

STAFF REPORT

For Meeting of April 11, 2016

MAYOR AND MEMBERS OF THE CITY COUNCIL

Agenda Item #

NO. 2016-

SUBJECT: Filing
Corrective Action
Plan with the Oregon
Secretary of State

Subject

Consider approving the City's plan of action to address the deficiencies noted in the 2014-15 Audit Report.

Summary and Background

The Oregon State Legislature passed House Bill 2174 which requires municipal corporations to file with the Secretary of State a plan of action to address any deficiencies noted in their audit report. This applies to modified opinions, management letters communicating significant deficiencies, and violations of laws, rules, and regulations including those identified in the report required by the Minimum Standards for Audits of Oregon Municipal Corporations.

While performing our audit for the fiscal year ended June 30, 2015, our auditors noted one material weakness and one significant deficiency in internal control and several instances of lack of compliance with Local Budget Law. I have prepared an action plan for the City Council to review and approve.

Fiscal Information

None

Alternatives and Recommendation

Alternatives

1. Approve the plan as is with no changes.
2. Do not approve the plan.
3. Recommend changes and approve an amended plan.

Recommendation

I recommend alternative #1. The plan of action was derived from the audit and management's responses which were included in the CAFR.

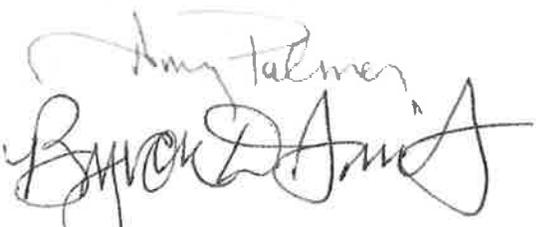
Requested Action/Motion

Motion to approve the plan as is.

Reviewed by:

Department Head

City Manager Approval



City of Hermiston



City of Hermiston
Administrative Offices

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April 12, 2016

Oregon Secretary of State
255 Capitol Street NE Suite 500
Salem, Oregon 97310

RE: City of Hermiston Oregon Audit Findings and Management Response per ORS 297.466
and OAR 162-10-000 through 162-10-320

While performing our audit for the fiscal year ended June 30, 2015, our auditors noted one material weakness and one significant deficiency in internal control and several instances of lack of compliance with Local Budget Law. The following information was derived from the audit and includes an update from management.

2015-01 – Material Weakness

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.

Effect: Adjustments were required to correct the accounting records and financial reporting for the affected areas and some of the adjustments were material, resulting in a material weakness to be reported.

Cause: Year-end entries are done each year through a manual process, which is typical, but does increase the risk of error. This is a new process with the City and a new consultant is being used to help close the books and draft the financial statements. The prior auditor was heavily involved in recording the year end accruals and capital asset adjustments and the City has not been required to reconcile many of these areas in the past. In addition, there were delays in closing the books and in providing a draft of the financial statements, which limited the amount of time available for secondary review.

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

Management's Response: We agree with the Auditor's recommendation and plan to incorporate a process to review journal entries during the year and to review the work performed by staff during the year. Journal entries will then be reviewed by our consultant as additional oversight prior to the year-end audit. In addition the City will complete processes earlier to allow for additional time for secondary review and approval prior to providing information to the auditor.

Additional Response: The Finance Director already prepares or reviews journal entries that are unusual or non-recurring in nature. However, the Director is now sending certain journal entries that are unusual or non-recurring to be reviewed by the consultant in addition to requesting the auditor to weigh in if there are multiple approaches to recording the transaction. In addition the City has scheduled a meeting with the consultant in late April to begin the planning process for closing the fiscal year 2016. The objective of the meeting is to identify tasks and procedures that the City can begin doing prior to the close of the year. The consultant will provide input and advice on those tasks and procedures.

2015-02 – Significant Deficiency

Condition and Criteria: The prior auditor maintained the depreciation schedules in his tax depreciation system, but the City had added the information into their Caselle accounting system a couple of years ago. The cost basis in Caselle appears to be accurate after several corrections by management and their consultant, but the accumulated depreciation is misstated by one year for most of the assets. For the audit, the consultant used the beginning accumulated depreciation and added in the current year depreciation and other adjustments and the amount reported in the financial statement appears to be stated materially correct. However, the information reported in the detailed depreciation schedules in Caselle does not agree with the audited financial statements and will need to be corrected before next year's audit.

Effect: The subsidiary ledger in the Caselle depreciation module does not agree with the financial statements and will need correction to be able to properly calculate depreciation expense and accumulated depreciation.

Cause: The City has relied on the auditor's depreciation schedule in past audits and the information in the depreciation module had not been corrected. It appears that there may have been a miscalculation of life to date depreciation when the information was entered or the posting of annual depreciation shortly thereafter.

Auditor's Recommendation: We recommend that the City continue to work with the consultant and Caselle to get the accumulated depreciation section corrected in the depreciation module.

Management's response: We agree with the Auditor's recommendation and will work to ensure that accumulated depreciation is corrected and that depreciation is being properly calculated in the Caselle depreciation module.

Additional Response: Caselle will be on-site at the City April 12 – 14, 2016 at which time we are going to work with them to address the issue.

Compliance with Local Budget Law – Expenditures Exceeding Appropriations

Condition and Criteria: Expenditures in the General Fund, Municipal Court Fund, Conference Center

Fund and Regional Water Fund exceeded appropriations for the year ended June 30, 2015.

Cause: City management reviews each fund every month to monitor revenues compared to estimates and expenditures compared to appropriations. The review is intended to identify areas where the actual activity is not in synch with the budget estimates. The City typically does one budget amendment per fiscal year to address items that were not identified during budget development. In the case of the above-mentioned funds activity occurred later in the fiscal year after the budget amendment so expenditures occurred that were not planned.

Management's Plan of Action: City management will increase its efforts to ensure all funds and departments stay within budgeted expenditures.

Compliance with Local Budget Law – Budget Errors

Condition and Criteria: During the auditor's review of the 2014-15 and 2015-16 inter-fund transfers, they found budget errors where the budgeted resources did not equal the budgeted requirements. Interfund activity budgets are required to balance by Oregon budget law, so estimated resources and requirements are not distorted. Actual amounts balanced between funds. In addition, the resolution adopting the budget is different than the amount reported in the budget document for General Fund transfer to reserve, capital outlay, and non-departmental. The City is in the process of preparing a correcting resolution to agree to the departments, but the appropriation balanced in total.

Cause: The City uses Microsoft Excel to develop its budget and publishes it in Microsoft Word. Currently there is no automated linkage in the budget spreadsheet between Transfers-In and Transfers-Out. Errors are normally caught as proofing of the budget is done.

Management's Plan of Action: The City is including corrections for the budget errors in its 2015-16 Budget Supplement. In addition the City has developed and is using a separate Excel spreadsheet just for Transfers-In and Transfers-Out to facilitate the proofing of these budget components. The process is working well.

Compliance – Bond Disclosures

Condition and Criteria: Following the close of the 2013-14 fiscal year the City failed to file its CAFR on the Electronic Municipal Market Access (EMMA) website so it did not make their bond disclosures on time and some of the disclosures did not include all of the required information. The City worked with bond counsel and filed the notice regarding their failure to provide annual financial information to correct the deficiency.

Cause: The City did not have a reminder or tickler system in place to ensure the filing on EMMA occurred timely.

Management's Plan of Action: The City set up a reminder system and filed its 2014-15 CAFR and other required bond disclosure before the deadline.

Amy Palmer
Finance Director, City of Hermiston

cc: Byron Smith
Dickey and Tremper, LLP