

CITY OF SANDY, OREGON

SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2022

CITY OF SANDY, OREGON

TABLE OF CONTENTS

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Year Findings	10



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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 Sandy, 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 Sandy, Oregon (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 2022.

Report on 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) 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.

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 weakness or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

**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 (Continued)**

Report on 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 financial statements. 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*.

The City's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Talbot, Kowala & Warwick LLP

Portland, Oregon
December 29, 2022



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

Honorable Mayor and City Council
City of Sandy, Oregon

Report on Compliance for Each Major Federal Program

Opinion on Major Federal Program

We have audited the City of Sandy, Oregon's (the City) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2022. 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*.

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 its major federal program for the year ended June 30, 2022.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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

Report on Internal Control Over Compliance (Continued)

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over the compliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the City as of and for the year ended June 30, 2022, and have issued our report thereon dated December 29, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Talbot, Kowala & Warwick LLP

Portland, Oregon
December 29, 2022

CITY OF SANDY, OREGON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Clackamas County Social Services Division Special Programs for the Aging-Title III, Part D, Disease Prevention and Health Promotion Services	93.043	16-003	\$ 2,860
Aging Cluster:			
Passed Through Clackamas County Social Services Division Special Programs for the Aging-Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	16-003	15,396
Special Programs for the Aging-Title III, Part C, Nutrition Services	93.045	16-003	37,150
Nutrition Services Incentive Program	93.053	16-003	<u>(492)</u>
Aging Cluster Total			<u>52,054</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Highway Planning and Construction Cluster:			
Passed Through Oregon Department of Transportation Federal Lands Access Program	20.224	139768597	31,600
Passed Through Oregon Department of Transportation			
Formula Grants for Rural Areas and Tribal Transit Program	20.509	8095806810000	423,197
COVID-19 Formula Grants for Rural Areas and Tribal Transit Program	20.509	8095806810000	<u>444,377</u>
Formula Grants for Rural Areas and Tribal Transit Program Total			<u>867,574</u>
Federal Transit Cluster:			
Passed Through Oregon Department of Transportation Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	34217	255,000
Transit Services Programs Cluster:			
Passed Through Oregon Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	8095806810000	315,685
Passed Through Oregon Department of Transportation Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	16-003	<u>25,720</u>
Transit Services Programs Cluster Total			<u>341,405</u> *
U.S. DEPARTMENT OF TRANSPORTATION TOTAL			<u>1,495,579</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,550,493</u>

*Denotes major program

The accompanying notes are an integral part of this schedule.

CITY OF SANDY, OREGON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of Sandy, Oregon (the City) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Note 2. Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The City has elected not to use the 10% de minimis indirect cost rate 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, 2022.

CITY OF SANDY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes No X
- Noncompliance material to financial statements noted? Yes No X

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No X
- Significant deficiency(ies) identified? Yes X No

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 200.516(a)?

Yes X No

Identification of major federal programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.513	Transit Services Programs Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes X No

CITY OF SANDY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2022-001

Criteria: The City has the responsibility for establishing and maintaining effective internal controls over financial reporting.

Condition: A significant deficiency in internal controls over financial reporting related to revenue recognition was identified during audit procedures over revenue.

Cause: The cause appears to be related to a lack of experience with grant funds received in advance.

Effect or potential effect: While performing audit procedures, an understatement of unearned revenue and overstatement of revenue of approximately \$1,264,611 was identified.

Recommendation: The City should implement policies and procedures to ensure that grant revenue is appropriately recorded.

Views of responsible officials: The City understands and concurs with the finding and recommendation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2022-002

Federal program: 20.513 Total Enhanced Mobility of Seniors and Individuals With Disabilities

Federal agency: U. S. Department of Transportation

Award year: 2021-2022

Criteria: When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at sam.gov/content/home, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition: The City's internal controls did not properly identify and/or document its covered transactions of \$25,000 or more, that require verification.

Cause: The City did not retain evidence that it complied with the suspension and debarment requirements.

Effect or potential effect: The City is not able to show compliance with suspension and debarment requirements.

Questioned costs: No questioned costs identified.

Context: Out of six covered transactions totaling \$1,388,223, a sample of two transactions totaling \$1,082,370 was selected. The two transactions tested did not have evidence of System for Award Management (SAM) check performed.

Recommendation: The City should implement controls to document compliance with suspension and debarment requirements.

Views of responsible officials: The City understands and concurs with this finding and recommendation.

CITY OF SANDY, OREGON

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Fiscal Year Ended June 30, 2022

Finding 2021-001: Significant Deficiency in internal control over financial reporting

Condition: Lack of following existing internal controls were noted.

Recommendation: The City provide training to employees to enable effective review and emphasize the importance of a strong control environment to help ensure an effective review over financial reporting.

Status: Fully resolved.