

**CITY OF THE DALLES, OREGON  
SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2015**

**MERINA  
& COMPANY, LLP**

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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5499 AMY STREET • WEST LINN, OR 97068  
PHONE: (503) 723-0300 • FAX: (503) 723-9946 • [WWW.MERINACPAS.COM](http://WWW.MERINACPAS.COM)

**City of The Dalles, 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 The Dalles, Oregon  
The Dalles, 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 The Dalles, Oregon (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 12, 2015.

**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.

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 may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control, that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies described in the

accompanying schedule of findings and questioned costs as finding 2015-1 and 2015-2 to be material weaknesses.

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. We did not identify any deficiencies in internal control that we consider to be a significant deficiency.

### **Compliance and Other Matters**

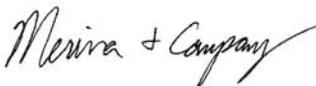
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-3 and 2015-4.

### **City of The Dalles' Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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.



Merina & Company, LLP  
West Linn, Oregon  
November 12, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY  
OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of The Dalles, Oregon  
The Dalles, Oregon

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

We have audited the City of The Dalles (City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Each 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 each major federal programs for the year ended June 30, 2015.

### **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 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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and costs as item 2015-4 to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-3 to be a significant deficiency.

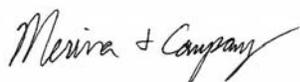
The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 12, 2015, 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 OMB Circular A-133 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Merina & Company, LLP  
West Linn, Oregon  
November 12, 2015

**City of The Dalles**  
**Schedule of Expenditures of Federal Awards By Grant**  
**For the Year Ended June 30, 2015**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Federal Expenditures(\$)</i>
<b>Department of Transportation Pass-Through Programs</b>		
Passed-through State of Oregon		
State of Oregon Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	\$ 4,929.00
<b>Total Department of Transportation</b>		<b><u>4,929</u></b>
<b>United States Environmental Protection Agency Pass-Through Programs</b>		
Passed-through State of Oregon		
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	18,093
<b>Total United States Environmental Protection Agency</b>		<b><u>18,093</u></b>
<b>Department of Housing and Urban Development Pass-Through Programs</b>		
Passed-through State of Oregon		
State of Oregon Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	374,041 *
<b>Total Department of Housing and Urban Development</b>		<b><u>374,041</u></b>
<b>Department of Transportation Direct Programs</b>		
Direct Grants		
Airport Improvement Program	20.106	398,458
Phase 3 - 3-41-0059-011		75,197
Phase 2 - 3-41-0059-010		18,160
Phase 1 - AIP 3-41-0059-012		15,701
Phase 1 - AIP 3-41-0059-009		289,400
<i>Total Airport Improvement Program</i>		<u>398,458 *</u>
Cable Relocation Project	xx.xxx	15,023
Paul S. Sarbanes Transit in the Parks	20.520	25,950
<b>Total Department of Transportation</b>		<b><u>439,431</u></b>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 836,494</u></b>

\* Signifies Major Program

The accompanying notes to the schedule of expenditures of federal awards are an integral part of the schedule of expenditures of federal awards

**CITY OF THE DALLES, OREGON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2015**

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Note 1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of The Dalles, Oregon.

Note 2. Significant Accounting Policies

Reporting Entity: The reporting entity is fully described in Note 1 to City's basic financial statements. The schedule includes all federal financial assistance programs administered by the City for the year ended June 30, 2015.

Basis of Presentation: The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Financial Assistance: Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs: The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Revenue Recognition: The receipt and expenditure of federal awards are accounted for under the modified accrual method of accounting. Revenues are recorded as received in cash or when measurable and available. Expenditures are recorded when the liability is incurred.

Payments to Subrecipients: Amounts paid to subrecipients by the City from federal funds totaled \$374,041 for the year ended June 30, 2015.

**CITY OF THE DALLES, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

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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 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 programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?  Yes  No

**Identification of major programs:**

**CFDA Number    Name of Federal Program or Cluster**

20.016            Airport Improvement Program  
 14.228            Community Development Block Grant

Dollar threshold used to distinguish between Type A Type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**CITY OF THE DALLES, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

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**Section II – Financial Statement Findings**

2015-1

Condition: The City of the Dalles failed to record their fourth quarter payment of library taxes not received as of June 30, 2015, as a receivable.

Criteria: The City receives four equal payments from Wasco County. The fourth payment that was due on May 31, 2015 was never paid by the County and not appropriately recognized as a receivable by the City of The Dalles.

Effect: This improper recording resulted in a material misstatement of the City's receivable balance at June 30, 2015.

Cause: The City did not follow their standard controls, which include a line by line comparison of revenues and expenditures to the prior year and to the budgeted amounts. Had this review occurred, the lack of receipt and associated receivable would have been detected by City staff.

