CITY OF MILWAUKIE, OREGON
REQUEST FOR PROPOSAL
PROFESSIONAL AUDITING SERVICES
JUNE 30, 2013

DICKEY AND TREMPER, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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February 15, 2013

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CITY OF MILWAUKIE
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February 15, 2013

City of Milwaukie Audit Committee
City of Milwaukie
Attn: Rina M. Byrne
10722 SE Main Street
Milwaukie, OR 97222

We are pleased to have the opportunity to submit our proposal to provide audit services for the City of Milwaukie, Oregon. The objective of our audit will be to conduct an examination of the financial statements and supplemental schedules in accordance with auditing standards generally accepted in the United States of America, Governmental Auditing Standards, the laws of Oregon, the OMB Circulars, and the Single Audit Act, if required. This examination will serve as a basis for our firm to render an opinion on the City's financial statements and supplemental schedules.

As an experienced auditing firm, we have the ability and staffing necessary to complete the engagement outlined in your request for proposal in an effective and efficient manner. Our firm is properly licensed to perform audits in the State of Oregon, with all professional staff having an active Municipal Auditors license or a pending municipal auditor application in process. Our firm policy is to audit municipalities of this size under Governmental Auditing Standards, so the level of service we provide will be higher than received in prior years. Dickey and Tremper, LLP, is the best candidate to select as your independent auditing firm for the following reasons:

- We have over 30 years combined experience working with, and auditing, cities, urban renewal agencies, community colleges, school districts, and other governmental and non-profit organizations, including several cities similar to your size and complexity.
- We also have extensive experience performing single audits.
- Our experienced personnel are available throughout the year to provide needed services.
- It is our practice to provide a total service approach and follow-up for each audit engagement.

Thank you for including our firm in the selection process for the City's auditing services. It is our intent to comply with all terms, conditions, and specifications set forth in the request for proposal. Our compliance can only be guaranteed with the timely and explicit cooperation of the staff of the City. Our proposal, as included, is a firm and irrevocable offer for forty-five days from February 15, 2013. We appreciate this opportunity and are pleased to present the following information.

Please contact Rob Tremper, CPA, CVA for any necessary communications, including comments and questions. He is the firm's partner in charge of audits and represents the firm. He can be reached via telephone (541) 276-6862 or email at rtremper@dickeyandtremper.com.

Members of: American Institute of Certified Public Accountants
National Association of Certified Valuation Analysts
Oregon Society of Certified Public Accountants

A. FIRM QUALIFICATIONS

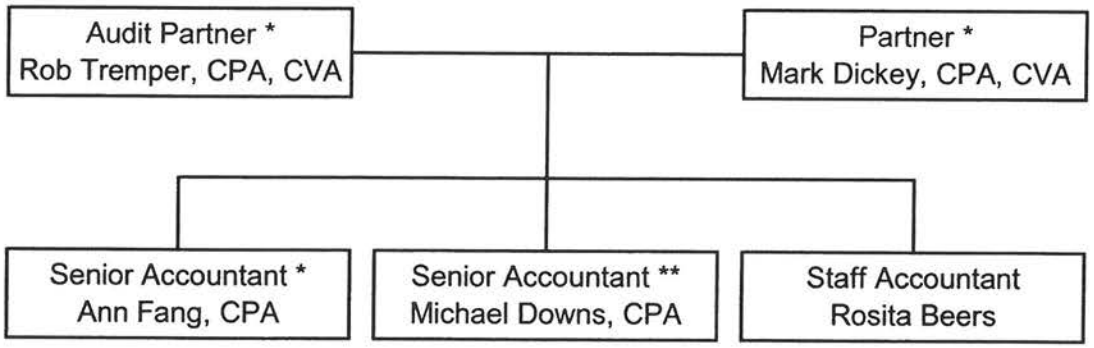
1. OFFICE LOCATION AND STAFFING

Dickey and Tremper, LLP is organized as a limited liability partnership. Our firm was formerly an office of Yergen and Meyer, LLP, a regional accounting firm with eight offices located in the states of Oregon and Washington and one of the one hundred largest public accounting firms in the United States.

We have been located in Pendleton since 1951. Our clientele is highly diversified and includes representation in essentially all types of commercial businesses, non-profits and governmental entities. To maintain and strengthen our professional standards, we highly encourage emphasis on professional development and training. Accordingly, our staff continually participates in numerous formal professional development programs. Staffing assignments are planned to provide a broad range of experience to all staff members.

Our office in Pendleton will perform your entire audit, and has the capacity to perform an audit of this scope and to meet the City's proposed audit schedule. Our staff presently consists of three licensed Municipal Auditors, with a fourth Municipal Auditor's license pending. Tentative planning indicates a need for three professional staff to be assigned various aspects of the audit. Our staff includes the following:

a) Audit Partner
b) Other Partner
c) Senior Accountants (2)
d) Staff Accountant



* Current municipal auditor license

** Pending municipal auditor license

Our firm has significant experience performing municipal and non-profit audits and focuses on working with clients to complete projects in a timely fashion. Most of our audits are of comparable size and complexity of the city and have been repeat engagements over multiple years. We pride ourselves on delivering quality work while meeting deadlines, regardless of the complexity of the project. Our firm is large enough to serve you, but small enough to ensure that you are not just another client to us. You will get significantly more "hands on" time from our audit partner than you would typically get from most other firms. We also have extensive experience performing Single Audits. Most of the municipal audits we perform are subject to Governmental Auditing Standards and the Single Audit Act.

