

COMPLIANCE SECTION

- 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*
- 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
- Schedule of Findings and Questioned Costs
- Audit Comments and Disclosures Required by State Regulations





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**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**

December 21, 2009

Honorable Mayor and City Council
City of McMinnville
McMinnville, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of McMinnville, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 21, 2009. 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. Our audit of the discretely presented component unit was not performed in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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 (Continued)

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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain matters that we reported to management of the City in a separate letter dated December 21, 2009.

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



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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

December 21, 2009

Honorable Mayor and City Council
City of McMinnville
McMinnville, Oregon

COMPLIANCE

We have audited the compliance of the City of McMinnville, Oregon (the City) 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 program for the year ended June 30, 2009. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City'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 City's compliance with those requirements.

In our opinion, the City 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, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 09-01.

INTERNAL CONTROL OVER COMPLIANCE

The management of the City 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 City's internal control over compliance with requirements that could

**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 (Continued)**

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INTERNAL CONTROL OVER COMPLIANCE (Continued)

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, 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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 09-01 and 09-02 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and accordingly, we express no opinion on them.

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



Certified Public Accountants

CITY OF MCMINNVILLE
McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
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 section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	

CFDA NUMBERS:	NAME OF FEDERAL PROGRAM OR CLUSTER
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20.106	Airport Improvement Grant
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Dollar threshold used to distinguish between type A and type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	No

CITY OF MCMINNVILLE
McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 09-01:

Federal Programs:	Airport Improvement Grant (CFDA 20.106)
Federal Agencies:	Department of Transportation-Federal Aviation Administration
Award Year:	2008-09
Pass Through Entity:	None
Criteria:	When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the <i>Excluded Parties List System (EPLS)</i> maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition:	The City did not include a clause or condition in their contracts ensuring the vendors were not suspended or debarred, nor did they check the EPLS website to ensure the vendors were not suspended and debarred.
Questioned Costs:	No questioned costs are noted as the vendors were not found to be suspended or debarred.
Context:	The City had three contracts subject to the requirements of suspension/debarment, none of which included the necessary clause or condition in the contracts. None of the vendors were verified by the City against the EPLS website to ensure they were not suspended or debarred.
Effect:	There was no actual effect on the City as a result of there being no actual noncompliance. However, without proper controls the City could potentially expend federal dollars in a contract with an ineligible vendor, which would constitute noncompliance.
Corrective Action Taken:	The City will implement a procedure to have City staff compare the City's contracts with the suspended and debarred list. The City will also consider inclusion of clause in new contracts requiring that vendors not be suspended or debarred.

CITY OF MCMINNVILLE
McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

**SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
(Continued)**

Finding 09-02:

Federal Programs:	Airport Improvement Grant (CFDA 20.106)
Federal Agencies:	Department of Transportation-Federal Aviation Administration
Award Year:	2008-09
Pass Through Entity:	None
Criteria:	When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).
Condition:	The City engaged the services of an owner's representative with respect to the funded project, and that owner's representative was charged with ensuring compliance with grant requirements including Davis Bacon. The City did not effectively monitor the activities of the owner's representative to ensure compliance.
Questioned Costs:	No questioned costs are noted as there was no noted noncompliance under Davis Bacon requirements.
Context:	All compliance considerations under Davis Bacon were outsourced, including the receipt, review and retention of certified payroll reports (CPR's). The owner's representative received, reviewed and retained all CPR's related to the project in accordance with requirements.
Effect:	There was no direct or actual effect of the deficiency in internal control over compliance with Davis Bacon requirements. Ineffective monitoring could lead to potential noncompliance and the City being unable to timely detect or correct such noncompliance.
Corrective Action Taken:	The City will implement a procedure whereby City staff will inquire of the owner's representative and document monitoring to ensure compliance with requirements.

CITY OF MCMINNVILLE

McMinnville, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION IV – SUMMARY OF PRIOR AUDIT FINDING

None noted.

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.



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AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

December 21, 2009

Honorable Mayor and City Council
City of McMinnville
McMinnville, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of McMinnville, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and *Minimum Standards for Audits of Oregon Municipal Corporations*. Our audit of the discretely presented component unit was not performed in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We considered the City's internal control over financial reporting as necessary to plan and perform our audit of the basic financial statements. We have issued our report on internal control over financial reporting and on compliance and other matters dated December 21, 2009. That report can be found on page 211 of this Comprehensive Annual Financial Report.

ADEQUACY OF ACCOUNTING RECORDS

The City's accounting records were reasonably maintained and adequate to support our audit of the basic financial statements.

COLLATERAL

The City has complied with Oregon Revised Statutes (ORS) Chapter 295 in relation to deposit accounts.

INVESTMENTS

Public funds appear to be invested in compliance with ORS 294.

INDEBTEDNESS

We noted the indebtedness of the City was in compliance with ORS 287.004 during the year ended June 30, 2009. We noted no defaults in principal, interest, sinking fund or redemption provisions with respect to any of the City's bonded debt, and no breach of the bond agreements at June 30, 2009.

AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)

Page 2

BUDGET

The City appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2009, and the preparation and adoption of its budget for the year ending June 30, 2010, except as noted for the following item:

- The City over expended its appropriations as follows:

Ambulance Fund Material and Services	\$18,437
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INSURANCE AND FIDELITY BONDS

We have reviewed the City's legally required insurance and fidelity bond coverage at June 30, 2009. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering City property at June 30, 2009.

PUBLIC CONTRACTS AND PURCHASING

The City's procedures for awarding public contracts were reviewed and found to be in accordance with ORS Chapter 279.

HIGHWAY FUNDS

The City's procedures for utilizing gas tax funds were reviewed and found to be in accordance with ORS Chapter 294.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We have reviewed the City's compliance with appropriate laws, rules and regulations that could have material impact on the basic financial statements for programs funded wholly or partially by other governmental agencies. The City is in compliance with the guidelines in all material respects.

In a separate report dated December 21, 2009, we have reported on the Schedule of Expenditures of Federal Awards. We have also reported on internal control over financial reporting and on compliance and other matters based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards*, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

FINANCIAL REPORTING REQUIREMENTS

We have reviewed financial reports and other data relating to programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)


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This report is intended solely for the information and use of the City Council, management, and the Oregon Secretary of State Audits Division, and is not intended to be and should not be used by anyone other than these specified parties.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By



Robert G. Moody, Jr., Partner