

**CITY OF WEST LINN, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

SECTION IV

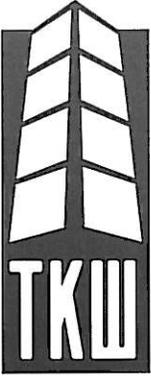
COMPLIANCE SECTION

COMPLIANCE SECTION

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

The following reports from Talbot, Korvola & Warwick LLP are contained in this section:

- Independent Auditor's Comments and Disclosures Required by the Minimum Standards for Audits of Oregon Municipal Corporations
- Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*



4800 SW Macadam Ave, Suite 400
Portland, Oregon 97239-3973

P 503.274.2849
F 503.274.2853
www.tkw.com

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

December 14, 2009

Honorable Mayor and City Councilors
City of West Linn, Oregon
West Linn, Oregon

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 West Linn, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Minimum Standards for Audits of Oregon Municipal Corporations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our report relating to compliance and internal control over financial reporting is contained on pages 106 and 107 of this report.

ADEQUACY OF ACCOUNTING RECORDS

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

COLLATERAL

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

INVESTMENTS

Our review of deposit and investment balances indicated that, during the year ended June 30, 2009, the City was in compliance with ORS 294 as it pertains to investment of public funds.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

Page 2

INDEBTEDNESS

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

BUDGET

The City appears to have complied with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2009 and adoption of its budget for the two-year period ending June 30, 2011, with the following exceptions:

- In the Public Safety Fund, expenditures for personal services exceeded appropriations by \$352,902.
- In the Environmental Services Fund, expenditures for personal services exceeded appropriations by \$99,283.

A description of the budgeting process is included in the Notes to Basic Financial Statements.

INSURANCE AND FIDELITY BONDS

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

PUBLIC CONTRACTS AND PURCHASING

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

HIGHWAY FUNDS

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

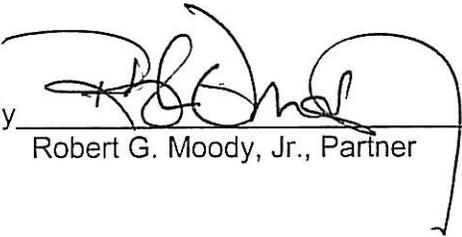
* * * * *

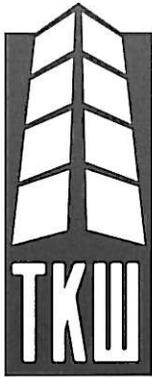
**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

Page 3

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

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By  _____
Robert G. Moody, Jr., Partner



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

December 14, 2009

Honorable Mayor and City Council
City of West Linn
West Linn, Oregon

4800 SW Macadam Ave, Suite 400
Portland, Oregon 97239-3973

P 503.274.2849
F 503.274.2853

www.tkw.com

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Linn, Oregon (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

- We noted multiple areas within the City where the segregation of duties, related internal control procedures and evidence of supervisory review over the detailed accounting records was inadequate during the period of July 2008 through October 2008.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

Page 2

INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

Individuals within the City should not have responsibility for more than one of the following functions with regards to financial information: authorization, custody, record keeping and reconciliation. These functions should also be the subject of evidenced supervisory review.

We noted that many of these items were remediated by March of 2009 as a response to our previous findings which were dated February 27, 2009.

- We noted that there were instances in which adequate supporting documentation for financial transactions was not retained during the period of July 2008 through October 2008. It is important to maintain records to support all transactions in all accounting cycles. We noted no issues with obtaining adequate documentation for transactions subsequent to October 2008.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

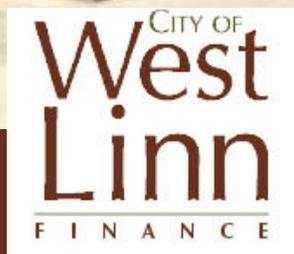
We noted certain matters that we reported to management of the City in a separate letter dated December 14, 2009.

* * * * *

This report is intended solely for the information and use of the Mayor, the City Council and management and is not intended to be and should not be used by anyone other than those specified parties.



Certified Public Accountants



<http://westlinnoregon.gov>

22500 Salamo Road

West Linn, Oregon 97068

503-657-0331