

**CRAWFORD & ASSOCIATES, P.C.**  
**AUDITOR'S COMMUNICATION WITH THE AUDIT COMMITTEE**

**CITY OF EXAMPLE, OKLAHOMA**  
**FOR THE YEAR ENDED JUNE 30, 2003**

QUESTION	ANSWER	WHAT DOES THIS MEAN?
<p>1. <i>Why is there an auditor's communication?</i></p>	<p>Such a communication is required by CPA professional standards to assist the audit committee in meeting its responsibilities.</p>	<p>The auditor should ensure that the audit committee or its equivalent receives information regarding the scope and results of the audit that may assist the committee in overseeing the financial reporting process for which City management is responsible.</p>
<p>2. <i>What types of audits were performed?</i></p>	<p>Financial Statement Audit.</p> <p>And</p> <p>Compliance Audit of Federal Awards.</p>	<p>The objectives of the audits were limited to rendering opinions as to the fair presentation of the City's annual financial statements and its compliance with federal award requirements. These were not investigative, performance, or any other type of audits.</p>
<p>3. <i>What audit standards were followed and what was the audit scope?</i></p>	<p>GAAS of the AICPA, GAS of the GAO, and OMB Circular A-133.</p> <p>Audit scope included rendering opinions on the City's financial statements' opinion units for the year ended June 30, 2003; and, reporting on (<i>but not providing an opinion on</i>) financial reporting related internal controls and compliance.</p> <p>Audit scope also included rendering an opinion on the City's compliance with federal award requirements for major federal programs and reporting on compliance-related internal controls.</p>	<p>Generally accepted auditing standards (GAAS) applicable to financial statement audits are designed to provide <b>reasonable, not absolute, assurance</b> that the financial statements are free of <b>material</b> misstatement.</p> <p>As a by-product (a result, but not a primary objective) of this audit, we also addressed financial reporting related internal controls and compliance on a limited basis.</p> <p><i>Government Auditing Standards</i> (GAS) of the Comptroller General of the U.S. General Accounting Office (GAO) requires a written report on internal control and compliance over financial reporting.</p> <p>OMB Circular A-133 (the Single Audit) requires an opinion (reasonable assurance) on compliance with applicable federal award requirements with separate written reports.</p>

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<p><i>4. What significant accounting policies were followed? Were there any unusual or controversial transactions noted, sensitive accounting estimates or judgments made, or changes in accounting policies implemented?</i></p>	<p>The City follows generally accepted accounting principles (GAAP). Other than the first year of implementation of the new reporting model (GASB 34), there were no unusual or controversial transactions or sensitive accounting estimates or judgments noted in the conduct of the audit.</p>	<p>The City's accounting policies and financial reporting format are considered to be in accordance with generally accepted accounting policies (GAAP).</p>
<p><i>5. Were there any significant audit adjustments proposed?</i></p>	<p>Material audit adjustments were proposed and accepted by management related to the following:</p> <ul style="list-style-type: none"> <li>• Beginning net assets for governmental activities</li> <li>• Required transfer to police and fire funds</li> <li>• Reclass payments to component unit</li> <li>• Reclass capital outlay expenditures not capitalized</li> <li>• Reclass bond issue costs</li> <li>• Adjust incurred but not reported liability claims to actuarially determined amount</li> <li>• Re-allocate utility receivables and meter deposit liabilities</li> <li>• Reclass a completed construction in progress asset</li> <li>• Additional expenditures included in accounts payable</li> <li>• Move asset posted in wrong fund</li> </ul>	<p>A significant audit adjustment is a proposed correction of the financial statements that, in the auditor's judgment, may not have been detected except through the conduct of the audit. The failure to record such a proposed adjustment would likely result in an uncorrected material misstatement or omission in the financial statements and result in a qualified or adverse auditor's opinion on certain opinion units.</p>
<p><i>6. Were there any uncorrected misstatements detected by the audit that management determined to be immaterial?</i></p>	<p>There were no immaterial misstatements other than inconsequential audit differences.</p>	<p>Management may elect to not correct immaterial misstatements since they will not affect the fair presentation of the financial statements</p>

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<p><i>7. Were there any disagreements with management or other difficulties encountered in the audit?</i></p>	<p>There were no disagreements or difficulties encountered other than the expected difficulties in implementing the new financial reporting model (GASB 34).</p>	<p>Disagreements with management may occasionally arise over the application of accounting principles, disclosures, the scope of the audit, wording of auditor reports, or other judgments made by management that affect the financial statements.</p> <p>Reportable audit difficulties could include such circumstances as unreasonable delays encountered, unrealistic time deadlines imposed, or lack of cooperation received.</p>
<p><i>8. What type of audit opinions were rendered on the financial statements' opinion units?</i></p>	<p>Unqualified on all opinion units.</p>	<p>An unqualified opinion is a favorable opinion.</p> <p>It indicates to users of the report that we have obtained reasonable assurance that the financial statement opinion units, as adjusted, are free of material misstatement and are fairly presented.</p>
<p><i>9. Were there any internal control reportable conditions related to financial reporting noted?</i></p>	<p>No such conditions were noted.</p> <p>A letter to management was issued that contained two recommendations for improvement to accounting for certain activities that were not significant enough to be considered reportable conditions.</p>	<p>Internal control reportable conditions are weaknesses identified in the accounting and financial reporting process that could result in undetected misstatements in the financial statements.</p> <p>Auditors are required to communicate any such weaknesses noted as a by-product of rendering an opinion on financial statements.</p>
<p><i>10. Were there any material instances of noncompliance or illegal acts related to the financial statements noted?</i></p>	<p>No such instances were noted.</p>	<p>Instances of noncompliance refer to indications of a possible violation of a requirement that affects the financial statements, such as bond indenture requirements, contract provisions, or financial related laws and regulations.</p>

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		<p>The term illegal act refers specifically to noncompliance with laws or government regulations. The final determination of whether a particular act is illegal is the responsibility of a court of law and not the auditor. Auditors are required to communicate any such instances noted as a by-product of rendering an opinion on the financial statements.</p>
<p>11. What type of audit opinion was rendered on compliance with federal awards requirements?</p>	<p>Unqualified</p>	<p>An unqualified opinion is a favorable opinion.</p>
<p>12. Were there any indications of fraud related to the financial statements noted that are required to be communicated to the audit committee, such as material fraud or any fraud involving upper management?</p>	<p>No such indications were noted, other than instances, not material to the financial statements, dealing with permit and inspection fees. These instances were separately investigated.</p>	<p>Indications of fraud (intentional acts) that would be applicable to a financial statement audit are limited to indications of:</p> <ol style="list-style-type: none"> <li>1) misappropriation of funds; and</li> <li>2) fraudulent financial reporting</li> </ol> <p>Auditors are required by professional standards to communicate to management any such indications noted, regardless of materiality. Required communication to the audit committee involves material fraud or any fraud involving upper management.</p>
<p>13. Are there any current or future considerations for the audit committee?</p>	<p>The City implemented GASB 34, 37 and 38 in the current year.</p>	<p>The implementation of GASB 34, 37 and 38 had a significant impact on the City's annual report preparation process, including the addition of a Management Discussion and Analysis, a change to the direct method of cash flow reporting and some changes to footnote disclosure requirements.</p>