Dickey and Tremper LLP is a member of the Government Audit Quality Center (GAQC) and the Private Companies Practice Section (PCPS). We also participate in the AICPA peer review program, both as an audit firm and as a peer reviewer. Our firm has always received an unqualified opinion (pass rating) with no deficiencies.

2. AUDIT APPROACH

It is our practice to provide a total services approach for each audit engagement. Our firm is experienced with preventing and detecting fraud and assessing internal controls. In addition, Dickey and Tremper, LLP maintains its own high quality control standards. As a result, our firm provides a higher level of auditing services than you would receive from most firms.

The quality control of our audit work has resulted in an extensive audit program that has been tailored for the auditing standards generally accepted in the United States of America, the laws of Oregon, the OMB Circulars, the Single Audit Act, and generally accepted auditing procedures as prescribed in the AICPA Industry Audit Guides – Audits of Governmental Agencies and Single Audits. As audit tools, we use Practitioners Publishing Company (PPC) manuals, checklists and auditing programs along with various authoritative sources. We also use various computer resources, including spreadsheet programs, word processing programs, Creative Solutions Accounting, Smart Practice Aids, Checkpoint Tools for PPC, and Engagement CS.

We would work closely with your staff to complete the audit in an effective and efficient manner. We would request that your staff provide various schedules and reconciliations, such as: balanced trial balances for all funds, bank reconciliations, property tax reconciliation, detailed reconciliations of accounts payable and receivable, and various other reconciliations and schedules. A listing of items that we will request to be prepared by your staff will be delivered and discussed prior to the audit fieldwork. We also request that your staff be available for questions, and to "pull and provide" supporting documentation for transactions chosen for testing. Our general audit procedures are comprised of several phases, as follows:

Planning: Initially, we inquire of you regarding your system of internal control, various aspects of your business transactions, your accounting systems, and other matters of information. We build an organized permanent file of reference material so that we don't have to repeat the same questions year after year. From this we organize the general approach to the audit and set our risk assessments. Whenever possible, this phase begins prior to the end of your fiscal year. In accordance with the Risk Assessment Standards, we will also tailor our audit programs and procedures to respond to any significant risk factors.

Analytical review procedures will be used as required by generally accepted auditing standards. We will analytically review the records for variances from year to year and current year budget amounts, and to aid in identifying areas requiring further analysis. We will then assess materiality levels and develop our final plan for the engagement. The results of the analytical review and planning will assist us in determining the extent of substantive testing deemed necessary, and allow us to complete the audit in an effective and efficient manner.

We will also request and gather pertinent information to assist us within the fieldwork portion of our audit to include board minutes, budget committee minutes, copies of current and ensuing years budgets, listing of resolutions approved during the year, city organizational chart, copies of policies and procedures related to financial information to include employee group contracts, and additional personnel policies such as compensated absences and post-employment benefits available.

Pre-Audit Conference: Prior to beginning fieldwork, we will meet with management and staff to discuss the audit schedule, listing of schedules to be prepared, the audit plan, and any other important matters.

Tests of Controls: During the second phase of the audit, we may perform detailed tests of a sample of transactions to determine the general reliability of the information produced by the system. Based on the results of these tests, our overall audit strategy is reviewed and adjusted as appropriate. We may also perform an inventory observation close to fiscal year-end and perform numerous test counts.

Compliance Audit: Single Audit procedures are normally performed during both the preliminary and testing phases of the audit. We have developed processes to ensure the compliance section of the audit is thoroughly planned and includes testing of all direct and material compliance requirements in an effective and efficient manner. We start with obtaining knowledge of the entities specific programs and assessing risks applicable to each program. Once the major programs are determined, we obtain an in depth understanding of the program compliance requirements and internal controls and perform detailed testing of all significant areas through sampling and other procedures.

Testing Phase: After the audit has been thoroughly planned, we will determine which areas to focus our substantive testing and additional tests of transactions. Our substantive testing may include the testing of year-end balances for significant accounts and for accounts identified during the analytical review process. Our tests may also include the use of confirmations from entities the City conducts business with, a detailed review of selected accounts, the use of specialized auditing programs modified for pertinent requirements, analytical procedures, and may include testing a sample of individually significant items, as determined by our professional judgment. Budgetary process and compliance will also be tested at this time, to include budget adoption, appropriation changes and other requirements.

Post-Audit Conference: Prior to leaving the field, we will meet with management to review constructive recommendations for improvements, propose adjustments to the financial records, discuss the timeline for issuance of the audit reports, and to communicate other important matters. We will meet again with management for a final exit conference, if necessary, after allowing management time to review the financial statements and other required reports for the engagement.

