

ORDINANCE NO. 1416

AN ORDINANCE AUTHORIZING THE CITY OF CANBY TO ENTER INTO A CONTRACT WITH GROVE, MUELLER & SWANK, P.C. FOR AUDIT SERVICES; AND DECLARING AN EMERGENCY.

WHEREAS, the City of Canby requires the City have an external audit annually in accordance with ORS 297.425 and other audit and financial reporting standards as applicable; and

WHEREAS, notice for a request for proposals for audit services was published in the Daily Journal of Commerce on February 11 and 13, 2015; and

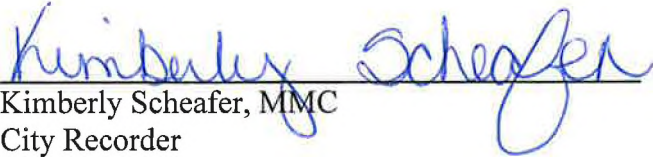
WHEREAS, proposals were received by February 27, 2015 and evaluated by the Municipal Audit and Financial Oversight Committee (MAFOC), interviews of the top three firms were completed by a subcommittee of the MAFOC and the MAFOC is recommending the council authorize the City Administrator to enter into a contract with Grove, Mueller & Swank P.C. for audit services; and

THE CITY OF CANBY, OREGON, ORDAINS AS FOLLOWS:

Section 1. The City Administrator is hereby authorized on behalf of the City to enter into a Personal Services Agreement with Grove, Mueller & Swank P.C. for audit services for the City. A copy of the Personal Services Agreement is attached hereto as Exhibit "A."

Section 2. Inasmuch as it is in the best interest of the citizens of Canby, Oregon, to contract and execute annual external financial statement audits in accordance with ORS 297.425 and other audit and financial reporting standards as applicable, an emergency is hereby declared to exist and this ordinance shall take effect immediately upon its enactment.

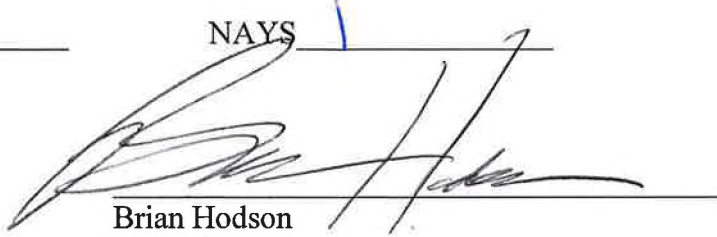
SUBMITTED to the Canby City Council and read the first time at a regular meeting therefore on Wednesday, May 20, 2015, and ordered posted in three (3) public and conspicuous places in the City of Canby as specified in the Canby City Charter and scheduled for second reading before the City Council for final reading and action at a regular meeting thereof on Wednesday, June 3, 2015, commencing at the hour of 7:30 PM at the Council Meeting Chambers located at 155 NW 2nd Avenue, Canby, Oregon.


Kimberly Scheafer, MMC
City Recorder

PASSED on second and final reading by the Canby City Council at a regular meeting thereof on the 3rd day of June 2015, by the following vote:

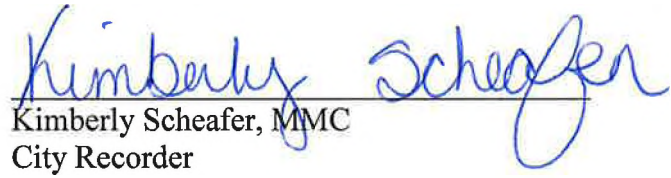
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NAYS 1



Brian Hodson
Mayor

ATTEST:



Kimberly Scheafer, MMC
City Recorder

EXHIBIT "A"

PERSONAL SERVICES AGREEMENT

THIS AGREEMENT is between the CITY OF CANBY (City) and GROVE, MUELLER & SWANK, P.C. (Contractor).

- A. City requires services which Contractor is capable of providing, under terms and conditions hereinafter described.
- B. Contractor is able and prepared to provide such services as City requires, under those terms and conditions set forth.

The Parties Agree a Follows:

- 1. Scope of Services. Contractor's services under this Agreement are set forth in the Exhibit "A" and attached hereto.
- 2. Contractor Identification. Contractor shall furnish to City its employer identification number as designated by the Internal Revenue Service, or Contractor's Social Security Number, as City deems applicable. **Contractor understands it is required to obtain a City of Canby Business License for conducting business in the City. Contractor agrees to obtain a Canby Business License prior to commencing work under this contract.**
- 3. Compensation:
 - A. City agrees to pay Contractor according to the proposed rate schedule submitted with the Contractor's proposal as set forth in Exhibit "B" and attached hereto.
 - B. City agrees to pay Contractor within 30 days after receipt of Contractor's itemized statement reporting completed work. Amounts disputed by the City may be withheld pending settlement.
 - C. City certifies that sufficient funds are available and authorized for expenditure to finance costs of the Agreement.
- 4. Contractor is Independent Contractor.
 - A. Contractor's services shall be provided under the general supervision of the City Administrator. Contractor shall be an independent contractor for all purposes and shall be entitled to no compensation other than the compensation provided for under Paragraph #3 of this Agreement.
 - B. Contractor certifies that it is either a carrier-insured employer or a self-insured employer as provided in Chapter 656 of the Oregon Revised Statutes.

- C. Contractor hereby represents that no employee of the City, or any partnership or corporation in which a City Employee has an interest, will or has received any remuneration of any description from Contractor, either directly or indirectly, in connection with the letting or performance of this contract, except as specifically declared in writing.
5. **Subcontractors and Assignment.** Contractor shall neither subcontract any of the work, nor assign any rights acquired hereunder, without obtaining prior written approval from City. City, by this Agreement, incurs no liability to third persons for payment of any compensation provided herein to Contractor. Any subcontract between Contractor and subcontractor shall require the subcontractor to comply with all terms and conditions this agreement as well as applicable OSHA regulations and requirements.
6. Term.
- A. This Agreement shall cover the audits of 3 fiscal years commencing with the audit of the year ending June 30, 2015 and shall allow for 2 one year extensions which will automatically commence unless terminated in accordance with part B of this article.
- B. This Agreement may be terminated by:
1. Mutual written consent of the parties.
 2. Either party, upon thirty (30) days written notice to the other, delivered by certified mail or in person.
 3. City, effective upon deliver of written notice to Contractor by certified mail, or in person, under any of the following:
 - a. If Contractor fails to provide services called for by this Agreement within the time specified or any extension thereof.
 - b. If Contractor fails to abide by the terms of this Agreement.
 - c. If services are no longer required.
7. Professional Standards. Contractor shall be responsible to the level of competency presently maintained by others practicing the same type of work in City's community, for the professional and technical soundness, accuracy and adequacy of all work and materials furnished under this authorization.
8. Insurance. Insurance shall be maintained by the Contractor with the following limits:
- A. For General Liability Insurance, Contractor shall provide a Certificate of Insurance naming the City of Canby as an additional insured showing policy limits of not less than \$1,000,000 Combined Single Limit for Bodily Injury/Property Damage on an occurrence basis.

B. For Automobile Insurance, Contractor shall provide a Certificate of Insurance naming the City of Canby as an additional insured showing policy limits of not less than \$1,000,000 Combined Single Limit for Bodily Injury/Property Damage on an occurrence basis for any vehicle used for City business or use otherwise related to this contract.

