

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

**FOR THE YEAR ENDED JUNE 30, 2017**

**MERINA  
& COMPANY, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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

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**PARTNERS**

**KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA • ROBERT P. CROW, CPA**

**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, major fund, and the aggregate remaining fund information of the City of Klamath Falls, Oregon (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2018.

**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 the 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 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 31, 2018

**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**

Honorable Mayor and City Council  
City of Klamath Falls, Oregon

**Report on Compliance for the Major Federal Program**

We have audited the City of Klamath Falls, Oregon (the City's) compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2017. The City'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'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'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's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the City, 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, 2017.

### **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 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'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's, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 31, 2018 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  
West Linn, Oregon  
January 31, 2018

CITY OF KLAMATH FALLS, OREGON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Defense			
Direct Program			
Community Economic Adjustment Assistance for Reductions in Defense Spending	12.604	Direct	\$ 87,997
U.S. Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607	Direct	4,475
U.S. Department of Transportation			
Direct Program			
Airport Improvement Program	* 20.106	Direct	2,412,534
Highway Planning and Construction Cluster			
Pass-through Program from State of Oregon			
Highway Planning and Construction	20.205	25390.00	<u>519,585</u>
Sub-Total Department of Transportation			<u>2,932,119</u>
U.S. Environmental Protection Agency			
Direct Program			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	Direct	73,739
			<u>                    </u>
Total Expenditures of Federal Awards			<u><u>\$ 3,098,331</u></u>

\* Major Programs

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CITY OF KLAMATH FALLS, OREGON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2017**

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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, 2017.

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 minimus 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, 2017.

**CITY OF KLAMATH FALLS, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2017**

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**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, 2017**

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**Section II – Financial Statement Findings**

None

**Section III – Federal Awards Findings and Questioned Costs**

None

**Section IV – Schedule of Prior Federal Award Findings and Questioned Costs for the Years Ended June 30, 2016**

2016-1

Federal Program:

21.106 Airport Improvement Program  
US Department of Transportation  
Grant Contract Number: DOT-FA13NM-0029  
Direct Award

Condition: The Airport Improvement Program (CFDA 21.106) federal expenditures of \$11,921 was mistakenly included for fiscal year 2016 and therefore the federal expenditures for the major program were overstated on the originally drafted Schedule of Expenditures of Federal Awards (SEFA). The information on the SEFA was not appropriately reviewed for accuracy.

Criteria: In accordance with Uniform Guidance, the auditee shall prepare a SEFA for the period covered by the financial statements.

Effect: By not reporting all federal expenditures properly, the SEFA was overstated for the major program and failed to meet SEFA reporting requirements.

Cause: Proper review over preparation of the SEFA was not performed.

Recommendation: We recommend that the City implement procedures for proper preparation and review of the SEFA to ensure all federal expenditures are included.

Auditee Response: Federally funded expenditures will be recorded on the Schedule of Expenditure of Federal Awards (SEFA) worksheet and summarized on the final SEFA for publication in the CAFR single audit. The SEFA will be reviewed by an independent individual not involved in the preparation prior to commencement of the audit to minimize the likelihood of errors and detect them in a timely manner.

Status: Resolved