Report Preparation: When the audit fieldwork is completed, we will coordinate with your staff to prepare the Financial Statements (if requested), management letter, and all other required reports for the engagement.

Management Letter: As an important by-product of this audit approach, we may develop constructive recommendations for improvements in internal controls, managerial systems, and accounting systems. We will review any recommendations with management during the course of our examination, which will facilitate early implementation of accepted recommendations. Our findings and recommendations will be summarized and submitted, in the form of a management letter, to the Audit Committee and management.

Technical Review: The review process takes place during every phase of the audit. We mention this to underscore the quality control over our staff's work. During the process of the audit, the audit manager and audit partner will review the workpapers and reports to ensure that all audit procedures and report preparations meet the proper and appropriate standards. Upon completion of the audit and if report preparation is requested, all reports will be proofread, mathematically checked, and reviewed for compliance with our firm policies and all legal and reporting standards. A copy of the audit report is then sent to a second reviewer. We will also provide a draft copy of the report, management letter, and any

adjusting entries to City personnel for their final review and approval. This process assures additional quality to you, our client, and compliance with independence standards applicable to governmental entities.

Subsequent Years Preparation and Training: We try to keep most aspects of the audit consistent from year to year. This includes the information we request from City staff and the staff we assign to this audit. However, auditing standards require that we incorporate some unpredictability into our audit steps. To accomplish this, we may rotate our emphasis from year to year. We expect that the senior audit staff will notify the City's staff of any unexpected changes.

3. AUDIT SCHEDULE

A tentative schedule to complete the audit of the City within the specified deadlines is as follows:

Interim Fieldwork and Planning	mid July
Confirmation Preparation and Mailing	mail on June 30
Audit Fieldwork	early November
Preliminary Draft of the Management Letter	by November 30
Receipt of Reviewed Management Letter	by December 15

4. CITY STAFFING REQUIREMENTS

The required assistance from your staff varies for each situation, but the general expectations are as listed on page 7 of your Request for Proposal for Auditing Services. We will prepare a listing of documents that could be prepared prior to fieldwork. These documents will be the basis for our audit workpapers. In the event difficulties arise, we will contact the staff for further explanation. For example, alternative procedures may be used to reconstruct the detail of account balances. Some of these procedures may include review of subsequent payments or receipts, review of source documents, or reconciliation of the current subsidiary ledgers to the amount reported at year-end. In this type of instance, we would expect City staff to print reports detailing the subsequent payments or receipts, and may inquire of them of the items that substantiate the balance. In addition, we would also expect City staff to be available to supply source documents to substantiate the balances or activity.

The resolution of other difficulties could be as simple as obtaining contact information for a grantor or lender and making a phone call, or obtaining grant agreements and applications.

If significant difficulties or indications of fraud are discovered, we would discuss the situation with management to determine what additional procedures may be necessary. In extreme situations where the difficulties involve actions of management, which cannot be resolved, the issue may be discussed with a higher level of management or with the City's Audit Committee directly.

5. KNOWLEDGE OF GASB REQUIREMENTS

Our firm is experienced in interpreting and implementing the requirements of various GASB Statements. The Governmental Accounting Standards Board has issued GASB Statements through number 69, many of which will be applicable for the upcoming fiscal year. We have also worked closely with various entities to implement major statements such as GASB Statement No. 34- Basic Financial Statements, and subsequent amendments; GASB Statement No. 35- Basic Financial Statements and Management's Discussion and Analysis

for Public Colleges and Universities; GASB Statement No. 44- Economic Condition Reporting: The Statistical Section; GASB Statement No. 45- Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions; and GASB Statement No. 54- Fund Balance Reporting and Governmental Fund Type Definitions.

All licensed members of our firm receive Continuing Professional Education directly relating the audits of municipal agencies, and for the last several years, much of the education has been focused on the requirements of GASB Statements.

6. OMB A-133 SINGLE AUDIT ACT EXPERIENCE

Our professional staff has experience and expertise in auditing various federal, state, county, and local grants and programs. Most of our governmental and non-profit clients participate in federal and state programs and are frequently subject to the requirements of the "Single Audit Act". Through our experience with grants and programs with other clients we are familiar with the auditing and reporting requirements for the specific programs that may affect the City of Milwaukie.

We have attached a sample of our work completed for an OMB-A133 Single Audit, see attachment page 14. We have also attached a sample of a recent audit report for the City of Redmond, with permission. Included in the sample audit report of the City of Redmond is our Single Audit Report and compliance requirements, see page 128-134.

B. PERSONNEL PERFORMING AUDIT

1. PROFESSIONAL EXPERIENCE

The staff we expect to be assigned to your audit are introduced below. All members of our professional staff have significant municipal and non-profit auditing experience, and have met, or exceeded, continuing education standards set by the United States General Accounting Office, as well as the Oregon State Board of Accountancy.

We expect the audit team members assigned to your audit to include the audit partner, Rob Tremper, CPA, CVA, and two of the senior level accountants introduced below. Rob will be responsible for the successful and timely completion of the audit. He will direct and coordinate audit planning, field audit performance, and reviews of audit working papers and reports. The audit partner and senior accountants will be involved in interim procedures, and year-end audit procedures.

