

**CITY OF HERMISTON, OREGON
SINGLE AUDIT REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

City of Hermiston, Oregon Single Audit Report

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**INDEPENDENT AUDITORS' 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**

Mayor and City Council
City of Hermiston, Oregon

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, business-type activities, each major fund, and the aggregate remaining fund information of City of Hermiston, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Hermiston, Oregon's basic financial statements, and have issued our report thereon dated December 29, 2017.

Internal control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hermiston, Oregon'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 of Hermiston, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hermiston, Oregon'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described as Finding 2017-1 in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hermiston, Oregon'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*.

City of Hermiston, Oregon's Response to Findings

City of Hermiston, Oregon's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hermiston, Oregon's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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.

Barnett & Moro, P.C.



Richard L. Stoddard, Shareholder
December 29, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, ON
INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF FEDERAL
AWARDS REQUIRED BY UNIFORM GUIDANCE**

Mayor and City Council
City of Hermiston, Oregon

Report on Compliance for Each Major Federal Program

We have audited City of Hermiston, Oregon's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Hermiston, Oregon's major federal programs for the year ended June 30, 2017. City of Hermiston, Oregon's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hermiston, Oregon'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 City of Hermiston, Oregon'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 City of Hermiston, Oregon's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Hermiston, Oregon, 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, 2017.

Report on Internal Control Over Compliance

Management of City of Hermiston, Oregon, 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 City of Hermiston, Oregon'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 the Uniform Guidance, 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 City of Hermiston, Oregon'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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Hermiston, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Hermiston, Oregon's basic financial statements.

We issued our report thereon dated December 29, 2017, 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 the Uniform Guidance 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.

Barnett & Moro, P.C.



Richard L. Stoddard, Shareholder
December 29, 2017

**CITY OF HERMISTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor / Program Name</u>	<u>Federal CFDA Number</u>	<u>Major Program</u>	<u>Grant Number</u>	<u>Amount</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
<u>Passed through Oregon Department of Education</u>				
Summer Food Service Program for Children	10.559		Not Available	\$ 29,854
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<u>Direct program:</u>				
Bulletproof Vest Partnership Program	16.607		2016 Regular Fund	2,113
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
<u>Federal Aviation Administration</u>				
Airport Improvement Program	20.106		3-41-0024-009-2015	451,217
Airport Improvement Program	20.106		3-41-0024-010-2017	3,717
				454,934
<u>Passed through Oregon Department of Transportation</u>				
<u>Highway Safety Cluster</u>				
State and Community Highway Safety	20.600		DE-17-24-15 BBB	4,000
State and Community Highway Safety	20.600		SC-16-35-15 DDD	5,819
				9,819
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		Not Available	1,501
Total Highway Safety Cluster				11,320
Total U.S. Dept of Transportation				466,254
<u>U.S. DEPARTMENT OF THE INTERIOR NATIONAL PARK SERVICE</u>				
<u>Passed through Oregon Parks and Recreation Department</u>				
Outdoor Recreation, Acquisition, Development and Planning	15.916		OP 2508; NPS 41-01571	96
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>				
<u>Passed through Oregon Infrastructure Finance Authority</u>				
Community Development Block Grants	14.228	x	C14013	435,298
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>				
<u>Passed through City of Pendleton, Oregon</u>				
High Intensity Drug Trafficking Area	95.001		Not Available	14,232
				\$ 947,847

CITY OF HERMISTON, OREGON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

Note 1. General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal financial assistance programs of the City of Hermiston, Oregon for the year ended June 30, 2017.

Note 2. Significant Accounting Policies

Reporting Entity: The reporting entity is fully described in Note 1.A to the City of Hermiston's basic financial statements.

Basis of Presentation: The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the Schedule follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The costs principles indicate that certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported on the Schedule are reported on the accrual basis of accounting.

Note 3. Indirect Cost Rate

The City of Hermiston did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Subrecipients

There were no amounts paid to subrecipients by the City of Hermiston from federal funds for the year ended June 30, 2017.

CITY OF HERMISTON, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☒ Yes ☐ No

Significant deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency (s) identified that are Not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ☐ Yes ☒ No

Identification of Major Federal Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between Type A Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

CITY OF HERMISTON, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

SECTION II – Financial Statement Findings

2017-001

Condition and criteria: Good accounting controls require that employees with access to cash not also record the transactions in the accounting records. Because of the small number of City staff, the employee collecting utility billing proceeds is also responsible for recording collections and adjustments to the utility receivable records. This lack of separation of accounting duties increases the possibility that cash will be lost. Employees with no cash handling responsibilities should reconcile daily cash received, cash posting and adjustment posting, to the receivable records as an offsetting control.

Recommendation: We recommend that the City regularly evaluate the job duties of employees for proper separation of accounting duties and cash handling duties.

Management response: The City agrees with the above condition and has hired a new Finance Director that will include a review of internal controls and separation of duties as part of his process of obtaining an understanding of the City's operations.

SECTION III – Federal Awards Findings and Questioned Costs

None reported.

