



INDEPENDENT AUDITOR'S 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*

To the Board of County Commissioners
Yellowstone County
Billings, Montana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Yellowstone County, Montana (the County) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 20, 2006. 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 County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as 06-1.

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. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated November 20, 2006.

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

Anderson Tull Muehlen & Co., P.C.

Billings, Montana
November 20, 2006



INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of County Commissioners
Yellowstone County
Billings, Montana

Compliance

We have audited the compliance of Yellowstone County, Montana (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal programs for the year ended June 30, 2006. The County's major federal program is 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 its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County'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 program occurred. An audit includes examining, on a test basis, evidence about the County'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 on the County's compliance with those requirements.

In our opinion, Yellowstone County, Montana complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Lutz Muehlen + Co., P.C.

Billings, Montana
November 20, 2006

YELLOWSTONE COUNTY, MONTANA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Program Balance 06/30/05	Federal Revenues	Federal Expenditures	Program Balance 06/30/06
U.S. Department of Transportation							
Passed through State Department of Justice / Highway Traffic Safety:							
Yellowstone County STEP OT	20.600	05-08-02-25/05-13-01-25	10,100	0	5,589	5,589	0
Yellowstone County STEP OT	20.600	06-09-02-25/06-11-03-25	17,250	0	6,329	6,329	0
			27,350	-	11,918	11,918	-
Passed through State Department of Transportation:							
Montana Safe Kids, Safe Communities (FY06)-Healthy Moms, Healthy Babies	20.600	N/A	30,000	0	19,796	19,796	0
Montana Safe Kids, Safe Communities (FY05)-Healthy Moms, Healthy Babies	20.600	N/A	25,000	0	3,527	3,527	0
Community Transportation Enhancement Program Pompeys Pillar Landscaping	20.205	STPE 56(67)	380,687	0	194,257	194,257	0
			435,687	0	217,580	217,580	0
Total U.S. Department of Transportation			\$463,037	\$0	\$229,498	\$229,498	\$0
U.S. Department of Justice							
Direct Programs:							
Community Gun Violence Prosecution Program	16.609	2002-GP-CS-0142	120,000	0	3,333	3,333	0
Project Safe Neighborhoods	16.609	2004-GP-CX-0699	150,000	0	45,833	45,833	0
Continued Implementation of Youth Intake	16.542	2001-JN-FX-0048	249,450	0	16,533	16,533	0
2004 Local Law Enforcement Block Grant	16.592	2004-LB-BX-1119	1,000	0	46	46	0
2004 COPS in Schools Program	16.710	2004-SH-WX-0027	125,000	0	41,666	41,666	0
			645,450	-	107,411	107,411	0
Passed through State Board of Crime Control:							
Victim Witness Program	16.575	05-V04-81969	40,000	0	40,000	40,000	0
Intensive Community Supervision Program	16.523	04-A11-81858	45,585	0	29,702	29,702	0
Billings KIDS Pilot Project	16.540	05-J19-82059	40,940	0	39,849	39,849	0
			126,525	0	109,551	109,551	0
			771,975	0	216,962	216,962	0
Total U.S. Department of Justice			\$1,235,012	\$0	\$446,460	\$446,460	\$0
U.S. Department of Housing & Urban Development							
Passed through State Department of Commerce							
Community Development Block Grant/Custer Sewer	14.228	MT-CDBG-05PF-08	500,000	0	8,792	8,792	0
Community Development Block Grant/Link Communications	14.228	MT-CDBG-ED05-01	326,500	0	317,565	317,565	0
Community Development Block Grant/Lockwood Housing Project	14.228	MT-CDBG-99HR-05	400,000	0	3,349	3,349	0
Total U.S. Department of Housing & Urban Development			\$1,226,500	\$0	\$329,706	\$329,706	\$0
U.S. Department of Health and Human Services							
Direct Programs							
Medical Reserve Corp.	90.008	US2SG02036-01-0	\$100,000	\$0	\$11,832	\$11,832	\$0
Total U.S. Department of Health and Human Services			\$100,000	\$0	\$11,832	\$11,832	\$0

The accompanying notes are an integral part of this schedule.

YELLOWSTONE COUNTY, MONTANA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006
 (Page 2 of 2)

