

CERTIFIED PUBLIC ACCOUNTANTS

## 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 City Council City of Portland, Oregon Portland, Oregon

We have audited the financial statements of the City of Portland, Oregon as of and for the year ended June 30, 2005, and have issued our report thereon dated December 2, 2005, which includes an explanatory paragraph regarding a prior period adjustment, and which stated that we did not audit the financial statements of Portland Development Commission, the discretely presented component unit, which were audited by other auditors, and that our opinion, insofar as it relates to the amounts included for Portland Development Commission is based on the report of the other auditor. 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 Portland'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 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 City of Portland's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. During a subsequent receipts test, we discovered that certain franchise fees were being recorded on the cash basis which is contrary to generally accepted accounting principles and the City's policy. The practice resulted in a \$12,179,250 understatement of accounts receivable and net assets of the General Fund for the fiscal year ended June 30, 2004. Management has discontinued the practice of recording the fees on the cash basis and has corrected the error by restating the beginning net assets of the General Fund.

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. We consider the reportable condition described above to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland'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 noted certain other matters that we reported to management of the City of Portland in a separate letter dated December 2, 2005.

This report is intended solely for the information and use of the City Council, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eugene, Oregon December 2, 2005

Moss Adams, LLP



CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON MINIMUM STANDARDS

The City Council City of Portland, Oregon Portland, Oregon

We have audited the financial statements of the City of Portland, Oregon as of and for the year ended June 30, 2005, and have issued our report thereon dated December 2, 2005, which includes an explanatory paragraph regarding a prior period adjustment, and which stated that we did not audit the financial statements of Portland Development Commission, the discretely presented component unit, which were audited by other auditors, and that our opinion, insofar as it relates to the amounts included for Portland Development Commission is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

#### Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2005 and 2006.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The requirements pertaining to the use of revenue from taxes on motor vehicle use fuel funds.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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 test disclosed no instances of

noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State except those noted below.

### Expenditures in Excess of Appropriations

The results of our tests disclosed instances of noncompliance relating to over expenditures of budgeted appropriations that are described in Note II.B. to the City's financial statements.

#### Internal Control Structure

The results of our tests disclosed deficiencies in the design or operation of the internal control over financial reporting as described below.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 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 City of Portland's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. During a subsequent receipts test, we discovered that certain franchise fees were being recorded on the cash basis which is contrary to generally accepted accounting principles and the City's policy. The practice resulted in a \$12,179,250 understatement of accounts receivable and net assets of the General Fund for the fiscal year ended June 30, 2004. Management has discontinued the practice of recording the fees on the cash basis and has corrected the error by restating the beginning net assets of the General Fund.

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. We consider the reportable condition described above to be a material weakness.

This report is intended solely for the information of the City Council, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

December 2, 2005

James C. Langarotta James C. Lanzarotta, Partner

For Moss Adams LLP Certified Public Accountants

Eugene, Oregon