Section IV – Schedule of Prior Federal Award Findings, Audit Findings and Questioned Costs for the Years Ended June 30, 2017

Findings – Financial Statements – Material Weaknesses

2015-001

Condition and criteria: The City's controls over the fiscal year-end financial reporting process rely largely on manual adjustments. There were several prior period and current year journal entries required to correct year-end balances and properly report the activity in the City's financial statements and there were corrections noted in our review of the financial statements. Significant adjustments were required to reclassify cash and accounts payable, accrue revenues to the proper period, record additional accounts and retainage payable, adjust capital asset activity and balances, reclassify regional water debt and related accounts to governmental activities, correct the amount reported for accrued interest payable, record prepaid expenses, adjust deferred revenue, correct the reporting of the investment in joint venture, accrue amounts owed for 2014 and 2015 conference center profit split with the Chamber, and to reclassify activity from liability accounts to revenues and expenditures. There were also numerous prior period adjustments and changes in reporting discussed during planning, most of which were worked out prior to the audit.

CITY OF HERMISTON, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

Recommendation: The auditor recommended that management and their consultant review its year-end journal entry processes to incorporate additional oversight and review of staff work. In addition, the auditor recommended that the process be completed earlier to allow for additional time for secondary review and approval prior to providing information to the auditor.

Current status: The City hired a new consulting firm to assist them with closing the books and to draft the financial statements. The year end balances were properly reported and a draft of the financial statements was completed by October 2017. The condition has been corrected.

2016-001

Condition and criteria: The City contracted with a CPA firm to assist them with closing the books and draft the financial statements for the audit. There were journal entries required to correct year-end balances and properly report the activity in the City's financial statements and there were corrections noted in the review of the financial statements. In addition, a draft of the financial statements was not delivered to the auditor until January of 2017.

Recommendation: The auditor recommended that management and their consultant review its year-end closing and financial reporting processes to incorporate additional oversight and review of staff work. In addition, the auditor recommended that the process be completed earlier to allow for additional time for secondary review and approval and to correct the underlying accounting records prior to providing information to the auditor.

Current status: The City hired a new consulting firm to assist them with closing the books and to draft the financial statements. The year end balances were properly reported and a draft of the financial statements was completed by October 2017. The condition has been corrected.

2016-002

Condition and criteria: Administration of many of the City's grants is decentralized and there were several issues noted in grant administration, which included: some reports not being filed; requesting reimbursement of costs from individual invoices received without a reconciliation to the underlying accounting records; two instances where reimbursement was received twice; lack of secondary review; receiving reimbursement before paying the expenditure; corrections to the grants reported, format, and amounts reported in the schedule of expenditures of federal awards; revenue and expenditure adjustments; and other documentation issues.

Recommendation: The auditor recommended that the City institute better revenue and expenditure tracking processes with spreadsheets that track the costs claimed and reconciles to the revenues and expenditures recorded in the accounting system. The auditor also recommended that the City institute a grant procedures manual and a projects and accounting person to help oversee and provide support on grants and administration to help ensure that all requirements are met. In addition, the auditor recommended that all grant activity be secondarily reviewed prior to issuing reimbursement requests and other reports and invoices should be paid prior to receiving grant reimbursement, or promptly thereafter.

CITY OF HERMISTON, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

Current status: Most of the recommendations were adopted during the year. Management added new policies to track the individual grant compliance requirements and status, and the consultant assisted in reconciling the grant revenues and expenditures. No similar findings were noted in the 2017 audit. The Finance Director provided much of the additional oversight and administration, but left the City in August 2017.

Findings – Federal Awards

US DEPARTMENT OF TRANSPORTATION – FEDERAL AVIATION ADMINISTRATION

Airport Improvement Program (AIP) – CFDA No. 20.106

2016-003

Condition and criteria: The City is required to have an internal control process that monitors allowable costs and ensures reimbursements are properly received. Requests for reimbursement of expenditures were based on invoices received without reconciliation to the underlying accounting records and there were two invoices found that were reimbursed twice in error.

Recommendation: The auditor recommended that the City institute better revenue and expenditure tracking processes with spreadsheets that track the costs claimed and reconciles to the revenues and expenditures recorded in the accounting system. In addition, the auditor recommended that all grant activity be secondarily reviewed prior to issuing reimbursement requests.

Current status: The recommendations were adopted during the year and the excess funds were reimbursed to the grantor. No similar findings were noted in the 2017 audit.

2016-004

Condition and criteria: The FAA requires the Federal Financial Report and Outlay Report to be filed annually on the federal fiscal year of September 30th within 90 days of year end and on project close out. We requested copies of the September 30, 2015 and 2016 reports and found that the City had not filed the 2015 report and that the 2016 report was not yet due. The City promptly filed the reports for both years after discovery during the audit.

Recommendation: The auditor recommended that the City institute a grant procedure manual and a projects and accounting person to help oversee and provide support on grants and administration to help ensure that all requirements are met. In addition, the auditor recommended that all grant activity be secondarily reviewed prior to issuing reimbursement requests and other reports.

Current status: Most of the recommendations were adopted during the year and the City filed the required reports. No similar findings were noted in the 2017 audit.