



## Dickey and Tremper, LLP

Certified Public Accountants and Business Advisors

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December 28, 2018

To the Honorable Mayor and Members of the  
City Council of the City of La Grande, Oregon

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 La Grande, Oregon; hereafter referred to as the City, for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted audit 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 July 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. As described in Note IV to the financial statements, the City changed accounting policies by adopting statement of Governmental Accounting Standards GASB Statement number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, at June 30, 2018, replacing reporting under GASB 45 for post-employment benefits. We noted no transactions entered into by the City 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 City's financial statements were:

Management's estimate of capital assets and depreciation expense is based on the useful lives of acquired assets. We evaluated the key factors, and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on management's detail review of accounts receivable aging reports and the make-up of the account balances. We evaluated the key factors and assumptions used to develop

the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of Other Post-Employment Benefits and the related deferred inflows and outflows is based on the actuarial valuation performed by Milliman and key assumptions agreed to by management. We evaluated the key factors and assumptions used to develop the liability for Other Post-Employment Benefits in determining that it is reasonable in relation to the financial statement taken as a whole.

Management's estimate of the net pension liability and the related deferred inflows and outflows is based on the actuarial valuation performed by Milliman and key assumptions agreed to by management and Oregon PERS. We evaluated the key factors and assumptions used to develop the net pension liability and related deferred inflows and outflows in determining that it is reasonable in relation to the financial statement taken as a whole. The actuarial valuation was based on the currently known facts and does not take into account changes subsequent to the measurement date.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit. We did have difficulties receiving the completed deferred revenue information when we arrived for fieldwork and there were several adjusting journal entries required during fieldwork related to deferred revenue. We recommend the City setup additional accounts receivable account codes, in order to simplify the reconciliation to the deferred revenue moving forward.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements were corrected by management:

An adjustment was required to reclassify \$100,266 in franchise fees to deferred revenue, as it was received after the 60 day measurable and available period.

There was a journal entry required to reverse retainage payable from fiscal year June 30, 2016 that was paid during the June 30, 2018 fiscal year.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 28, 2018.

### *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 City'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 City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The City continues to make improvements in their controls and procedures and have implemented several of the suggestions that we had in the prior year audit.

We also reported on the City's internal control in a separate letter dated December 28, 2018. That letter disclosed items as material weakness and one item as a significant deficiency.

### Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and disclosures for the City's street system based on a condition index under the modified approach for infrastructure, schedules of the City's Proportionate Share of the Net Pension Liability (Asset) and the City's Contribution to the Oregon Public Employees Retirement System, schedules of the City's Proportionate Share of the Net OPEB Liability (Asset), Schedule of Contributions OPERS Retirement Health Insurance Account, Schedule of changes in the City's OPEB Liability and Related Ratios, and 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 combining and individual nonmajor fund financial statements, budgetary comparison schedules, and other financial schedules, which accompany the financial statements but are not RSI. With respect to the 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 major taxpayers for the City of La Grande included in the statistical section of the report, 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.

Restriction on Use

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

Respectfully,

*Dickey and Tremper, LLP*

DICKEY AND TREMPER, LLP





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To the Board and Management of the City of La Grande:

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 the City of La Grande, Oregon as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City of La Grande's internal control over financial reporting (internal control) as a basis for designing 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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 following deficiencies in internal control that we consider to be material weaknesses:

The Island City user fee for the annual sewer charges was not communicated as billed with the finance office, therefore it was not recorded in the revenue and related accounts receivable account. The user fees are billed every August with a due date of May for the previous fiscal year charges. The total charges for the June 30, 2018 fiscal year that were adjusted during fieldwork were \$122,088. We recommend billings being submitted for services be communicated through the Finance office, so they can properly record the revenues in the correct period and include account receivables and assist with timely collection.

During the grant review we noted there was an unrecorded grant for Benton Park that had been received and recorded for the next fiscal year for the project that had been completed in the current fiscal year. Additional grant receivables totaling \$23,831 were required to be recorded to finalize our audit procedures. We recommend the public works department work and the finance office improve their communication in order to record all revenues and expenses in the correct period.