C. For Professional Liability—errors and omissions—a \$1,000,000 Combined Single Limit for Bodily Injury/Property Damage limit. **(Required for Architects, Appraisers, Attorneys, Consultants, Engineers, Planners, Programmers, etc.).** For purposes of professional liability, Contractor shall provide proof of a Certificate of Insurance naming the City of Canby as a Certificate Holder.

D. For Worker's Compensation, Contractor shall provide a Certificate of Insurance naming the City of Canby as a Certificate Holder showing Worker's Compensation Insurance with statutory limits of coverage.

Procuring of such required insurance at the above-stated levels shall not be construed to limit the Contractor's liability hereunder. Notwithstanding said insurance, Contractor shall be obligated for the total amount of any damage, injury, loss, or related costs caused by or related to Contractor's negligence or neglect connected with this Agreement.

9. Legal Expense. In the event legal action is brought by City or Contractor against the other to enforce any of the obligations hereunder or arising out of any dispute concerning the terms and conditions hereby created, the losing party shall pay the prevailing party such reasonable amounts for attorneys fees, costs, and expenses as may be set by the court both at trial and all appeals there from.
10. Modifications. Any modification of the provisions of this Agreement shall be in writing and signed by the parties.
11. Notices. Any notice, bills, invoices, reports, or other documents required by this Agreement shall be sent by the parties by United States mail, postage paid, or personally delivered to the address below. All notices shall be in writing and shall be effective when delivered. If mailed, notices shall be deemed effective forty-eight (48) hours after mailing unless sooner received.
12. Entire Agreement. This Agreement contains the entire understanding of the parties regarding the subject matter of this Agreement and supersedes all prior and contemporaneous negotiations and agreements, whether written or oral, between the parties with respect to the subject matter of this Agreement.
13. Savings Clause. Should any provision of this Agreement be found to be in conflict with any federal or Oregon state law, or final controlling decision of any Court of competent jurisdiction, or ruling or decision of any controlling

administrative agency, all other provisions of this Agreement shall remain in full force and effect.

CITY: Amanda Zeiber, Asst. City Administrator/HR
Director
City of Canby
PO Box 930
Canby, OR 97013

CONTRACTOR: Ryan Pasquarella
Grove, Mueller & Swank P.C.
PO Box 2122
Salem, OR 97308-2122

Please submit invoices to: Attn: Accounts Payable
City of Canby
PO Box 930
Canby, OR 97013
potterl@ci.canby.or.us

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly appointed officers.

CONTRACTOR:

CITY OF CANBY

By: 

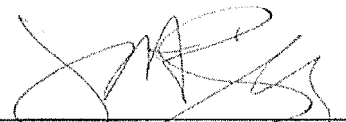
By: 

Date: 6/8/2015

Date: 06/04/15

Subcontractors will be used No No (If Yes, please complete List of Subcontractors attached to this Agreement)

Approved as to Form:


Joseph Lindsay
City Attorney

LIST OF SUBCONTRACTORS

As per Section 5 of the Personal Services Agreement, the following businesses will be subcontractors. Subcontractors are required to have a City of Canby Business License prior to commencing work under this contract.

<u>Name of Business</u>	<u>Address</u>	<u>Phone</u>	<u>CCB#</u>

The City hereby approves the above listed subcontractors.

City of Canby

Date

Exhibit "A"

City of Canby, Oregon

February 27, 2015

**Proposal to Provide Auditing Services
June 30, 2015 - 2019**

Grove, Mueller & Swank, P.C.
PO Box 2122 Salem, Oregon 97308-2122
Phone: 503-581-7788 Fax: 503-581-0152
Contact: Ryan Pasquarella, Shareholder
Contact Email: ryan@gmscpa.com

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Attachments:

- A - Cost Proposal
- B - Résumés
 - Charles A. Swank
 - Ryan T. Pasquarella
 - Derek Ellerbrook
- C - Peer Review Report
- D - Single Audit Examples
- E - Municipal Audit Report Example
- F - Sample Management Letters



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

February 27, 2015

City of Canby
Attn: Haley KG Fish
P.O. Box 930
182 North Holly Street
Canby, Oregon 97013

We are pleased to present this proposal to provide audit services to the City of Canby for the fiscal years ending June 30, 2015 through June 30, 2019. Our audits will be performed in accordance with auditing standards generally accepted in the United States of America and in accordance with *Government Auditing Standards* and OMB Circular A-133, the "Single Audit," if required, and will include an opinion on the basic financial statements, "in-relation-to" reports on required supplementary information, supplementary statements and schedules. In addition to the audits mentioned above, we will render a report on the City's compliance with the Minimum Standards of Oregon Municipal Corporations.

Grove, Mueller & Swank, P.C. is a registered firm of Certified Public Accountants properly licensed to practice and conduct municipal audits in Oregon. Chuck Swank, Ryan Pasquarella and Derek Ellerbrook will be assigned to your engagement and are all licensed municipal auditors. Our firm is independent from the City of Canby under the guidelines of the AICPA and *Government Auditing Standards*. We will meet all your technical and timing requirements as outlined in the request for proposal.

Our Firm is a significant player in the arena of governmental accounting. Chuck Swank has taught governmental accounting and auditing for the Oregon Society of CPA's for more than twenty years. He and Ryan Pasquarella are active members of the OSCPAs Governmental Accounting and Auditing Committee. We are also active on numerous other professional committees involving the Oregon Society of CPA's and other professional organizations. We are the current auditor for other cities which are similar in size and activities to the City of Canby including twelve of our current clients that receive the GFOA certificate for excellence in financial reporting.

Our audit plan would include interim procedures performed prior to or near in July or August each year. Year-end audit procedures would be performed at a mutually agreeable date with the goal of the audited financial statements being available for the City's December Council meeting.

Ryan Pasquarella, Shareholder, is authorized to make representations for Grove, Mueller & Swank, P.C. Mr. Pasquarella may be contacted by e-mail at ryan@gmspca.com, in writing at P.O. Box 2122, Salem, Oregon 97308-2122, or by phone at 503-581-7788. Mr. Pasquarella, as signer of this letter, is also authorized to submit this bid, and sign a contract on behalf of Grove, Mueller & Swank, P.C.

The Firm is a resident bidder as described in ORS 279A.120(1)(b) and properly licensed in the State of Oregon to perform municipal audits. This is an irrevocable offer for 90 days.

We believe the quality of our services is best expressed by our clients and our record of their retention.

Very truly yours,

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Ryan T. Pasquarella, Shareholder

ORGANIZATIONAL STRUCTURE AND EXPERIENCE

Description of the Firm

The firm of Grove, Mueller & Swank, P.C. is one of the larger local accounting firms in Oregon. The firm was incorporated in 1983. The Firm has grown from seven employees to the current 40. Our seven shareholders are supported by eight managers, 19 senior and staff accountants and six support personnel. This group contains 24 certified public accountants, 11 of which are licensed municipal auditors. Three shareholders, three managers and 12 senior and staff accountants are qualified to perform governmental audits. This depth of governmental auditing experience is available to the City. Two shareholders, one manager, one senior, and one-two staff accountants will be assigned to the City audit.