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Program Balance 6/30/05</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>	<u>Program Balance 6/30/06</u>
U.S Department of Homeland Security							
Passed through State Department of Military Affairs, DES Division							
FY03 Homeland Security Grant Program-Critical Infrastructure-Billings PUD	97.004	2003-MU-T3-0021	65,013	0	64,608	64,608	0
FY04 Homeland Security Grant Program-Training	97.004	2004-GE-T4-0002	110,724	0	17,658	17,658	0
FY04 Homeland Security Grant Program-Equipment	97.004	2004-GE-T4-0002	693,393	0	442,245	442,245	0
FY04 Homeland Security Grant Program-Citizen Corps Grant	97.001	2004-GE-T4-0002	48,800	0	39,895	39,895	0
FY05 Homeland Security Grant Program-Citizen Corps Grant	97.067	2005-GE-T5-0042	22,500	0	0	0	0
FY05 Homeland Security Grant Program-Buffer Zone Protection Program	97.078	2005-GE-T5-0006	48,918	0	48,918	48,918	0
FY04 Homeland Security Grant Program-Citizen Corps Grant Supplemental	97.001	2004-GE-T4-0002	3,508	0	3,540	3,540	0
Billings Cove Creek Flood Mitigation Project-Engineering Phase	97.039	1424-P-1-R	177,845	0	112,195	112,195	0
Total U.S. Department of Homeland Security			\$1,170,701	\$0	\$729,059	\$729,059	\$0
U.S. Election Assistance Commission							
Passed through State Department of Administration							
Help America Vote Grant	90.401	n/a	33,164	0	720	720	32,444
Total U.S. Election Assistance Commission			33,164	0	720	720	32,444
U.S, Department of Interior							
Passed through State Department of Natural Resources & Conservation							
Volunteer & Rural Fire Assistance Title IV Grant	N/A	05-56-00	\$20,000	\$0	\$20,000	\$20,000	\$0
			\$20,000	\$0	\$20,000	\$20,000	\$0
Direct Programs							
National Fire Plan (Wildfire Hazard Assessment & Mitigation Plan)	15.228	ESA030016	\$143,000	\$0	\$39,164	\$39,164	\$0
Clark on the Yellowstone L&C Bicentennial Nat'l Heritage Signature Event	15.225	ESA04W024	\$104,800	\$0	\$1,633	\$1,633	\$0
Pompey's Pillar Amenities	15.224	ESA06U021969	\$150,000	\$0	\$0	\$0	\$0
Taylor Grazing	N/A	N/A	N/A	0	338	338	\$0
Bankhead Jones	N/A	N/A	N/A	0	2,828	2,828	0
			\$397,800	\$0	\$43,963	\$43,963	\$0
Total U.S Department of Interior			\$417,800	\$0	\$63,963	\$63,963	\$0
TOTAL FEDERAL AWARDS				\$0	\$1,581,740	\$1,581,740	\$32,444

The accompanying notes are an integral part of this schedule.

YELLOWSTONE COUNTY, MONTANA
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006
Page 1 of 2

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Yellowstone County, Montana (County) and is presented using a basis of accounting which is consistent with the general purpose financial statements, which is described in note 1 to the County's general purpose financial statements. 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.

(2) Relationship to General Purpose Financial Statements

Federal awards revenues are reported in the County's general purpose financial statements as follows:

	Federal Awards <u>Revenues</u>	State and Local Intergovernmental <u>Revenue</u>	Total Intergovernmental <u>Revenues</u>
General Fund	\$1,326,709	\$ 372,330	\$ 1,699,039
Road Fund	2,828	1,746,703	1,749,531
Property and Liability Insurance Fund	0	12,675	12,675
Public Safety Fund	175,250	50,694	225,944
Nonmajor Governmental Funds	<u>76,953</u>	<u>2,870,340</u>	<u>2,947,293</u>
Totals	\$ <u>1,581,740</u>	\$ <u>5,052,742</u>	\$ <u>6,634,482</u>

**Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006**

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(3) Matching Funds

In accordance with the terms of the grants, the County has expended cash and in-kind matching contributions during the year ended June 30, 2006 for the following programs:

	<u>Grant No.</u>	<u>Amount</u>
<u>U.S. Department of Justice</u>		
Community Gun Violence Prosecution Program	2002-GP-CX-0142	833
2004 COPS in Schools Program	2004SHWX0027	13,680
Victim Witness Program	04-V04-81685	19,582
Intensive Community Supervision	04-A11-81858	<u>3,300</u>
		<u>\$ 37,395</u>
<u>U.S. Department of Interior</u>		
Volunteer & Rural Fire Assistance Title IV Grant	05-56-00	<u>\$ 3,552</u>
<u>U.S. Department of Transportation</u>		
Community Transportation Enhancement Program Pompey's Pillar	STPE 56(67)	<u>\$ 11,900</u>
<u>U.S. Department of Homeland Security</u>		
Billings Cove Creek Flood Mitigation Project	1424-P-1-R	<u>\$34,424</u>
<u>Total Matching on Federal Expenditures</u>		<u>\$ 87,271</u>

YELLOWSTONE COUNTY, MONTANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Reportable condition identified not considered material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of Major Program

97.004	Homeland Security Grant	\$524,511
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Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YELLOWSTONE COUNTY, MONTANA

Year Ended June 30, 2006

Financial Statement Findings:

06-1 Bank reconciliation error

Criteria:

In order to accurately report cash and cash equivalents, bank reconciliations must be performed in a timely manner.

Condition:

The checking account was not reconciled with the bank statement accurately and timely.

Effect:

Cash and revenue were overstated by \$11,985.

Cause:

A credit card utilization process was implemented prior to consultation with the Finance Department to ensure that proper procedures and internal controls were in place to accurately record the transactions.

Recommendation:

We recommend that before the County starts any new processes, there is a meeting with the originating department and the Finance Department to establish that the proper procedures and internal controls are put into place to accurately record transactions.

Client Response:

County departments have been made aware of this and the County anticipates compliance with this in the future.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

YELLOWSTONE COUNTY, MONTANA

Federal Award Findings and Questioned Costs: None

Prior Year Audit Findings: None