We estimate the time breakdown, by percentage, for each audit team member to be approximately 48% audit partner and 52% senior accountants. We expect the first year of the audit to take the most time to complete. In subsequent years, we anticipate a decrease in time to complete the audit, with more of the responsibility shifting from the audit partner to senior staff, helping to keep audit fees lower and to help provide a rotational emphasis in the engagement. The audit partner will maintain a "hands on" approach to the audit.

Robert F. Tremper, CPA, CVA, Partner, is in charge of audits for our firm, and will be available to you whenever needed. He will have the final responsibility for our relationship with the City, including informing management of significant developments, which may affect the City. Rob will be responsible for the successful and timely completion of the audit. He will direct and coordinate the audit planning, field audit performance, and reviews of audit working papers and reports. In addition, Rob is a "hands on partner", and will be heavily involved in our firm's audit fieldwork.

Rob has been with our firm since graduating, with honors, from Pacific University. Rob is a licensed municipal auditor and Certified Valuation Analyst, and has over thirteen years municipal and non-profit auditing experience including implementing GASB Statements, performing Single Audits, preparing Comprehensive Annual Financial Reports, and auditing an assortment of state and federal program requirements. Rob has also served as a concurring reviewer of municipal and school district audits performed by Hough, Macadam, and Wartnik, (formerly the North Bend office of Moss Adams, LLP).

Rob is a member of the American Institute of Certified Public Accountants, the National Association of Certified Valuation Analysts, the Oregon Society of Certified Public Accountants, and is involved in the community as a member of the Pendleton City Club and as a board member of the Pendleton Youth Wrestling Association. Oregon CPA License #10029 and Oregon Municipal Auditors License #1294.

Mark D. Dickey, CPA, CVA, Partner, is a licensed municipal auditor with over thirteen years of public accounting experience and eight years of experience in the banking industry. Mark is in charge of tax compliance for our firm and a Certified Valuation Analyst, as well as having In-Charge responsibilities for various non-profit audits, involving Single Audit requirements. Mark also performs second partner review for municipal and non-profit audits and performs external peer reviews under the AICPA peer review program.

Mark is a member of the American Institute of Certified Public Accountants, the National Association of Certified Valuation Analysts, Oregon Society of Certified Public Accountants, and a board member of the Oregon Board of Accountancy Peer Review Committee. He is also a past member of the Pendleton Rotary Club Board of Directors and is currently the Treasurer for the Pendleton Air Museum. Oregon CPA License #8705 and Oregon Municipal Auditors License #1269.

Michael D. Downs, CPA is a senior accountant for the firm. Mike graduated from the University of Utah with a Bachelor's Degree in Accounting and a Masters of Accounting Degree with an emphasis in Auditing. He is currently being considered to be accepted to the Oregon Municipal Auditors roster. Mike has several years auditing experience with the firm and has worked on several municipal and non-profit audits with experience in performing Single Audits, as well as providing In-Charge responsibilities.

Mike is a member of the American Institute of Certified Public Accountants and Oregon Society of Certified Public Accountants. He is also involved in the community as a volunteer for the Eastern Oregon Sasquatch Rugby Association and the Boy Scouts of America. Oregon CPA License #13460.

Yiann E. Fang, CPA is a senior accountant for the firm and a licensed municipal auditor. Ann graduated from Northern Arizona University with a Bachelor of Science Degree in Accounting. She has several years auditing experience with the firm and has worked on several municipal, non-profit, and school district audits, with experience in performing Single Audits, as well as performing audit lead responsibilities.

Ann is a member of the American Institute of Certified Public Accountants and Oregon Society of Certified Public Accountants. She is also involved in the community as a member of Altrusa International, Inc. Oregon CPA License #13252 and Oregon Municipal Auditors License #1526.

Rosita Beers, is a staff accountant at our firm. Rosita has been a member of our firm for over 20 years, and graduated, with honors, from Blue Mountain Community College with an Advanced Accounting Degree. Rosita has completed advanced accounting courses, including auditing and governmental accounting, and has substantial work experience with various accounting systems, payroll rules and regulations, and has worked as an audit assistant on several municipal and community college audits.

C. FEES

1. COSTS FOR AUDITING SERVICES

The total maximum fee for the audit of the City of Milwaukie's financial statements for the fiscal year ended June 30, 2013 is $31,060 including one major program requiring a Single Audit, as detailed in the schedule below. Fees for the fiscal years ending June 30, 2014, 2015, 2016 and 2017 would increase equal to the change in the overall Consumer Price Index, as established for the West Urban Region, when compared to June 30, 2013, estimated at 3% below. These fees will include the compliance required with the Single Audit Act for up to one major program. In the event the City is required to comply with additional Single Audit Act requirements, we expect our additional fees to be approximately $3,500 per major program, dependent upon the requirements of that specific program. Our expectation is that the City's personnel will cooperate in meeting this requirement to the extent assistance was provided in earlier years.