The firm has an office in Salem and a satellite office in Albany. The engagement will be conducted from our main Salem office. The Firm and all personnel have no conflict of interest related to the City and are independent under the guidelines of the AICPA and GAO Standards for Audits of Governmental Organizations, Programs Activities and Functions.

PEER REVIEW

We completed our most recent peer review for the year ended September 30, 2013 in January 2014. The report on that peer review is unmodified. A copy of our September 30, 2013 report is included as **Appendix C**.

CIVIC AND INDUSTRY PARTICIPATION

Civic Participation

Our firm is one of the larger local accounting firms in Oregon and maintains a philosophy of being actively involved in the community. Our community involvement in Salem includes United Way of the Mid-Willamette Valley, Garten Foundation, Marion-Polk Food Share, Family Building Blocks, and the longest sponsor of the "Awesome 3000" race for the Salem-Keizer Education Foundation, participation with the Salem Rotary Clubs, Salem Hospital, Salem Area Chamber of Commerce, Willamette Heritage Center, Salem Free Clinics, Salem Art Association, CASA of Marion County and Salem Symphony. Derek, the manager on the City's audit, is a Canby resident and is the Treasurer of the Tofte Farms HOA.

Industry Participation

All professional personnel are members of the Oregon Society of CPA's and the American Institute of CPA's. Our Firm is active in both local and nation accounting organizations. This includes one member on the OSCPA Board of Directors (John Hawkins), two members on the OSCPA Governmental Accounting and Auditing Committee (Chuck Swank and Ryan Pasquarella) and teaching governmental accounting and auditing for the Oregon Society of CPA's (Chuck Swank). All professional personnel are members of the Oregon Society of CPA's and the American Institute of CPA's and our firm is an active member in the AICPA's Governmental Audit Quality Center.

MUNICIPAL CLIENT EXPERIENCE

Current Municipal Audit Engagements

Our Firm, and specifically the management personnel assigned to the City's audit engagement, has been performing municipal audits for a number of years. We are one of several local firms that have the technical accounting resources to adequately service the City's audit needs. We performed audits of 12 municipalities that received their GFOA Certificate of Excellence in Financial Reporting in 2014 and are directly involved in assisting them in maintaining their certificates.

Five of our governmental audit clients (with contact information) comparable in size to the City of Canby are:

City of Wilsonville

Audit includes the primary government and one urban renewal agency (blended component unit). Audit of the primary government was performed in accordance with *Governmental Auditing Standards* and OMB Circular A-133. The City also prepares a Comprehensive Annual Financial Report.

Contact: Keith Katko, Finance Operations Manager
Email: katko@ci.wilsonville.or.us
Phone: (503) 570-1516

City of Keizer

Audit includes the primary government and one urban renewal agency (blended component unit). Audit was performed in accordance with accounting standards generally accepted in the United States of America. The audit was performed in accordance with *Governmental Auditing Standards* and OMB Circular A-133 in 2013. No single audit was required in 2014. The City also prepares a Comprehensive Annual Financial Report.

Contact: Tim Wood, Senior Accountant
Email: woodt@keizer.org
Phone: (503) 856-3413

City of Monmouth

Audit includes the primary government and one urban renewal agency (blended component unit). Audit was performed in accordance with accounting standards generally accepted in the United States of America.

Contact: Mark Dunmire, Finance Director
Email: mdunmire@ci.monmouth.or.us
Phone: (503) 751-0134

City of Springfield

Audit includes the primary government, one urban renewal agency (blended component unit), one discretely presented component unit, and a review of one component unit. Audit of the primary government was performed in accordance with *Governmental Auditing Standards* and OMB Circular A-133. The City also prepares a Comprehensive Annual Financial Report.

Contact: Bob Duey, Finance Director
Email: rduey@springfield-or.gov
Phone: (541) 726-3704

City of Sweet Home

Audit includes the primary government and one urban renewal agency (blended component unit). Audit was performed in accordance with accounting standards generally accepted in the United States of America. The audit was performed in accordance with *Governmental Auditing Standards* and OMB Circular A-133 in 2012. No single audit was required in 2013 or 2014.

Contact: Patricia Gray, Finance Director
Email: pgray@ci.sweet-home.or.us
Phone: (541) 367-5128 ext. 224

Non-current Municipal Audit Engagements

Three non-current governmental audit clients (with contact information) comparable in size to the City of Canby are:

City of Philomath

Audit includes the primary government and one urban renewal agency (blended component unit). Audit was performed in accordance with generally accepted auditing standards.

Contact: Joan Swanson, Finance Director
Email: joan.swanson@ci.philomath.or.us
Phone: (541) 726-3704

City of Corvallis

Audit was performed in accordance with *Governmental Auditing Standards* and OMB Circular A-133. The City also prepares a Comprehensive Annual Financial Report.

Contact: Nancy Brewer, Finance Director
Email: nancy.brewer@corvallisoregon.gov
Phone: (541) 766-6990

City of Milwaukie

Audit includes the primary government and one urban renewal agency (blended component unit). Audit was performed in accordance with generally accepted auditing standards.

Contact: Casey Camors, Finance Director
Email: camorsc@milwaukieoregon.gov
Phone: (503) 786-7522

SINGLE AUDIT EXPERIENCE

We have extensive knowledge in regards to the compliance requirements of relevant federal programs, and can help your team understand specific documentation, compliance, and control requirements associated therein. In 2014, we audited more than 20 Oregon municipal corporations including performing a single audit as specified in OMB Circular A-133. Additionally, we commit to training all of our audit team in this area annually by meeting or exceeding GAO Yellow Book standards requiring 80 hours every two years with at least 24 hours in subjects directly related to the government environment and to government auditing. As a member of the Governmental Audit Quality Center, we adhere to the highest training standards. Two examples are included in this proposal as **Attachment D**.

MUNICIPAL AUDIT REPORT

A sample municipal auditor's report is included in this proposal as **Attachment E**.

MANAGEMENT RECOMMENDATION LETTERS

Two sample management recommendation letters are included in this proposal as **Attachment F**.

CAPACITY AND KEY PERSONNEL

The audit of the City will be accomplished by experienced professionals, under the supervision of Chuck Swank, Shareholder. The shareholder in charge of the audit will be Ryan Pasquarella. The field work will be headed by Derek Ellerbrook, Audit Manager. We believe their experience is a benefit to both our firm and the client. We believe that knowledgeable personnel in the field lead to a more efficient audit including the interaction with City personnel. Resumes for Chuck Swank, Ryan Pasquarella and Derek Ellerbrook are included as **Attachment B**.

Chuck will have final responsibility for the financial statements and acts as our firm's Quality Control Shareholder. Chuck will not have any scheduled on-site hours related to the audit however will be available for an on-site visit if necessary.

Ryan will be responsible for the field work including developing the audit plan and providing technical assistance to the audit team and the City's personnel. His scheduled on-site at the beginning of both the interim and final fieldwork visits. Ryan will also be involved in the entrance and exit conferences with City personnel and management.

Derek will be the primary point of contact for day to day engagement progress including scheduling the audit, requesting audit workpapers from City personnel and supervising the on-site team. Derek will also be involved in the entrance and exit conferences with City personnel and management.

Ryan Pasquarella, CPA will be the primary account representative for the City's audit services.

AUDIT APPROACH

The purpose of our audit is to express opinions on the financial statements of the City. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. While making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit is conducted in three phases; planning, interim (system evaluation) and final (year-end). Planning and interim can be performed prior the end of the fiscal year.