Some of the deferred revenue and accounts receivable accounts were not posted and reconciled upon arrival. In order to balance we had to reestablish the beginning balance with an adjusting journal and make several journal entries provided by management during the week of fieldwork. We recommend the City setup additional accounts for account receivable in order to make reconciling the accounts receivable and deferred revenue easier.

There was one journal entry required to reverse retainage payable from fiscal year June 30, 2016 that was paid during the fiscal year June 30, 2018 for \$39,743, which was material to the financial statements.

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 consider the following deficiencies in internal control to be significant deficiencies:

The City relies on the auditor to assist in drafting the financial statements. In addition, the auditor verifies that the financial statements, including note disclosures, contain all the elements to comply with generally accepted accounting principles. The City has staff with the ability to understand, review, and take responsibility for the financial statements as required to comply with independence standards outline by AICPA 101-3. However, our assistance in drafting the financial statements described above produces a significant deficiency in the City's internal control.

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

*Dickey and Tremper, LLP*  
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Certified Public Accountants  
Pendleton, Oregon

December 28, 2018



# CITY OF



# LA GRANDE

THE HUB OF NORTHEASTERN OREGON

Finance/Water P.O. Box 670 La Grande, OR 97850 541-962-1313 fax 541-962-1322 EIN 93-6002197

January 9, 2019

Oregon Secretary of State  
Audits Division  
Public Service Building Suite 500  
255 Capitol St. NE  
Salem, OR 97310

RE: Audit Finding Corrective Action Plan for the City of La Grande

The City of La Grande respectfully submits the following corrective action plan to address the three deficiencies noted within the SAS 115 (included) on our annual audit report for the period ending June 30, 2018 per the requirements of HB Bill 2174 which became effective on April 16, 2015

**Deficiencies in internal control considered a material weakness:**

1. **Condition and criteria:** The City of La Grande Public Works division annually bills a neighboring City for services a year after the actual use. Public Works did not notify the Finance Department that the bill had been sent and therefore the records did not reflect this billing.  
**Cause:** Lack of communication with the Finance Department that the annual billing has been completed and delivered.  
**Actions taken or planned:** The Finance department will calculate the billing amount and confirm the amount with Public Works. The Finance Department will submit the bill to Island City Sewer and record the revenue in the correct period and post the related accounts receivable. The Finance Department will also assure timely collection of the billing.
2. **Condition and criteria:** A grant was received and recorded for the next fiscal year for the project that had been completed in the current fiscal year.  
**Cause:** Lack of communication between the Finance Department and other departments on grant funded projects prevented the information from being recorded in a proper and timely fashion.  
**Actions taken or planned:** Scheduled year end communications with all departments as a final check that the Finance Department has all information on grants so they are posted in the correct year.
3. **Condition and criteria (2 items):** Some receivable accounts were not posted and reconciled upon the arrival of auditors. Some beginning balances had to be reestablished with journal entries provided during the week of fieldwork. One of these journal entries was the reversal of retainage payable that was paid during the fiscal year was material to the financial statements.  
**Cause:** Lack of communication with departments on billings and untimely preparation of some receivables.  
**Actions taken or planned:** Better year end communications with all departments so that receivable information is current at year end and properly posted prior to the beginning of the audit. Some additional accounts receivable lines have been set up in the general ledger to make balancing receivables easier.

**Deficiencies in internal control considered a significant deficiency:**

**Condition and criteria:** The City of La Grande relies on the auditor to assist in drafting the financial statements in addition to verifying the financial statements, including note disclosures.  
**Cause:** Most governmental agencies in the State of Oregon have their financial statements prepared by the auditor or other external consultants as GAAP for governmental entities is complex and it is normally more efficient for both cost and time to have the auditor draft the financial statements.  
**Actions taken or planned:** The City of La Grande has not made any change in the method of preparation of the financial statements. The City does not feel it is cost effective to hire additional staff or an independent contractor to prepare the financial statements.

Respectfully,

Stephen E. Clements  
Mayor, City of La Grande