Our fees are based on anticipated cooperation from your personnel, management's preparation of the financial statements, and the assumption that major unexpected circumstances will not be encountered during the fieldwork. If significant additional time is found to be necessary or if any substantial changes are made in the accounting system, City operations, or scope of our original engagement, we would meet with you to determine the effect on the year's fees, prior to the beginning of our fieldwork, or soon after point of discovery.

Should the City choose to exercise the optional annual renewal clause, the total maximum fee for the audit of the City of Milwaukie's financial statements for the fiscal year ended June 30, 2018 and beyond would increase equal to the change in the overall Consumer Price Index, as established for the West Urban Region, when compared to June 30, 2013.

The cost of our audit services for the fiscal years ended June 30, 2013 through 2017 include all out-of-pocket expenses, and are detailed in the following schedule:

	Estimated Hours										
Personnel	Off-site planning	On-site interim	On-site fieldwork	Off-site review	Total Hours	Hourly Rate	Total Cost FY2013	Total Cost FY2014	Total Cost FY2015	Total Cost FY2016	Total Cost FY2017
Partner	6	32	40	60	138	$155	$21,390	$22,032	$22,693	$23,374	$24,075
Staff	40	32	80	-	152	82	12,464	12,838	13,223	13,620	14,028
Total	46	64	120	60	290		33,854	34,870	35,916	36,993	38,103
Less: Municipal Discount							(6,294)	(6,480)	(6,676)	(6,874)	(7,079)
Total Base Audit Fee for College							27,560	28,390	29,240	30,120	31,025
OMB A-133 Single Audit ($3,500/major)							3,500	3,600	3,700	3,800	3,900
Total Audit Fee including one major Single Audit							$31,060	$31,990	$32,940	$33,920	$34,925

We would expect to continue our services for the arrangements discussed above, unless for some reason, you or we find that some change is necessary. It is understood that either party may cancel this contract by giving notice, in writing, to the other party at least ninety days prior to June 30 of each year.

2. ADDITIONAL SERVICES

It is our practice to provide a total service approach and follow-up for each audit engagement and we welcome inquiries from your staff. Our office is available to work with your staff to answer periodic and incidental telephone or other inquiries at no additional charge.

If any significant additional services, special requests, or reports broadening the scope of the engagement are required, we will meet with the City's management to negotiate the maximum additional fees and the specific hourly rates of personnel necessary to provide the requested services prior to performing the additional services. In most cases, these additional services will be billed at our standard hourly rates. Our normal hourly rate for the Partners is $155 and our Senior and Staff Accountants range from $82-$102 per hour. Travel and out-of-pocket expenses will be negotiated dependent upon timing of the requested services and the nature of the services.

D. REFERENCES

1. GOVERNMENTAL AUDIT EXPERIENCE LISTING

A list of the governmental audits performed in the last three years is as follows:

Government Entity		Years Served
City of Fairview	*	5
City of Sisters		5
City of Sisters Urban Renewal Agency		5
City of Madras	*	6
City of Madras Urban Renewal Acency		6
InterMountain Education Service District (formerly Umatilla-Morrow ESD)	*	6
City of Milton-Freewater	*	7
City of Milton-Freewater Urban Renewal Agency		7
City of the Dalles	*	9 ***
Columbia Gateway Urban Renewal Agency		9 ***
Qualitylife Intergovernmental Agency		6
City of Redmond	*	12 **
City of Redmond Urban Renewal Agency		12 **
City of Pendleton	*	12
City of Pendleton Urban Renewal Agency		7
City of Ontario		13
Blue Mountain Community College	*	16

* Subject to Single Audit requirements
** Years before and after a 2 year break in service
*** Years before and after a 3 year break in service

The City of Fairview, the City of The Dalles, the City of Milton-Freewater, the City of Sisters, and the City of Redmond, have issued Comprehensive Annual Financial Reports, and received the Certificate of Excellence for Financial Reporting for all years which we were engaged as auditor.

The contact information for our current engagements is as follows:

Organization	Contact	Email	Telephone
City of Fairview	Samantha Nelson, City Administrator	nelsons@ci.fairview.or.us	(503) 665-7929
City of Milton-Freewater	Dave Richmond, Finance Director	dave.richmond@milton-freewater-or.gov	(541) 938-8206
City of Redmond	Jodi Burch, Accounting Manager	jodi.burch@ci.redmond.or.us	(541) 923-7735
City of Sisters	Lisa Young, Finance Director	lyoung@ci.sisters.or.us	(541) 323-5204
City of Pendleton	Linda Carter, Finance Director	linda.carter@ci.pendelton.or.us	(541) 966-0331

The contact information for our non-current engagements is as follows:

Organization	Contact	Address	Telephone
Blue Mountain Community College	Tod Case, Projects & Reporting Acct	tod.case@bluecc.edu	(541) 278-5785
City of the Dalles	Kate Mast, Finance Director	kate_mast@ci.the-dalles.or.us	(541) 296-5481
City of Madras	Kathy Snyder, Finance Director	ksnyder@ci.madras.or.us	(541) 475-2344

E. OTHER

1. PROFESSIONAL INDEPENDENCE STANDARDS

We are aware of, and comply with, the Sarbanes Oxley laws and regulations; Statements on Auditing Standards; AICPA Professional Standards; and the Governmental Auditing Standards relating to client independence. Our firms internal control documentation requires that we complete an extensive checklist and evaluation to assure that we are independent. It is our policy to avoid any situations that may give a perception that our firm is not independent.