An audit may rely on strong internal controls over the processing of financial transactions and the preparation of financial statements. Generally Accepted Auditing Standards do not require an opinion on internal control, but do require the reporting of deficiencies found in internal control as part of the audit process. In addition, the State of Oregon requires a report on compliance with certain provisions of laws, regulations, contracts, and grants and an evaluation of internal control as specified in the Minimum Standards for Audits of Oregon Municipal Corporations.

Planning

We believe that planning that includes client personnel is critical to successful accomplishment of our audit procedures. By involving client personnel, we make the audit a team effort and everyone benefits. Prior to commencing the audit, we would expect to meet with management to discuss our specific approach. During those discussions, we will also inquire about fraud or related party transactions as required by professional standards, and ask if there are any areas of concern or interest that should be the subject of our attention during the engagement.

In the planning phase we determine which financial information systems we will rely on. We then design our test procedures as a combination of the testing of controls. Our approach is designed with significant shareholder and manager involvement in the planning stage and during initial audit procedures related to the assessment of significant audit risks, and the development of procedures in response to those risks. This investment of resources ensures that the most experienced members of your engagement service team develop the audit plan. Our field team will meet with the City's finance personnel during the engagement to discuss the audit process and any questions that arise.

System Evaluation

This phase begins with our team obtaining an understanding of your operations, your business processes and the internal control structure. This understanding covers the City's documentation of its internal control structure and is supplemented by system narratives provided to us by your team. We will analyze the systems, procedures, and control environment for revenues, expenditures, payroll, journal entries, budgeting, and data processing.

Each of the City's systems of internal control must be carefully evaluated to determine the relevant controls and determine whether they have been placed in operation. The auditor must be able to determine that the controls are adequate to reduce risk of material misstatement to a low level or report to the city council that such an assessment was not possible. When the risk of material financial statement misstatement is other than low the auditor must design sufficient substantive tests to reduce the risk of material misstatement to a low level.

Tests of internal controls will be performed on all key transaction cycles to support that the assessment of the capability of those systems is operating as designed. Tests of internal controls include a combination of:

- Inquiries of appropriate personnel regarding the design and/or application of a relevant internal control policy or procedure including the classes of transactions to which the policy or procedure applies, how it is applied and by whom, and the disposition of exceptions detected by the policy or procedure;
- Inspection of documents, reports, or electronic files evidencing the design and/or application of the relevant policy or procedure by city personnel; noting how the policy or procedure is applied and by whom, the classes of transactions to which it applies and the disposition of exceptions detected by the policy or procedure;
- Observation by the auditor of the performance of the relevant policy or procedure by City personnel; noting how the policy or procedure is applied and by whom; the classes of transactions to which it applies and the disposition of exceptions detected by the policy or procedure; and/or
- Reperformance of the application of the policy or procedure by the auditor and comparison between the results obtained by the auditor and the results obtained by City personnel.

Only inspection and reperformance are subject to sampling procedures. Samples will be selected to encompass the period under audit and of sufficient size to meet the required level of assurance. Sample sizes will be determined based on the assessed risk of material misstatement and guidance from the AICPA and Practitioners Publishing Company (PPC).

Our understanding of the City and the environment will include discussions among the audit team to assess the risk of material misstatement at the financial statement and relevant assertion level. Each type of transaction, account balance and presentation and disclosure requirement must be evaluated to determine what could go wrong. We consider the likelihood that the risks could result in a material misstatement. We determine which risks that substantive procedures alone will not provide sufficient audit evidence. We then design tests of internal control and complementary test of transactions along with substantive procedures so as to reduce to an acceptable level the risk of a material misstatement.

Final (Year-End)

Our year end substantive tests rely heavily on the workpapers, reconciliations and account analysis documents prepared by City personnel. These client prepared workpapers enable us to focus on auditing the balance sheet, and revenue and expense accounts.

For our determination of compliance with laws and regulations, we will submit a preliminary listing of items which we deem necessary to test, and management may then make additions, within reasonable parameters, if they desire us to focus our attention towards a specific area.

Analytical procedures are used to verify account balances in financial statements. Analytical procedures require the development and evaluation of plausible relationships between the financial data being examined and other data (either other financial data or nonfinancial data) which have a logical or predictable relationship to the financial data.

The procedures employed may include:

- Reviewing current year balances in comparison to the prior year.
- Reviewing balances in comparison to budget.
- Reviewing accounts for items larger or smaller than expected.
- Reviewing and comparing logical relationships.
- Analyzing and comparing financial data to nonfinancial information.

Required substantive procedures include agreeing the accounting records to the financial statements, examining material journal entries and adjustments made to prepare financial statements. We must determine whether the overall financial statement presentation conforms with generally accepted accounting principles.

All audit procedures and workpapers are performed and stored electronically. Programs and related software are provided by the largest vendor of governmental audit software in the country. Access to the City's automated records is necessary to perform our procedures. No use of outside specialists is planned.

Following completion of our audit, we will meet with management and the audit committee again and report back on those items raised in the initial meeting, as well as any findings or recommendations we may have as a result of our audit.

Our audit approach includes year-round service. We provide timely professional consulting on issues related to accounting, budgeting and audit. Such communication is encouraged and considered part of the total maximum price for audit services.

Financial Statement Review

All financial statements will be reviewed by Derek Ellerbrook, Audit Manager, and Ryan Pasquarella, Shareholder, for adherence to applicable technical accounting standards. Chuck Swank, Engagement Quality Control reviewer is independent from the audit procedures and personnel, and will review the financial statements and audit reports for compliance with professional standards.

USE OF CITY PERSONNEL

Finance Personnel

We anticipate the use of City personnel in a manner which increases audit efficiency and decreases audit cost. Our audit approach encourages City personnel to prepare reconciliations and schedules based on templates provided by us (if needed). Based on the nature of the completeness and/or previous existence of these schedules, time requirements for City personnel may vary greatly, but should be similar to efforts in the past. We usually ask for assistance in supplying documentation for sample items, confirmations and reconciliations. Inquiry of our existing clients would confirm our requests are reasonable and communicated well in advance. We anticipate that all City personnel that are integral to the financial operations of the City will be available during all phases of the audit.

We typically contact City personnel in May-June to schedule interim field work and final fieldwork. As we get closer to our in-field audit, we contact City personnel one week before fieldwork to ensure that all preparation has been completed. After fieldwork, we anticipate that there will be weekly updates conversations through the date of report issuance to ensure all documentation is complete.

Information Technology Personnel

We anticipate performing inquiries of the City’s Information Technology staff as part the planning phase of the audit. We estimate that the time required for these inquiries will be two hours.

PROPOSED AUDIT CALENDAR

	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>	<i>December</i>
<i>Pre-audit meeting to discuss the audit plan and key issues of the City that will impact the audit strategy</i>	√					
<i>Perform interim work consisting of internal control documentation, test of controls, review of Board minutes</i>	√	√				
<i>Perform final substantive work</i>				√	√	
<i>Review of financial statement draft and issuance of the auditors' reports</i>					√	√
<i>Issue Management Letter and required communications</i>						√

MUNICIPAL CLIENT SUMMARY

<i>Activity</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<i>Number of On-time Filers (including extensions)</i>	73	71	70	77	72
<i>Number of Late Filers</i>	5	4	3	4	4
<i>Number of Municipal Clients</i>	78	75	73	81	76

ESTIMATED AUDIT HOURS AND FEE

The estimated audit hours and fees for the fiscal years ending June 30, 2015 – 2019 are located at **Attachment A**.

