

October 30, 2006

To the Mayor and City Council  
City of Yachats

In compliance with Oregon Municipal Audit Law, we were engaged to audit the fiscal affairs, accounts and financial statements of the City of Yachats, Oregon for the year ended June 30, 2006.

Our audits were designed to comply with the requirements of:

- Generally accepted auditing standards
- Oregon Municipal Audit Law and related administrative rules
- Government Auditing Standards
- Government Accounting Standards Board (GASB) pronouncements

Our audit included examining on a test basis evidence supporting the amounts and disclosures in the basic financial statements. We also assessed the accounting principles used by the City of Yachats and evaluated the overall financial statement presentation and internal controls.

In your audit report under Auditor's Comments on pages 67 and 68 you will note that the City of Yachats' accounting system is adequate and the accounting records are properly maintained. The internal control report on page 66 noted no material weakness.

However, during our audit process we noted several recommendations and suggestions whose implementation could strengthen internal controls and enhance the City's accounting system.

## **1. Accounting System**

### **a. Fixed Assets Subsidiary Journals**

The City has expended efforts in the past in identifying, summarizing, and reconciling individual capital items that are in service at the present time. Annual physical inventories verifying completeness, existence, and additions or deletions of specific fixed asset items, should also be maintained. These procedures, along with accurate depreciation records, are all important with the continuance and implementation of *Governmental Accounting Standards Board's (GASB) Statements No. 34 and 42*, respectively during this current fiscal year end June 30, 2006. The City's City Recorder and auditors can continue to work in this area, especially in the governmental capital assets and their accumulated depreciation valuation areas.

## 2. Office Management

### a. Accounting Procedures

Cash balances, by fund, should continue to be carefully tracked and monitored especially during the Sewer Project construction activity (section 2 c. below). Financial transactions for specific purposes should be closely monitored to fully comply with Oregon Local Budget Law and to ensure that no unforeseen or unauthorized interfund loans occur.

### b. Transient Tax Revenue

At some point the City may want to consider a separate detailed audit of the transient tax revenue process and procedures due to the significance and concentration of this revenue source to the City's overall financial structure.

### c. Sewer System Project

The City's accounting personnel should continue to work closely with their outside Engineering Firm to monitor the Sewer Project's progress, financial activity, requests, and submissions to involved Agencies, and the assurance of properly accurate and timely financial activity recording and reporting.

### d. Accounting Manual

The City should consider further develop and update office procedures, checklists, and manuals to further delineate specific procedures and detailed tasks, by position.

### e. Other Accounting Matters

With the considerations and ramifications of the formation and implementation of a City Urban Renewal Agency (URA) the City's Council and personnel should work closely with the Auditors to ensure efficient and effective integration of the URA's financial activity and requirements within those of the City's responsibilities and accounting system.

Thank you for your consideration in these matters, which are recommendations and suggestions intended only for the internal use of the City of Yachats' management, finance department personnel, Mayor, and City Council.

Sincerely,



J. Robert Wall, CPA

Wall & Wall P.C., Certified Public Accountants