To further ensure compliance with independence standards, we provide a draft copy of all proposed adjustments to management for their approval prior to issuance of the final report. Any additional services required beyond the scope of our audit are normally performed as an agreed-upon-procedure to ensure continued independence.

2. PEER REVIEW PROCESS

Our firm has participated in the peer review process as required by Government Auditing Standards, and has always received an unqualified opinion, with no letters of comments. These peer reviews have included governmental agencies. We have included a copy of our latest peer review letter, as required by Government Auditing Standards, on page 13.

3. COMPLAINTS OR DISCIPLINARY ACTION BY OVERSIGHT AGENCIES

Our office has never received a complaint or disciplinary communications from any state or federal oversight agency. Our audit workpapers are reviewed by the Oregon Secretary of State, Audit's Division, periodically on a random basis. The results of these visits have only resulted in constructive suggestions and comments, which we have incorporated.

We appreciate this opportunity and would be happy to discuss our proposal with you at your convenience. Our proposal, as presented, is a firm and irrevocable offer for forty-five days from February 15, 2013.

Sincerely,

Dickey and Tremper, LLP

Robert Tremper, CPA, CVA

Robert Tremper, CPA, CVA
Audit Partner

a. Not to Exceed Price for Proposed Service Schedule

In accordance with the Request for Proposal for Professional Auditing Services issued by the City of Milwaukie, Oregon, the firm referenced below hereby submits the following hourly fee quotation and hours proposed for all positions to be assigned to the audit:

	Fiscal Year Ended June 30, 2013				
Key Personnel	F/S Audit Hours	Single Audit Hours	Total Hours	Hourly Rate	Total
Engagement Partners	138	20	158	155	24,490
Engagement Manager	-	-	-	-	-
Engagement Senior	152	5	157	82	12,874
Engagement Staff	-	-	-	-	-
Clerical/Support Staff	-	-	-	-	-
Other	-	-	-	-	-

In accordance with the Request for Proposal for Professional Auditing Services issued by the City of Milwaukie, Oregon, the firm referenced below hereby submits the following cost proposal:

	Fiscal Years Ending June 30th,				
	2013	2014	2015	2016	2017
Financial Statement Audit:	27,560	28,390	29,240	30,120	31,025
Single Audit:	3,500	3,600	3,700	3,800	3,900
Cost of Supplies & Materials:	-	-	-	-	-
Additional Fees (if applicable)*:	-	-	-	-	-
Total	31,060	31,990	32,940	33,920	34,925

*The City of Milwaukie expects to receive technical assistance, as needed, from the audit firm throughout the fiscal year that may include inquiries regarding accounting, reporting and internal control issues. If fees related to this technical assistance are not included in the firm's financial statement audit fee, please include them here.

I hereby certify that the undersigned is authorized to represent the firm stated below, and empowered to submit this bid, and if selected, authorized to sign a contract with the City of Milwaukie, for the services identified in the Request for Proposal.

Firm Name: Dickey and Tremper, LLP

Signature: Robert Tremper, CPA

Printed Name: Robert Tremper, CPA

Title: Partner

Date: 2/15/13

Email Address: rtremper@dickeyandtremper.com

WALL & WALL, P.C. CERTIFIED PUBLIC ACCOUNTANTS

J. ROBERT WALL, C.P.A.
KAREN S. WALL, C.P.A.

System Review Report

June 8, 2011

To the Partners of
Dickey and Tremper, LLP
and the Peer Review Committee of the Oregon Society of CPAs (OSCPA)

We have reviewed the system of quality control for the accounting and auditing practice of Dickey and Tremper, LLP (the firm) in effect for the year ended December 31, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Dickey and Tremper, LLP in effect for the year ended December 31, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)* or *fail*. Dickey and Tremper, LLP has received a peer review rating of *pass*.

Wall & Wall PC, CPAs

Wall & Wall, P.C., Certified Public Accountants

MEMBER • AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • OREGON SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 7, 2012

To the Governing Body of the City of [redacted], Oregon:

Compliance

We have audited the compliance of the City of [redacted] with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that that could have a direct and material effect on each of City of [redacted]. The City of [redacted]'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 City of [redacted]'s management. Our responsibility is to express an opinion on the City of [redacted]'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 occurred. An audit includes examining, on a test basis, evidence about the City of [redacted]'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 of the City of [redacted]'s compliance with those requirements.

