

**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**

The Board of County Commissioners
Multnomah County, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Multnomah County, Oregon (the County) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 8, 2006. 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 County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the 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 County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

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 believe that the reportable condition described above is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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*.

We also noted certain additional matters that we reported to management of the County in a separate letter dated December 8, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board of County Commissioners and the Secretary of State, Divisions of Audits, of the State of Oregon 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.

Moss Adams, LLP

Eugene, Oregon
December 8, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of County Commissioners
Multnomah County, Oregon

COMPLIANCE

We have audited the compliance of Multnomah County, Oregon (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

INTERNAL CONTROL OVER COMPLIANCE

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Board of County Commissioners, 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.

Moss Adams, LLP

Eugene, Oregon
December 8, 2006

MULTNOMAH COUNTY, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ X yes _____ no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.914	HIV Emergency Relief Project Grants
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.569	Community Services Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 1,605,854

Auditee qualified as low-risk auditee? _____ X yes _____ no

MULTNOMAH COUNTY, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section II - Financial Statement Findings

2006-1

Library cash receipts recording and reconciliation

Criteria: U.S. generally accepted accounting principles (US GAAP) require that revenues be recorded on the accrual basis. In addition, subsidiary records should tie to the general ledger.

Statement of Condition: In the library system, bank deposits are not being reconciled with the Library's circulation and patron account tracking system, Millennium, nor is the Millennium system being reconciled with the general ledger system, SAP. In addition, the fines and fees due from library patrons are recorded in the Millennium system, but have not been recorded in the financial accounting system. The County is tracking these revenues using the cash basis of accounting.

Context: We found that a reconciliation of actual bank deposits with cash receipts per Millennium was not performed for any month in the fiscal year ended June 30, 2006.

Cause: The accounting department and the library do not have written procedures regarding the recording of library revenue and the reconciliation between the two systems.

Effect: The library runs the risk that errors (both inadvertent and intentional) could go undetected and corrected for months.

Recommendation: We recommend that the library revenue be recorded on the accrual basis of accounting to be in compliance with U.S. generally accepted accounting principles. In addition, we recommend that the Millennium system be reconciled with SAP on a monthly basis and that the fines and fees receivable be recorded in the financial accounting system along with a reasonable estimate for the allowance of uncollectible amounts.

View of Responsible Officials: General Ledger management will be working with Library management and finance staff in order to develop procedures to properly reconcile the Library's cash collections per the Millennium system to the County's financial accounting system, SAP, on a regular basis. In addition, we will evaluate the Library's unrecorded fines and fees and any allowance for uncollectible accounts to ensure we are complying with US GAAP.

There were no prior year financial statement findings.

Section III - Federal Award Findings and Questioned Costs

There were no current year or prior year findings and questioned costs reported.