SUGGESTIONS CONTROLLING INTERNAL CONTROL, ADMINISTRATIVE PROCEDURES AND FINANCIAL PROCESSES

Under the guidelines of the American Institute of Certified Public Accountants, CPA’s must issue a letter during an audit if the client has significant deficiencies and/or material weaknesses in internal control. If the client is subject to *Government Auditing Standards* these deficiencies must be communicated in accordance with those standards. If control deficiencies are identified they can be communicated either in writing or orally.

As part of our documentation and review of internal controls within the City, we regularly encounter areas that can be improved and will result in greater efficiency in completing daily tasks for City personnel.

TECHNICAL ASSISTANCE

The City 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. We want our clients to contact us as often as necessary without fear of being billed for every phone call, therefore fees are included in the estimated audit fees included in this proposal.

Additionally, our firm does not have a policy of charging clients for out of pocket costs. All costs are included in the above all-inclusive maximum price.

ADDITIONAL SERVICES BILLING RATES

If you were to request additional services outside the scope of the audit engagement, such as detailed internal control review, the fees would be determined using the following billing rates:

Shareholders (CPA)	\$205 / hour
Managers (CPA)	115 / hour
Senior Staff (CPA)	80 / hour
Junior Staff (CPA)	75 / hour
Junior Staff (non-CPA)	60 / hour
Clerks & Typists (non-CPA)	50 / hour

Any additional requested services will always be discussed with management prior to performance of these services. An additional engagement letter or contract usually is necessary.

ATTACHMENT 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 Canby, Oregon, the firm referenced below hereby submits the following hourly fee quotation and hours proposed for all positions to be assigned to the audit:

EXPECTED HOURS AND FEE FOR YEAR ENDED JUNE 30, 2015

Key Personnel	Fiscal Year Ended June 30, 2015		Total Hours	Hourly Rate	Total
	F/S Audit	Single Audit			
	Hours	Hours*			
Engagement Partners	44	3	47	\$ 205	\$ 9,635
Engagement Manager	65	16	81	115	9,315
Engagement Senior/Staff	131	34	165	80	13,200
Clerical/Support Staff	12	1	13	50	650
	<u>252</u>	<u>54</u>	<u>306</u>		<u>\$ 32,800</u>

* The above hours includes two single audit major programs.

EXPECTED HOURS FOR YEARS ENDED JUNE 30, 2016 – 2019

Key Personnel	Fiscal Years Ended June 30, 2016 - 2019		Total Hours
	F/S Audit	Single Audit	
	Hours	Hours*	
Engagement Partners	40	4	44
Engagement Manager	58	18	76
Engagement Senior/Staff	120	33	153
Clerical/Support Staff	9	1	10
	<u>227</u>	<u>56</u>	<u>283</u>

* The above hours includes two single audit major programs.

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

EXPECTED FEE FOR YEARS ENDED JUNE 30, 2015 – 2019

	Fiscal Years Ending June 30th,				
	2015	2016	2017	2018	2019
Financial Statement Audit	\$ 26,800	\$ 24,300	\$ 25,000	\$ 25,800	\$ 26,300
Single Audit Fee*	6,000	6,200	6,400	6,600	6,800
Cost of Supplies & Materials:	-	-	-	-	-
Additional Fees (if applicable)**:	-	-	-	-	-
	<u>\$ 32,800</u>	<u>\$ 30,500</u>	<u>\$ 31,400</u>	<u>\$ 32,400</u>	<u>\$ 33,100</u>

* The above fee includes two single audit major programs. Each major program in excess of two is estimated at an additional \$3,000.

** The above fees include consultation as needed on matters relating to local budget law and accounting and reporting issues or procedures. We want our clients to contact us as often as necessary without fear of being billed for every phone call.

We anticipate a 3% year-over-year annual fee escalation.

Our invoices for the engagement will be rendered each month as work progresses and are payable on presentation. Please refer to the proposed audit calendar for the anticipated audit fieldwork timeline.

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 Canby, for the services identified in the Request for Proposal.

Firm Name: Grove, Mueller & Swank, P.C.

Signature: 

Printed Name: Ryan T. Pasquarella

Title: Shareholder

Date: February 27, 2015

Email Address: ryan@gmscpa.com

ATTACHMENT B

RESUMES OF KEY PERSONNEL

- Charles A. Swank B-1
- Ryan T. Pasquarella B-2
- Derek Ellerbrook B-3

Charles A. Swank
*Shareholder and Director
of Audit Quality*

**PROFESSIONAL
ACCREDITATION**

- Certified Public Accountant, Oregon (Number 2987)
- Municipal Auditor, Oregon (Number 733)

**GOVERNMENTAL
ENGAGEMENT
EXPERIENCE**

- Auditor for a number of Oregon school districts, cities and special districts

**GOVERNMENTAL
TRAINING**

- Discussion leader for a number of Oregon Society of Certified Public Accountants continuing education courses
- Oregon Society of Certified Public Accountants Annual governmental conferences

EDUCATION

- MBA, University of Oregon
- B.S. Business, Oregon State University

**PROFESSIONAL
SOCIETIES AND
ACTIVITIES**

- American Institute of Certified Public Accountants
- Oregon Society of Certified Public Accountants, Governmental Accounting and Auditing Committee
- Reviewer of financial statements for GFOA

Ryan T. Pasquarella
*Shareholder and Manager of Auditing and
Financial Reporting Services
Grove, Mueller & Swank, P.C.*

**PROFESSIONAL
ACCREDITATION**

- Certified Public Accountant, Oregon (Number 12375)
- Licensed Municipal Auditor, Oregon (Number 1511)

**GOVERNMENTAL
ENGAGEMENT
EXPERIENCE**

- Seven years experience auditing Oregon municipalities including compliance testing under OMB Circular A-133 Single Audits
- Recent experience managing governmental engagements include:
 - Marion County, Oregon – including A-133 Single Audit
 - City of Springfield – including A-133 Single Audit
 - Lane Transit District – including A-133 Single Audit
 - City of Keizer - including A-133 Single Audit

**GOVERNMENTAL
TRAINING**

- Oregon Society of Certified Public Accountants Governmental Accounting and Auditing Conferences annually for eight years
- Continuing professional education that annually exceeds GAO standards

EDUCATION

- Oregon State University, Corvallis, Oregon
Bachelor of Business Administration

**PROFESSIONAL
SOCIETIES AND
ACTIVITIES**

- American Institute of Certified Public Accountants
- Oregon Society of Certified Public Accountants
- OSCP Governmental & Auditing Committee
- Board Treasurer, Salem Art Association

Derek Ellerbrook
*Manager of Auditing
and Financial Reporting Services*

***PROFESSIONAL
ACCREDITATION***

- Certified Public Accountant, Oregon (Number 12768)
- Municipal Auditor, Oregon (Number 1544)

