

**CITY OF KLAMATH FALLS, OREGON
SINGLE AUDIT REPORT**

FOR THE YEAR ENDED JUNE 30, 2018

**MERINA
& COMPANY, LLP**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**City of Klamath Falls, Oregon
Single Audit Report**

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

Honorable Mayor and City Council
City of Klamath Falls, Oregon

We have audited, 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, the financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of the City of Klamath Falls, Oregon as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Klamath Falls, Oregon’s basic financial statements, and have issued our report thereon dated January 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Klamath Falls, 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 Klamath Falls, Oregon’s internal control. Accordingly, we do not express an opinion on the effectiveness of City of Klamath Falls, 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 have not been identified. 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 City of Klamath Falls, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2018-1.

City of Klamath Falls, Oregon's Response to Finding

City of Klamath Falls, Oregon's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Klamath Falls, 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.



For Merina & Company, LLP
West Linn, Oregon
January 29, 2019

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

The Governing Body
City of Klamath Falls, Oregon

Report on Compliance for the Major Federal Program

We have audited the City of Klamath Falls, Oregon's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Klamath Falls, Oregon's major federal program for the year ended June 30, 2018. City of Klamath Falls, Oregon's major federal program is 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 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 the City of Klamath Falls, Oregon's major federal program 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 (CFR) 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 the City of Klamath Falls, 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 the major federal program. However, our audit does not provide a legal determination of the City of Klamath Falls, Oregon's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Klamath Falls, Oregon, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2018-1. Our opinion on the major federal program is not modified with respect to these matters.

City of Klamath Falls, Oregon's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Klamath Falls, Oregon's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Klamath Falls, 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 the City of Klamath Falls, Oregon's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the City of Klamath Falls, 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 a 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 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 Klamath Falls, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Klamath Falls, Oregon's basic financial statements. We issued our report thereon dated January 29, 2019, 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.

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



For Merina & Company, LLP

Tualatin, Oregon

January 29, 2019

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures	Cash Basis Receipts
U.S. Department of Transportation				
Direct program				
Airport Improvement Program	* 20.106	Direct	5,568,328	6,503,813
Highway Planning and Construction Cluster				
Pass-through program from State of Oregon				
Highway Planning and Construction	20.205	25390	713,619	713,619
Sub-Total Department of Transportation			<u>6,281,947</u>	<u>7,217,432</u>
U.S. Environmental Protection Agency				
Direct program				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	Direct	152,136	129,734
Total Expenditures of Federal Awards			<u>\$ 6,434,084</u>	<u>\$ 7,347,166</u>

* Denotes Major Programs

See the notes to the Schedule of Expenditures of Federal Awards

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

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 Klamath Falls, Oregon for the year ended June 30, 2018.

Note 2. Significant Accounting Policies

Reporting Entity: The reporting entity is fully described in Note 1 to the City'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 modified accrual basis of accounting.

Note 3. Indirect Cost Rate

The City 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 from federal funds for the year ended June 30, 2018.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

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>
20.106	Airport Improvement Program

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

Auditee qualified as low-risk auditee? Yes No

**CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018**

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings and Questioned Costs

2018-1

Federal Program:

20.106 Airport Improvement Program

Department of Transportation

Federal award: 3-41-0030-035-2015 and 3-41-0030-037-2016

Direct Award

Criteria: Performance Reports are due within 30 days of the end of each fiscal quarter.

Condition: The City did not timely submit the Quarter-4 2017 and Quarter-1 2018 Performance Reports for grant number 3-41-0030-035-2015 and Quarter-3 2018 Performance Report for grant number 3-41-0030-037-2016.

Effect: Failure to submit the required reports could result in sanctions and/or withdrawal of grant funding from the awarding agency.

Cause: There were some project delays due to external factors which caused some confusion as to whether the City still had to submit the Performance Reports.

Recommendation: Merina and Company recommends the City implement procedures (i.e. calendar notifications) to ensure reports are timely prepared and submitted as required and contact the awarding agency prior to reporting deadlines if there is any question about the requirements.

Views of Responsible Officials and Planned Corrective Actions: The Airport Business Manager, who is responsible for submitting these reports, has added a notification to her calendar to ensure the reports are timely prepared and submitted as required and will contact the awarding agency prior to reporting deadlines if there is any questions about the requirements.

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

None

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