In our opinion the City of [redacted] complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Oregon Society of Certified Public Accountants

Internal Control Over Compliance

Management of the City of [redacted] 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 City of [redacted]'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of [redacted]'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management of the City of [redacted], Oregon, Federal awarding agencies, pass-through agencies, the Secretary of State, Division of Audits, and the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Dickey and Tremper, LLP
Certified Public Accountants

CITY OF MILTON-FREEWATER
SCHEDULE OF EXPENDITURES OF FEDERAL FUNDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-trhough Grantor	Indentity Number	Federal CFDA #	Federal Expenditures
U.S. Department of Transportation			
Passed through Oregon Department of Transportation			
Elderly and Persons with Disabilities 5310	26112	20.513	$ 46,699
Rural and Small Urban Areas 5311	25828	20.509	19,130
Intercity 5311(f)	25900	20.509	14,776
TOTAL U.S. Department of Transportation			80,605
U.S. Department of Housing and Urban Development			
Oregon Economic and Community Development		14.228	155,581
Department of Transportation:			
TSS Seatbelt Grant	OP-10-45-08	20.600	1,770
Department of Justice:			
Passed through Eastern Oregon Drug Task Force	98-007	16.579	4,498
U.S. Department of Energy			
Passed through State of Oregon Department of Energy			
EPA Stormwater		66.202	69,641
Passed through Battelle Memorial Institute			
Electricity Delivery and Energy Reliability (Recovery Act - Smart Grid Demonstrations)		81.122	1,059,691 **
TOTAL U.S. Department of Energy			1,129,332
TOTAL EXPENDITURES OF FEDERAL FUNDS			$ 1,371,786

** Signifies Major Program

See notes to the schedule of expenditures of federal awards.

CITY OF MILTON-FREEWATER, OREGON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2012

Note A – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Milton-Freewater and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

CITY OF MILTON-FREEWATER, OREGON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Fiscal Year Ended June 30, 2012

There were no prior year audit findings to report

CITY OF MILTON-FREEWATER, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

01 The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Milton-Freewater.

02 No significant deficiencies in internal control were discovered by the audit of the basic financial statements of the City of Milton-Freewater.

03 No instances of noncompliance material to the financial statements of the City of Milton-Freewater, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

Federal Awards

04 No material weaknesses or significant deficiencies in internal control over compliance for major federal programs were disclosed by the audit.

05 The auditor's report on compliance for the major federal program for the City of Milton-Freewater expresses an unqualified opinion.

06 The audit did not disclose any audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133.

07 The programs tested as major program was:

Electricity Delivery and Energy Reliability (ARRA Smart Grid) CFDA # 81.122

08 The threshold for distinguishing Types A and B programs was $300,000.

09 The City of Milton-Freewater was not determined to be a low-risk auditee.

SECTION II - FINDINGS – FINANCIAL STATEMENTS AUDIT

None

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

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December 14, 2012

To the Honorable Mayor, Members of the City Council and Management
Of the City of [redacted], Oregon

Thank you for the cooperation given us during our recent engagement with the City of [redacted]. In connection with our examination of the financial statements for the year ended June 30, 2012, we considered the internal accounting controls, reviewed significant accounting policies and procedures and certain business, financial and administrative practices for the purpose of determining the scope of our examination. Since our review of the system of internal accounting control was made to enable us to express an opinion on the financial statements, it would not necessarily disclose all weaknesses in the system, which may exist.

During our audit we became aware of some areas that present opportunities for strengthening internal control, improving operating efficiency and reducing expenses. The following points summarize our comments and recommendations regarding these matters. We would like to point out that staff made significant effort toward being prepared for the audit and that improvement was noted in several areas.

Internal Control Structure

In our review of the City's internal control structure, we discovered that staff has implemented numerous processes to improve upon findings from the prior year audit. They have added cross checks in most areas to make sure the system is properly integrated with the various modules and is working as expected. There are still a couple of areas that require adjustment, but there has been significant improvement. Also, by year end, the City started using the bank reconciliation module in the system and has balanced the pooled cash and accounts payable.

Year End Financial Reporting Process

The City's controls over the fiscal year-end financial reporting process rely largely on manual adjustments to record activity on the modified accrual basis of accounting. Although the number of adjustments decreased from the prior year, there were several journal entries required to correct year end balance, which could be reduced in the future through secondary reviews of accruals and other year-end adjustments, improved communication between staff, and comparison of the June 30 account balances to the prior year amounts, while considering current year expectations.

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Expenditures and Accounts Payable

As reported in the prior year's management letter, the City does not have a comprehensive purchasing policy. Expenses are reviewed and approved after the purchase has been made and checks are signed by a responsible official. We continue to recommend enhancing the process by establishing written comprehensive purchasing policies, which set levels of authorizations and details at which levels bids and quotes are required. In many entities, this purchasing policy has exceptions for purchase orders for both small or recurring purchases, which are referred to as blanket purchase orders, such as in the case of telephone or electric utility expenses or items considered minor by management, such as those purchases under $500 or any other amount management wishes to set.

Court

The City has not had a good methodology to estimate the net court receivables, but has worked out a reasonable methodology to use going forward. Adjustments were done as of June 30, 2012 and the City is adding a process to print and reconcile the receivables going forward. In the process, it was found that there are a number of accounts that were either not turned over to collections in the past, or were not properly coded in the system as being turned over. Management is still researching the issue, but for financial reporting, the old balances were not considered collectible. In addition, it does not appear that the collection of parking tickets is being enforced in most cases. Parking tickets are not normally turned over to collections, nor are there additional collection procedures done at the City level. After the adjustments were posted, we recommended that the City add a review and reconciliation of the court receivables to the general ledger to its processes.