***GOVERNMENTAL
AND NON PROFIT
ENGAGEMENT
EXPERIENCE***

- Eight years' experience managing audit engagements of various Oregon municipalities and nonprofit entities; including compliance testing under OMB Circular A-133 Single Audits
- Recent experience managing governmental engagements include:
 - Hillsboro School District – including A-133 Single Audit
 - Beaverton School District – including A-133 Single Audit
 - Salem-Keizer School District – including A-133 Single Audit
 - Lake Oswego School District – including A-133 Single Audit
 - City of Wilsonville – including A-133 Single Audit

***GOVERNMENTAL
TRAINING***

- Oregon Society of Certified Public Accountants Governmental Accounting and Auditing Conference annually for six years
- Continuing professional education for the past two years exceeds GAO standards
- Active participant in Governmental Audit Quality Center (GAQC) training
- Local office instructor for governmental training sessions

EDUCATION

- Linfield College, McMinnville, Oregon
Bachelor of Arts, Accounting

***PROFESSIONAL
SOCIETIES AND
ACTIVITIES***

- American Institute of Certified Public Accountants
- Oregon Society of Certified Public Accountants
- Salem Area Young Professionals, Salem Chamber of Commerce

ATTACHMENT C

PEER REVIEW REPORT



System Review Report

To the Shareholders of
Grove, Mueller & Swank, P.C.
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Grove, Mueller & Swank, P.C. (the firm) in effect for the year ended September 30, 2013. 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. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the accounting and auditing practice of Grove, Mueller & Swank, P.C. in effect for the year ended September 30, 2013, 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*. Grove, Mueller & Swank, P.C. has received a peer review rating of *pass*.

Read & Bose, PC

January 23, 2014

ATTACHMENT D

SINGLE AUDIT EXAMPLES

***CITY OF WILSONVILLE
FEDERAL COMPLIANCE REPORTS
Year Ended June 30, 2014***



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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

Honorable Mayor, Members of the City Council, and the City Manager
City of Wilsonville
29799 SW Town Center Loop East
Wilsonville, Oregon 97070

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wilsonville, Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Wilsonville's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Wilsonville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Wilsonville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Wilsonville's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City of Wilsonville's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wilsonville's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Wilsonville's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Wilsonville's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

November 10, 2014



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133***

Honorable Mayor, Members of the City Council, and the City Manager
City of Wilsonville
29799 SW Town Center Loop East
Wilsonville, Oregon 97070

Report on Compliance for Each Major Federal Program

We have audited the City of Wilsonville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Wilsonville's major federal programs for the year ended June 30, 2014. The City of Wilsonville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Wilsonville's major federal programs based on our audit of the types of compliance requirements referred to above. 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 of Wilsonville'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Wilsonville's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Wilsonville complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control over Compliance

Management of the City of Wilsonville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Wilsonville's internal control over compliance with the types of

requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Wilsonville'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wilsonville, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Wilsonville's basic financial statements. We issued our report thereon dated November 10, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

November 10, 2014

CITY OF WILSONVILLE, OREGON
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2014

	CFDA#	Passthrough Number	Federal Award	Expended in Fiscal Year 2013-14
<u>U.S. Department of Transportation</u>				
<i>Federal Transit Cluster</i>				
Capital Investment Grant				
Fixed Guideway Capital Investment Grant - Agreement OR040017	20.500	Direct	\$ 208,519	\$ 10,454
Formula Grants				
OR950031 (Transportation Demand Management)	20.507	Direct	203,687	54,026
OR950042	20.507	Direct	240,000	61,430
OR900155	20.507	Direct	532,658	290,405
OR900163	20.507	Direct	291,711	4,282
Subtotal Federal Transit Cluster			1,476,575	420,597
<i>Transit Services Programs Cluster</i>				
<i>Passed-through Oregon Department of Transportation</i>				
Seniors and Individuals with Disabilities	20.513	29300	187,092	53,838
Seniors and Individuals with Disabilities	20.513	27734	429,693	354,635
Total Passed-through Oregon Department of Transportation			616,785	408,473
Job Access Reverse Commute Program - Agreement OR370022	20.516	Direct	9,245	9,254
Subtotal Transit Services Programs Cluster			626,030	417,727
Total U.S. Department of Transportation			2,102,605	838,324
<u>U.S. Department of Health and Human Services</u>				
Administration for Community Living:				
Clackamas County Social Services Pass Through Agreement:				
Special Programs for the Aging - Title III, Part D	93.043	n/a	1,351	1,351
<i>Aging Cluster</i>				
Special Programs for the Aging - Title III, Part B	93.044	n/a	10,831	10,831
Special Programs for the Aging - Title III, Part C	93.045	n/a	19,710	19,710
Nutrition Services Incentive Program	93.053	n/a	5,400	5,400
Total Aging Cluster			35,941	35,941
Subtotal Clackamas County Social Service Pass Through Agreement			37,292	37,292
Center for Disease Control and Prevention:				
National Recreation and Parks Association - ACHIEVE Agreement	93.283	n/a	50,000	8,338
Total U.S. Department of Health and Human Services			87,292	45,630
Total Federal Awards				\$ 883,954

See notes to schedule of expenditures of federal awards

City of Wilsonville
Notes to Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2014

PURPOSE OF THE SCHEDULE

The accompanying schedule of expenditures of federal awards (the "Schedule") is a supplementary schedule to the City of Wilsonville's financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the City of Wilsonville, it is not intended to and does not present either the financial position or the results of operations of the City.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federal Financial Assistance

Pursuant to the Single Audit Act of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act Amendment of 1996 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City of Wilsonville are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in notes to the financial statements. Additionally, the Schedule includes all federal programs administered by the City of Wilsonville for the year ended June 30, 2014.

Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting.

City of Wilsonville
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issues: Unmodified
 Internal control reporting:
 • Material weakness(es) identified? No
 • Significant deficiency(ies) identified? None reported
 • Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? No
 • Significant deficiency(ies) identified? None reported
 Type of auditor's report issued on compliance for major programs: Unmodified
 Any audit findings disclosed that are required to be reported in accordance with
 Section 510(a) of Circular A-133? No

Identification of major program:

CFDA	Agency	Program Title
20.513 20.516	DOT	Transit Services Programs Cluster

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

FINANCIAL STATEMENT FINDINGS

None

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

City of Wilsonville
Summary Schedule of Prior Audit Findings
June 30, 2014

There were no findings or questioned costs in the prior year.

Compliance Section



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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 Honorable Mayor, Members of the
City Council and the City Manager
City of Springfield
225 5th Street
Springfield, Oregon 97477

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Springfield, Oregon as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS
December 19, 2014

**OMB Circular A-133
(Single Audit) Report**



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor, Members of the
City Council and the City Manager
City of Springfield
225 5th Street
Springfield, Oregon 97477

Report on Compliance for Each Major Federal Program

We have audited the City of Springfield, Oregon's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Springfield, complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

December 19, 2014

CITY OF SPRINGFIELD, OREGON, FEDERAL GRANT COMPLIANCE REPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control reporting:	
· Material weakness(es) identified?	No
· Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
· Material weakness(es) identified?	No
· Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
20.600, 20.602, 20.610, 20.616	Highway Safety Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualifies as low-risk auditee?	Yes

