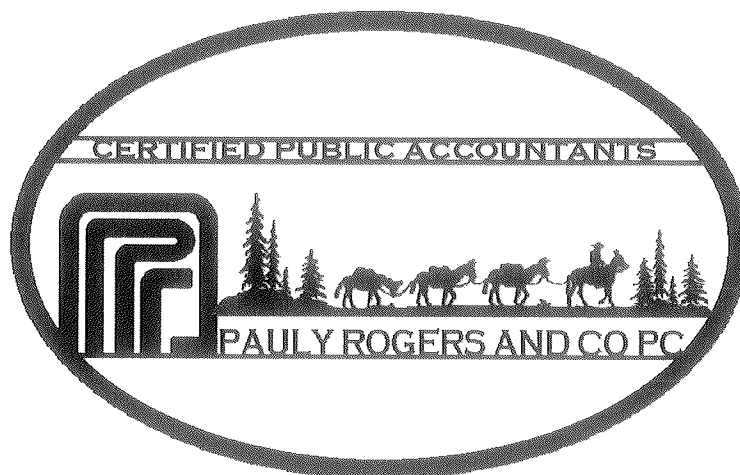


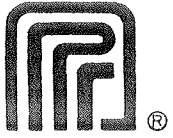
PACIFIC CITY
JOINT WATER-SANITARY AUTHORITY
TILLAMOOK COUNTY, OREGON

MANAGEMENT LETTER
(SAS 112 LETTER)

FOR THE YEAR ENDED JUNE 30, 2009



12700 SW 72nd Ave.
Tigard, OR 97223



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
- (503) 620-2632 • FAX (503) 684-7523

September 9, 2009

To the Board of Directors
Pacific City Joint Water-Sanitary Authority

In planning and performing our audit of the basic financial statements of Pacific City Joint Water-Sanitary Authority 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 Pacific City Joint Water-Sanitary Authority's internal control over financial reporting (internal control) 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, 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 control 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 Authority'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 financial statements that is more than inconsequential will not be prevented or detected by the 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.

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 internal controls. We did not identify any significant deficiencies that are considered to be material weaknesses.

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

1. To prevent unintentional or intentional errors or irregularities, no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction. Throughout our audit process, we noted several instances where duties are not adequately segregated. Because of

a limited number of available personnel, it may not always be possible to adequately segregate certain incompatible duties. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not promptly be detected. We believe the Board should review these risks to determine what additional controls they want to implement. The following areas were identified during our audit as lacking adequate segregation:

- a. During our walkthrough of utility billings, it was noted that the Executive Assistant receives cash, posts payments, prepares the daily deposit, reconciles cash, and has unlimited general ledger access. To properly segregate duties, we recommend one person should receive cash and prepare the daily deposit, and another should use a duplicate listing to post the payments into the system.
 - b. During our walkthrough of disbursements, it was noted that the Authority Manager can create vendors, access check stock, and print and sign checks. The Board should consider compensating controls such as tracking the check sequences on the check stock.
2. Adjusting journal entries should be reviewed for reasonableness and accuracy by someone other than the person preparing and posting the entry. During our testing of journal entries, we noted that there is no documented review of adjusting journal entries. We recommend that adjusting journal entries be reviewed and approved for reasonableness and accuracy by the Authority Manager, or a Board Member.
 3. Bank reconciliations should be performed and reviewed for accuracy and completeness within a month after receiving the bank statements. During our bank reconciliation walkthrough, it was noted that the bank statements are reviewed before the reconciliation is completed; however, no one is reviewing the bank reconciliations after they are completed. We recommend that the Authority Manager, or a Board Member, review the monthly bank reconciliations after they completed.
 4. Disbursements should be reviewed for existence, accuracy and completeness prior to being released. During our testing of disbursements, we noted three instances where no approval was evidenced on supporting documentation. We recommend that all disbursements obtain approval on supporting documentation before a disbursement is made. We also noted that the Authority Manager approved his own reimbursement. We recommend that a board member or another member of the business office review the Authority Manager's check request before disbursement.

OTHER MATTERS – 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. 50

The GASB recently issued Statement No. 50, *Pension Disclosures*, in order to more closely align financial reporting requirements for pensions with those for post-employment benefits other than pensions (OPEB) and to provide enhanced information in the notes to financial statements and required supplementary information (RSI) for users of government financial statements. Most notably, Statement 50 requires disclosure of the current funded status of the plan as of the most recent actuarial valuation date in the notes to the financial statements of pension plans and certain employer governments. Governments that use the aggregate actuarial cost method to determine their annual required contribution for financial reporting purposes are required to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate.

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. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets and establishes guidance specific to intangible assets related to amortization.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing GASB Statement 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

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. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

Statements on Auditing Standards (SAS) No. 115

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. SAS No. 115 supersedes SAS No. 112 of the same title and contains the following revised definitions of the terms *material weakness* and *significant deficiency*:

- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SAS No. 115 also revises the list of deficiencies in internal control that are indicators of material weaknesses to consist of:

- identification of fraud, whether or not material, on the part of senior management; — restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
- identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and

- ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies
- contains a revised illustrative written communication to management and those charged with governance of material weaknesses and significant deficiencies.

This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

Fidelity Coverage

In reviewing the fidelity insurance coverage we noticed that the Authority often carries cash and investment balances well above the coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of coverage they feel is prudent in regard to their oversight.

This communication is intended solely for the information and use of management and the Board, 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.