

BARNETT & MORO, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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GERALD J. MORO, C.P.A. EMERITUS

December 29, 2017

To the Mayor and City Council
City of Hermiston
180 NE 2nd St.
Hermiston, OR 97838

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hermiston, Oregon for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 26, 2017. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by City of Hermiston, Oregon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable assets is based on past experience. Management's allocation of expenses by function is based on time records, usage, and other reasonable methods. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses are not a condition to our retention.

Other matters

We applied certain limited procedures to the management's discussion and analysis, the Schedule of the Proportionate Share of the Net Pension Liability, the Schedule of Contributions, and the Notes to Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the budgetary comparison information for the Combined General Fund and State Tax Street Fund, the supplementary information section and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we

made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical sections, which accompany the financial statements but are not RSI. Such information has 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 it.

Suggestions to improve the City's operations discussed with management during the audit include:

Electrical System Monitoring

Hermiston Energy Services (HES) is administered by a contractor. The contractor bills customers, maintains records of accounts receivable, and receives payments on behalf of HES. The contractor provides an annual report of billings, collections and adjustment. City personnel indicated that monthly reports of billings, collections and adjustments are received haphazardly and is not reconciled to cash deposited to HES's bank account. We recommend that the City receive and reconcile reports of billings, collections, and adjustments to cash deposited to HES's bank account each month.

Transient Room Tax

The City receives transient room tax in a special revenue fund dedicated to this purpose, and allocates it as required by City ordinance. Transient room tax is transferred to other funds and spent in authorized programs. The ability to monitor compliance is hindered by transferring the monies to another fund. To increase transparency, we recommend leaving the monies in the Transient Room Tax Fund and spending them for authorized purposes in that fund.

Restriction on use

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

Sincerely,
Barnett & Moro, P.C.



Richard L. Stoddard, Shareholder

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GERALD J. MORO, C.P.A. EMERITUS

December 29, 2017

Mayor and City Council Members
Byron Smith, City Manager
Mark Krawczyk, Finance Director
City of Hermiston
180 NE 2nd Street
Hermiston, OR 97838

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hermiston as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered City of Hermiston'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hermiston's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hermiston's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 that may not be identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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 consider the following deficiencies in City of Hermiston, Oregon's internal control to be material weaknesses:

SEPARATION OF ACCOUNTING DUTIES

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 increase 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.

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

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

Sincerely,

BARNETT & MORO, P.C.



Richard L. Stoddard, Shareholder