FINANCIAL STATEMENT FINDINGS

None.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

CITY OF SPRINGFIELD, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number or Pass-Through Entity Identifying Number	Federal Expenditures in Fiscal Year 2013-2014	Amount Provided to Subrecipients
U.S. Department of Justice				
Direct Programs:				
2010 Justice Assistance Grant - Local	16.738	2010-DJ-BX-0112	\$ 9,169	
2011 Justice Assistance Grant - Local	16.738	2011-DJ-BX-2757	21,576	
2012 Justice Assistance Grant - Local	16.738	2012-DJ-BX-1073	16,428	
2013 Justice Assistance Grant - Local	16.738	2013-DJ-BX-0313	<u>6,678</u>	
Total U.S. Department of Justice			<u>53,851</u>	
U.S. Department of Homeland Security				
Grants passed through State of Oregon:				
Presidential Major Disaster Declaration FEMA	97.073	4169-DR-OR	4,313	
State Ops Center Project Participation	97.073	13-241	18,337	
Lane Fire Defense Board Regional Repeater/Radio Project, Phase 2	97.073	13-240	<u>80,878</u>	\$ 73,878
Total U.S. Department of Homeland Security			<u>103,528</u>	
U.S. Department of Housing and Urban Development				
Direct Programs:				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grant	14.218	NA	346,665	71,935
Community Development Block Grant Program Income	14.218	NA	<u>40,296</u>	
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>386,961</u>	
City of Eugene:				
HOME Investment Partnership Programs	14.239	NA	300,965	
Lane Council of Governments:				
Sustainable Communities Regional Planning Grant (Lane Livability)	14.703	ORRIP0031-10	<u>10,153</u>	
Total U.S. Department of Housing and Urban Development			<u>698,079</u>	
U.S. Department of Transportation				
<i>Highway Planning and Construction Cluster</i>				
Grants passed through State of Oregon:				
Surface Transportation Program - Urban	20.205	NA	87,299	
Grants passed through Lane Council of Governments:				
Federal Surface Transportation Planning (STP-U)	20.205	NA	8,048	
Federal Surface Transportation Planning (STP-U)	20.205	NA	<u>36,322</u>	
<i>Total Highway Planning and Construction Cluster</i>			<u>131,669</u>	
<i>Highway Safety Cluster</i>				
Grants passed through State of Oregon:				
Springfield PD Safety Belt Overtime Enforcement Grant	20.600	OP-14-45-03NNN	2,013	
Springfield PD Speed Equipment and Overtime Grant	20.602	SC-13-35-12eee	4,975	
Springfield PD Speed Equipment and Overtime Grant	20.602	SC-14-35-12ggg	3,073	
Springfield Police eCitation and eCrash Project/Report Beam Grant	20.610	K9-13-54-03 SPD	108,409	
DUII Overtime Enforcement Grant	20.616	K8-13-12-36	<u>950</u>	
<i>Total Highway Safety Cluster</i>			<u>119,420</u>	
Total U.S. Department of Transportation			<u>251,089</u>	
U.S. Department of the Interior				
Grants passed through State of Oregon:				
State Historic Preservation Office	15.904	HPF OR-12-19	<u>2,010</u>	
Total U.S. Department of the Interior			<u>2,010</u>	
Total Expenditures of Federal Awards			<u>\$ 1,108,557</u>	<u>\$ 145,813</u>

City of Springfield, Oregon

NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City 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 general purpose financial statements.

NOTE B – LOANS RECEIVABLE OUTSTANDING

The City had the following loan balances outstanding at June 30, 2014

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant	14.218	\$ 760,832
HUD HOME Grant	14.239	<u>2,614,902</u>
		<u>\$ 3,375,734</u>

NOTE C – LOANS PAYABLE OUTSTANDING

As of June 30, 2014, the City did not have any loan balances outstanding included in the Schedule of Expenditures of Federal Awards.

ATTACHMENT E

MUNICIPAL AUDIT REPORT EXAMPLE



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, Members of the
City Council and the City Manager
City of Springfield
225 5th Street
Springfield, Oregon 97477

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Springfield, Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Springfield, Oregon as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages 23 through 39, the schedules of revenues, expenditures and changes in fund balance – budget and actual for the General Fund and major special revenue funds (pages 84-86), and the schedule of OPEB and CRP funding progress (page 87) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and the schedule of OPEB and CRP funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedules of revenues, expenditures and changes in fund balance – budget and actual for the General Fund and major special revenue fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements. The other supplementary information, and the schedule of expenditure of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards

generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

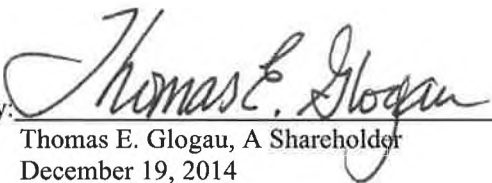
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 19, 2014, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Thomas E. Glogau, A Shareholder
December 19, 2014

ATTACHMENT F

SAMPLE MANAGEMENT LETTERS



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

December 17, 2014

School Board and Management
Hillsboro School District 1J
3083 NE 49th Place
Hillsboro, Oregon 97124

In planning and performing our audit of the financial statements of the Hillsboro School District 1J as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Hillsboro School District 1J's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hillsboro School District 1J's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hillsboro School District 1J's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We identified no material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified no significant deficiencies.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated December 17, 2014, on the financial statements of Hillsboro School District 1J.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Hillsboro School District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

CURRENT YEAR:

Reconciliations

Condition:

There were account balances not reconciled prior to the start of audit fieldwork. As a result, Hillsboro School District staff identified journal entries that were required, to adjust account balances on the June 30, 2014 trial balance originally received by the auditors. Although the majority of the adjustments were identified by staff during these reconciliation processes, the quick creation of those reconciliations also resulted in an increase of auditor inquiries due to the identification of unusual items, such as asset accounts with credit balances, liability accounts with debit balances and unreconciled differences between capital asset balances and the capital asset module in Infinite Visions, which led to additional adjustments proposed by the auditors.

Possible effect:

The quick preparation of reconciliations leads to a lack of time for management to thoroughly examine them, which could lead to misstatements in the financial statements.

Recommendation:

Auditor recommends the preparation of reconciliations, including the attachment of supporting documentation used to perform those reconciliations, well in advance of audit fieldwork to allow management sufficient time to thoroughly review and approve the reconciliations of account balances at year end.

This communication is intended solely for the information and use of management, the School Board, others within Hillsboro School District 1J, and is not intended to be , and should not be, used by anyone other than these specified parties.

Very truly yours,



CERTIFIED PUBLIC ACCOUNTANTS



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

December 9, 2014

Ronald Kilcoyne, General Manager

Mary Adams, Director of Administrative Services
Todd Lipkin, Finance Manager/CFO
Lane Transit District
Springfield, Oregon

In planning and performing our audit of the financial statements of the Lane Transit District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Lane Transit District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lane Transit District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lane Transit District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated December 9, 2014, on the financial statements of Lane Transit District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Lane Transit District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

CURRENT YEAR:

Dispositions of Federally Acquired Equipment

Condition:

The District sold a federally acquired vehicle during the year. Under 49 U.S.C. 5334(h)(4) the District may sell and use proceeds for other capital projects after the useful life is met and with prior FTA approval, and there is no longer any public transportation purposes of the equipment. The proceeds are to be used to reduce the gross project cost of other FTA eligible capital transit grants. The District is expected to record the receipt of the proceeds in the District's accounting system, showing that the funds are restricted for use in a subsequent capital grant. The subsequent capital grant application should contain information showing FTA that the gross project cost has been reduced with proceeds from the earlier transactions.

