going through an Administrative Review since violations of the adopted policy will have an element of disciplinary action included. The final version will be an adopted City Administrative policy in FY 2009-2010.

3. We noted that the Community Development accounts receivable detail contained many items which were either extremely old or items that have already been paid. We recommend that the Community Development Department reconcile and review their listing of accounts receivable and either write the receivable off because the item has been paid or follow up with the customer to obtain payment.

Status: During FY 2008-2009 this receivable has been reconciled and all differences resolved providing accurate balances in the City's general Ledger.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any significant deficiencies that are considered to be material weaknesses.

OTHER MATTERS

- o In reviewing your investment practices we noted that the City has investments with the Local Government Investment Pool. According to the Office of the State Treasurer, the Pool is not managed as a stable net asset value and as such the preservation of principal is not assured by the Treasury. The City also uses other financial instruments such as CD's and US Government Securities. As the safety of public funds is the primary responsibility of every public investment officer, we recommend that you continually monitor and evaluate the risks versus rewards of your investments. In addition we recommend that your investments and investment strategies are periodically reviewed by a group of knowledgeable individuals to assess investment performance, risk, compliance, and to ensure policies and practices are updated as necessary.
- o We noted that the City uses various third parties to process accounting information, such as Pinnacle, the City of Springfield, and Jackson County. One area of emphasis in the past few years of new accounting and auditing standards has been a greater emphasis on documenting and implementing stronger internal controls. Due to this emphasis the City should obtain some assurances from third parties that their internal control and systems produce accurate and reliable information. We recommend that the City request one or more of the following from these third parties: a SAS 70 service auditors report, their audited financial report, the management letter, a copy of the internal control documents, and a copy of their accounting procedures.

FUTURE ACCOUNTING AND AUDITING ISSUES:

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accountants and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

GASB Statement No. 51

The GASB recently issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets, in order to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the areas of recognition, initial measurement, and amortization of intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009

GASB Statement No. 54

The GASB recently issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in order to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

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

PAULY, ROGERS AND CO., P.C.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 28, 2009

City of Ashland & Ashland Parks and Recreation Commission
City Council, Parks Commission , and Audit Committee

We have audited the basic financial statements of the City of Ashland (and Parks) for the year ended June 30 2009, and have issued our report. Professional standards require that we provide you with the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical procedures to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles and auditing standards,
- applicable Oregon municipal audit law and administrative rules, and
- federal, state and other agency rules and regulations related to financial assistance.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City (and Parks). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Ashland (and Parks). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters.

Results of Audit

1. Audit opinion letter - an unqualified opinion on the City's and Park's financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. State minimum standards for audits - We found no exceptions or issues requiring comment.

Management Letter

We noted significant deficiencies in our management letter. There was a very proactive relationship between the City and the auditors which ensured that accounting issues were reviewed as they arose during the audit. Due to the implementation of new auditing standards, we were required to communicate certain control deficiencies in writing that may not have been considered reportable conditions in prior years. We have also addressed new auditing standards that take effect next year.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City and Parks are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City and Parks during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were Management's estimate of the Accounts Receivable and Fixed Asset Depreciation, which is based on estimated collectability of receivables and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There was no uncorrected misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City and Park's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City and Park's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The financial affairs have been professionally conducted. The accounting records were in good condition and we commend the staff for their assistance and support during the audit.

This information is intended solely for the use of the board and management of the City of Ashland and the Parks Commission and is not intended to be and should not be used by anyone other than these specified parties.


PAULY, ROGERS AND CO., P.C.

**ASHLAND PARKS AND RECREATION COMMISSION
ASHLAND, OREGON**

**2008-2009
MANAGEMENT REPORT**



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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October 6, 2009
Ashland Parks and Recreation Commission

In planning and performing our audit of the financial statements of Ashland Parks and Recreation Commission as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Ashland Parks and Recreation Commission's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal controls.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

The Auditing Standards Board issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, effective for audits of financial statements for periods ending on or after December 15, 2006. This statement requires auditors to evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses, and if so communicate them in writing to those charged with governance.

SAS No. 112 specifically identifies a few common control deficiencies which must be addressed in each audit to determine if a significant deficiency exists, and based on our evaluation we have identified significant deficiencies in the design or implementation of internal controls, which are noted below.

We consider the following deficiencies to be significant deficiencies in internal control:

There were no new significant deficiencies during the 2008-09 audit. The following are our recommendations for the previous year. The comments are repeated from our report to management for the year ended June 30, 2008, for perspective.