Recommendation: Merina and Company recommends that the City continue performing their year-end review of revenues and expenditures.

Views of Responsible Officials and Planned Corrective Actions: The City only partially completed their standard review of revenues line by line, which resulted in the failure to recognize and record this receivable at June 30, 2015. When this issue was discovered, the receivable was recorded and, after contact was made with the County, the payment was received. The standard controls will be adhered to in the future to avoid similar issues.

2015-2

Condition: During the audit Merina and Company discovered multiple internal control weaknesses in the processing of accounts payable for the airport fund, which in combination have the potential to result in a material misstatement.

1. Vendors are hand delivering invoices to the Columbia Gorge Regional Airport, instead of remitting them to the City for payment.
2. Invoices are not being delivered to the City for payment by the Columbia Gorge Regional Airport in a timely manner.
3. Airport invoices were not being approved, or had no approval noted, by the airport managers prior to payment.

Criteria: The City's policy is that all airport invoices are delivered to the Finance Department and reviewed and approved by the Columbia Gorge Regional Airport's management.

**CITY OF THE DALLES, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

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Effect: Invoices are not paid timely and the City is incurring late fees. Additionally, expenditures and payables are not being recorded in the correct period.

Cause: Several invoices were not submitted directly to the City for payment; therefore some of these invoices were not paid or were not paid in a timely manner.

Recommendation: Merina and Company recommends that the City require vendors to remit invoices directly to the City's Finance Department so that invoices are recorded in the correct period and paid in a timely manner. In addition, airport invoices need to document the approval by the Columbia Gorge Regional Airport's management prior to payment.

Views of Responsible Officials and Planned Corrective Actions: The City has acted on the recommendation of Merina & Company, LLP, and now requires vendors to send their invoices to the City Finance Department. These invoices will be held for the Airport Managers to come in at least once per week to review, approve and authorize payments, to ensure that payments are authorized properly and paid in a timely manner.

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

Airport Improvement Project

CFDA No. 20.106

Federal Agency: Federal Aviation Administration

Grant period: Year ending June 30, 2015

2015-3

Condition: Required quarterly and annual fiscal reports are not being prepared or remitted to the FAA in a timely manner.

Criteria: The Airport Improvement Program Handbook indicates that an FAA Form 5370-1 must be submitted 30 days after the end of the quarter and that an SF-425 Federal Financial Report and an SF-271 Outlay Report must be submitted annually within 90 days of fiscal year end.

Effect: By not submitting the required quarterly and annual reports, the City and the Columbia Gorge Regional Airport fail to be in compliance with the reporting requirements of the Airport Improvement Grant.

Cause: The City was unaware of this requirement as the grant contracts with FAA do not explicitly cite this. However, the contract references grantees to the Airport Improvement Program's fiscal policy located online which discloses this requirement.

Recommendation: Merina and Company recommends that the City and Columbia Gorge Regional Airport management review the Airport Improvement Handbook to inform themselves of the various compliance requirements necessary under the Airport Improvement Grant.

**CITY OF THE DALLES, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

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Views of Responsible Officials and Planned Corrective Actions: The City Finance Department has begun research into the current contracts and requirements in order to be able to comply with the requirements of the FAA grants. The Finance Department and Airport Managers will ensure that the required reporting is completed in a timely manner.

Airport Improvement Project

CFDA No. 20.106

Federal Agency: Federal Aviation Administration

Grant period: Year ending June 30, 2015

2015-4

Condition: The preliminary Schedule of Expenditure of Federal Awards (SEFA) did not accurately report the expenditures of federal funds.

Criteria: Airport expenditures that are to be reimbursed under the Airport Improvement Grant should be reported on the SEFA in the period the expense is incurred.

Effect: These inaccuracies present the possibility of the SEFA being materially misstated.

Cause: The deficiencies in internal control identified in Finding 2015-2 and lack of frequency in draw down requests cause the incorrect expense amount to be recorded on the SEFA.

Recommendation: In addition, to our recommendation at Finding 2015-2, Merina and Company recommends that reimbursement requests for the airport be prepared by the Finance Department, to ensure that these requests are filed on a quarterly basis and that they are reviewed by the airport managers prior to submission. This will ensure that the Schedule of Expenditures of Federal Awards is reported accurately.

Views of Responsible Officials and Planned Corrective Actions: In addition to our responses to Findings 2015-2 and 2015-3, the City Finance Department is working with the Airport Managers to develop a process to track the progress of the grant funded projects. The Airport Managers will provide this information regularly, and no less than on monthly basis. The Finance Department has begun preparing the reimbursement requests to ensure that the requests are filed in a timely manner.

**Section IV – Schedule of Prior Federal Award Findings and Questioned Costs for the Years Ended June 30, 2014**

None