The District did not notify FTA of the sale of the vehicle nor did they restrict the proceeds towards a future capital grant. The District is aware of this requirement and applied the proceeds once it was brought to their attention.

Possible effect:

The District could receive a reduction in funding or the FTA could require the District to repay funds resulting from non-compliance.

Recommendation:

We recommend the District develop policies and procedures surrounding the disposition of all equipment to ensure that all FTA requirements regarding equipment management are met.

Management Response:

The District is fully aware of this requirement and it was considered when processing the disposal of this vehicle. However, the vehicle was misidentified as not federally funded. Procedures have been enhanced to require all vehicles disposed of to be specifically identified in the fixed asset system to ensure the proper funding source is determined and to allow for timely notification to FTA.

PRIOR YEAR:

Audit Preparedness

Condition:

In order for an efficient audit to be performed, the audit team relies on its clients to have all the year-end reconciliations completed and all adjustments made prior to the beginning of the audit. The audit team posted a total of eleven journal entries during the course of the audit of which nine were given to the audit team by management in order to finish reconciling the accounts for the fiscal year. The areas requiring adjustment were various asset and liability accounts. Additionally, the District did not have revenue reconciliations and their schedule of expenditures of federal awards completed at the beginning of fieldwork as requested.

When journal entries are received from the client, the efficiency of the audit is decreased. The primary reason is that the audit team will either need to examine a new or revised audit workpaper given to us by management or the team will adjust the current version of the workpaper. The team will also reevaluate the

risk over the account and potentially determine the need to perform additional procedures. When the schedule of expenditures of federal awards is not received timely this may extend the audit as sufficient time is not allowed for selection of major programs.

Possible effect:

The issuance of the District's financial statements could be delayed.

Recommendation:

We recommend the District ensure that all preparation and adjustments needed for the fiscal year be completed prior to the beginning of the audit. The start of the audit can be delayed if management determines that more time is needed.

Management Response:

The District acknowledges that not all required audit materials were prepared in a timely manner to meet the independent audit site work schedule. Materials will be prepared on time in the future.

Current Year Update:

Management has complied with this recommendation and was fully prepared for the June 30, 2014 audit.

Inventory Costing

Condition:

The District uses the fleet system for inventory tracking. A majority of the inventory is purchased through the automated purchasing system which interfaces with the fleet system for quantities and pricing. Occasionally items are purchased outside the normal purchasing system in which items are then manually entered into the fleet system. The District currently has procedures in place to verify the quantity that is entered into the system, but no procedures in place to verify the pricing.

Possible effect:

The District's financial statements could be misstated at any given time as the product costs may not be accurate.

Recommendation:

We recommend that the District implement procedures to ensure both the quantity and cost are updated when inventory is received to ensure that inventory is valued appropriately.

Management Response:

The District will implement a procedure to verify the pricing of inventory acquisitions made outside the normal purchasing system and continue to verify the quantity of such items.

Current Year Update:

The District has implemented a new procedure to address this recommendation.

Financial Staff Succession

Condition:

The Chief Financial Officer, the Chief Accountant/Internal Auditor, and the Purchasing Manager will all be leaving the District before the end of fiscal 2013-14. Each position has an important skill set that will need to be replaced, and an orderly transition without interruption of key functions and controls must be assured.

Possible effect:

There could be a loss of adequate financial controls, compliance with Federal Transit Administration requirements and other regulations, and timely and accurate financial reporting.

Recommendation:

We recommend that the District implement a detailed succession plan that covers all three positions.

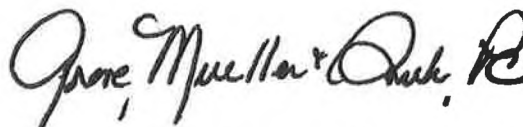
Management Response:

Subsequent to the completion of the fiscal 2012-13 independent audit, the District published a reorganization and succession plan that covers the three positions and addresses the concerns raised by this comment.

Current Year Update:

The District has implemented a reorganization of the District during the fiscal year that addressed this recommendation.

Very truly yours,

A handwritten signature in black ink, appearing to read "G. Mueller & Co. P.C.", written in a cursive style.

CERTIFIED PUBLIC ACCOUNTANTS

Exhibit "B"

UPDATED DETAILED COST SCHEDULE

Grove, Mueller & Swank, P.C.

As requested via e-mail from Haley Fish, our cost proposal, detailed by area is as follows:

EXPECTED HOURS AND FEE FOR YEAR ENDED JUNE 30, 2015

<u>Key Personnel</u>	<u>Hourly Rate</u>	<u>City CAFR</u>		<u>URA Audit Hours</u>	<u>URA Audit Cost</u>
		<u>Audit Hours</u>	<u>City CAFR Audit Cost</u>		
Shareholders	\$ 205	40	\$ 8,200	4	\$ 820
Manager	115	56	6,440	9	1,035
Senior/Staff	80	110	8,800	21	1,680
Support Staff	50	8	400	4	200
		<u>214</u>	<u>\$ 23,840</u>	<u>38</u>	<u>\$ 3,735</u>

<u>Key Personnel</u>	<u>Hourly Rate</u>	<u>Initial Single Audit Hours</u>	<u>Initial Single Audit Cost</u>	<u>Add'l Program Single Audit Hours</u>	<u>Add'l Program Single Audit Cost</u>	<u>Total Hours</u>	<u>Total</u>
Manager	115	8	920	8	920	81	9,315
Senior/Staff	80	25	2,000	9	720	165	13,200
Support Staff	50	1	50	-	-	13	650
		<u>36</u>	<u>\$ 3,380</u>	<u>18</u>	<u>\$ 1,845</u>	<u>306</u>	<u>\$ 32,800</u>

Exhibit "B"

UPDATED DETAILED COST SCHEDULE

Grove, Mueller & Swank, P.C.

As requested via e-mail from Haley Fish, our cost proposal, detailed by area is as follows:

EXPECTED HOURS AND FEE FOR YEAR ENDED JUNE 30, 2015

<u>Key Personnel</u>	<u>Hourly Rate</u>	<u>City CAFR</u>		<u>URA Audit Hours</u>	<u>URA Audit Cost</u>
		<u>Audit Hours</u>	<u>City CAFR Audit Cost</u>		
Shareholders	\$ 205	40	\$ 8,200	4	\$ 820
Manager	115	56	6,440	9	1,035
Senior/Staff	80	110	8,800	21	1,680
Support Staff	50	8	400	4	200
		<u>214</u>	<u>\$ 23,840</u>	<u>38</u>	<u>\$ 3,735</u>

<u>Key Personnel</u>	<u>Hourly Rate</u>	<u>Initial Single Audit Hours</u>	<u>Initial Single Audit Cost</u>	<u>Add'l Program</u>		<u>Total Hours</u>	<u>Total</u>
				<u>Single Audit Hours</u>	<u>Add'l Program Single Audit Cost</u>		
Shareholders	\$ 205	2	\$ 410	1	\$ 205	47	\$ 9,635
Manager	115	8	920	8	920	81	9,315
Senior/Staff	80	25	2,000	9	720	165	13,200
Support Staff	50	1	50	-	-	13	650
		<u>36</u>	<u>\$ 3,380</u>	<u>18</u>	<u>\$ 1,845</u>	<u>306</u>	<u>\$ 32,800</u>