1. We noted that the Commission does not have a written internal control policies and procedures document. In applying SAS 112 we believe that the Commission should adopt formal policies/procedures for all accounting areas, especially as it pertains to internal controls and the identification of key controls. Our audit did not uncover significant deficiencies pertaining to these areas other than the item noted below, however the policies/procedures in place are not in writing. We recommend at a minimum that the following areas be addressed (this constitutes a partial list; other areas of internal control should be addressed):

- o Computer security and who should has access to passwords and how often passwords are changed.
- o Controls over expenditures to ensure that there are no fraudulent checks or checks written in error -Who tracks the check sequence, who reviews the canceled checks back from the bank, who has custody of checks, and who is authorized to approve disbursements?
- o Detailed explanation of the controls over cash accounts, including how many people it takes to open/close an account, controls over wire transfers, and review of bank reconciliations.
- o Controls over cash receipting – How do you ensure that receipts are always given, and that all receipts are recorded in the general ledger. How often are deposits taken to the bank.
- o What internal controls and monitoring is used for reviewing and ensuring that the financial statements are accurate and are in conformance with GAAP (the control procedure here would be sending staff to training on new pronouncements, etc.)
- o Any internal audit functions, antifraud programs, etc.
- o Monitoring of internal controls by management and the governing body to ensure that controls are functioning properly and are evaluated when systems, the environment, and employees change.
- o Other areas that could be discussed - capital asset accounting, employee dishonesty insurance, physical security of documents, payroll processing/timesheets; and any other applicable financial areas.
- o Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Commission address their segregation of duties issue in their internal control policies and procedures.

Status: During FY 2008-2009 City Finance staff developed an internal controls document that outlined the controls in place including those incorporated within other established policy, operations and procedures documents. The documents and the process of revising or updating other referenced (subordinate) documents were approved by the Commission in June, 2009. The intent is to review, revise and/or update each element when significant changes are made with all elements receiving at least a departmental review every three years.

2. The Commission's Recware software is not integrated into the general ledger. Good segregation of duties would require that the Commission post all of their activity into the general ledger themselves, and then have the City's finance staff reconcile the accounts. We recommend that the Recware system be integrated into the Eden GL system. We also noted that manual adjustments to the Recware system were not reviewed on a periodic basis. Good segregation of duties requires that at least two employees review these manual changes. We recommend that on a periodic basis the manual journal log be printed out and signed off and reviewed by two of Parks employees.

Status: Staff agrees with the Auditor's assessment. Prior attempts to integrate were not successful. Since that time Recware has been sold to a competitor and improvements have been made.

3. The City and the Parks need to formalize their Intergovernmental Agreement for accounting services. There is no formal agreement between the two organizations, and this could lead to a miscommunication between the parties for who is responsible for specific financial tasks.

Status: Staff worked on an internal agreement, memorandum of Understanding, which is scheduled to be addressed by Parks and the City as part of the upcoming budget preparation discussions for FY 2009-10-2011. The agreement will be adopted prior to June 30, 2010, clearing this comment.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any significant deficiencies that are considered to be material weaknesses.

OTHER MATTERS

- o In reviewing your investment practices we noted that the Parks (through the City) has investments with the Local Government Investment Pool. According to the Office of the State Treasurer, the Pool is not managed as a stable net asset value and as such the preservation of principal is not assured by the Treasury. The City/Parks also uses other financial instruments such as CD's and US Government Securities. As the safety of public funds is the primary responsibility of every public investment officer, we recommend that you continually monitor and evaluate the risks versus rewards of your investments. In addition we recommend that your investments and investment strategies are periodically reviewed by a group of knowledgeable individuals to assess investment performance, risk, compliance, and to ensure policies and practices are updated as necessary.
- o We noted that the Parks uses various third parties to process accounting information, such as Pinnacle, and Jackson County. One area of emphasis in the past few years of new accounting and auditing standards has been a greater emphasis on documenting and implementing stronger internal controls. Due to this emphasis the Parks should obtain some assurances from third parties that their internal control and systems produce accurate and reliable information. We recommend that the Parks request one or more of the following from these third parties: a SAS 70 service auditors report, their audited financial report, the management letter, a copy of the internal control documents, and a copy of their accounting procedures.

FUTURE ACCOUNTING AND AUDITING ISSUES:

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

PAULY, ROGERS AND CO., P.C.