Utility Billing

In our review of utility accounts receivable, we found that there were some ongoing issues with Incode, the City's accounting software. The accounts receivable balances from the aging reports by customer did not agree to the general ledger and Incode needed to do internal adjustments to correct the balances reported. The system was also not properly set up to allocate penalties between funds and management has been doing hand adjustments each month to allocate the revenues. There were several adjustments required to reallocate penalties, correct the utility billing receivables, and to establish an allowance for doubtful accounts. After the adjustments were posted, we recommended that the City add a reconciliation of the utility billing receivables to the general ledger to its processes. In the past, the City has been reconciling the activity, but not the balances.

Audit Readiness

We would like to commend the staff for their efforts in providing supporting information and schedules supporting accounts and account balances, despite heavy workloads. City staff has met with enthusiasm all suggestions for improvement and we appreciate their professionalism.

Closing Comments

We wish to express our sincere appreciation for the cooperation and courtesy extended to us by your finance staff and other personnel during the recent examination. The response by staff while discussing the recommendations listed above was enthusiastic. We were pleased when we were advised that many of our recommendations have already been addressed. We would also like to commend the staff for their professional and friendly attitudes. If you should have any questions concerning this report, we would be pleased to discuss them with you at your convenience.

Respectfully,

Dickey and Tremper, LLP

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December 31, 2012

To the Honorable Mayor and City Council Members
Of the City of [redacted], Oregon

Thank you for the cooperation given to us during our recent engagement with the City of [redacted]. In connection with our examination of the financial statements for the year ended June 30, 2012, we considered the internal accounting controls, reviewed significant accounting policies and procedures and certain business, financial and administrative practices for determining the scope of our examination. Since our review of the system of internal accounting control was performed to enable us to express an opinion on the financial statements, it would not necessarily disclose all weaknesses in the system, which may exist.

As a normal part of our audit we became aware of areas that present opportunities for strengthening internal control, improving operating efficiency and reducing expenses. The following points summarize our comments and recommendations regarding these matters.

Fixed Assets

In our review of capital assets additions and deletions, we found that there were several improvements in the reconciliation process, but that there were still some clerical errors and additions and deletions missed in the process. We expect that this will continue to improve in future years, as the new accounting manager becomes more involved in the review process and has a history with the activity.

Golf Course

The golf course has improved from the prior year as the new manager has taken a lot more active role in the billing, accounting, review, and internal control processes. Though, there is still a lack of segregation of duties, as the Course Manager is in charge of most of the billing, collection, reconciliation, depositing, and opening of the mail processes.

The City has been subsidizing the golf course fund through an interfund loan. We discussed with the management and the City still wants to consider this as a loan that the golf course will repay eventually. However, as the loan balance continues to grow, the City will need to have a plan of action to have the loan paid back or to reclassify them to transfers. We also suggest the City to budget the interfund loan repayment activity in accordance with local budget law and to formalize the loan approval at the council level.

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Refunding Debt

The City refunded several existing debts in June, 2012. While reviewing the transaction, we found that the consultant used the face value of the new debt issued, rather than the reacquisition price paid to the bond escrow agent in calculating the gain (loss) on refunding. The original calculation included a net gain across multiple funds of approximately $565,000; however by using the correct reacquisition price, the recalculation revealed a single loss of $223,623 in the Golf Fund. In addition, we found that the City purchased police motorcycles under a capital lease, in which the City neglected to gross up the debt proceeds and capital outlay expense, as required by Generally Accepted Accounting Principles. Moreover, the debt related to the ARFF building was transferred to the Airport fund after the Fire fund closed July 1, 2011. However, the debt continued to be tracked in the governmental instead of Airport Fund. We also noted that several adjustments for accrued interest payable for balances that were paid off during the year were needed. The refunding issues appears to be a one-time exception, however, we recommend the City implement a centralized reviewing procedure for any future accounting concerns. In addition, we suggest the City to double check the billing invoices from the banks against their records to avoid the possibility of bank errors.

Jurisdictional Transfer

The City was notified the execution of jurisdictional transfer of 5th and 6th streets was complete in May, 2012. However, according to agreement, the recognition of the transfer was contingent upon 1) Jurisdictional transfer document executed by the State, 2) accepted by the City, and 3) recorded with the county in which the City is located. The City satisfied the first two conditions but both the City and State of Oregon failed to initiate the recording of the transfer with the county. We recommend that management ensure review procedures are in place and over revenue recognition and significant contract provisions.

We wish to express our sincere appreciation for the cooperation and courtesy extended to us by the staff and other personnel during the recent examination. The City was prepared for the audit, and very few adjustments were required. In addition, as an important step in our audit procedures, we requested and received schedules from your staff that assisted in our fieldwork. We found these schedules to be accurate and complete. The staff also provided timely responses to our questions. We would like to commend them for their professional and friendly attitudes. Should you have any questions concerning this report, we would be pleased to discuss them with you at your convenience.

Respectfully,

Dickey and Tremper, LLP