RESOLUTION NO. 26-02

A RESOLUTION OF THE CITY OF SHADY COVE CONCERNING THE REVIEW AND UPDATE OF SHADY COVE FINANCIAL INTERNAL CONTROLS

WHEREAS, KDP Certified Public Accountants, in audit of the City's FY23 financials, identified this material deficiency: To avoid potentially making a material accounting error and improve the system of internal control over financial reporting, we suggest implementing the following measures: reviewing and revising your accounting policies and your manual procedures to keep it current and complete with respect to U.S. GAAP and keeping it readily available to guide the day-to-day accounting operation and financial reporting process of your accounting personnel; and

WHEREAS, The City of Shady Cove submitted a Corrective Action Plan to the Oregon Secretary of State committing to implementation of internal controls and a financial reporting process consistent with U.S. GAAP accounting practices.

The existing internal control procedures were reviewed and changes were made based on system changes, job duties, and recommendations from the auditing firm regarding procedure.

THEREFORE, BE IT RESOLVED, the City of Shady Cove resolves to implement this reviewed and updated internal control procedure.

Effective Date. This Resolution will be deemed effective immediately upon adoption by the council. PASSED AND ADOPTED by the City Council of Shady Cove, Oregon this 19th day of March 2026.

Approved:	Attest:
___________________________________	___________________________________
Lena Richardson, Mayor	John Edwards, Interim City Administrator

Council Vote:

Mayor Richardson ____

Councilor Mitchell ____

Councilor Winfrey ____

Councilor Nuckles ____

Councilor Vanier ____

City of Shady Cove

Internal Control Procedures

March 2026

Internal control procedures are established to provide procedures for City of Shady Cove employees to follow, which will help to ensure separation of duties so that no one City employee shall be responsible for all aspects of any given procedure. These procedures also ensure that major transactions are reviewed and approved by a second employee. These procedures will provide a safeguard for the City's assets, control over expenditures, and accurate reporting of financial information. These procedures are intended to provide procedural controls in conjunction with the City of Shady Cove Policy/Procedures Manuals, Employee Manual, and Purchasing Manual as they become adopted.

Accounts Payable/Disbursements

The City's Accounting Technician is primarily responsible for processing accounts payable expenditures.

A non-finance staff member picks up the mail and distributes it to the appropriate departments.

Invoices are given to the Accounting Technician who opens and reviews all invoices and codes them to the appropriate GL (general ledger) account. The Accounting Technician then gives them to the City Administrator who verifies vendor name, purpose of payment, and general ledger account number to ensure the validity of the payment prior to entry. After review of the invoices, the city administrator returns the invoices to the Accounting Technician for data entry. The Accounting Technician enters the invoices, prints and archives the payment register, checks and check register. A report itemizing invoices to be paid including invoice number, date of invoice, check number, date of check, payee, and GL account number is prepared for the city council agenda packet. If additional invoices are received before the council meeting, the same process is followed and a revised invoice-to-be-paid report is prepared for Council. After the invoices to be paid are approved by Council, accompanying checks are signed by the Mayor or Council President and the City Administrator. After each accounts payable check run, an electronic Positive Pay file is submitted electronically to Chase Bank that includes the payee's name, check date, check number and the amount of each check.

Commented [NS1]: Are there any circumstances where the bank would pay a check without a Positive Pay assurance?

The invoices-to-be-paid list is presented to Council at every council meeting. The actual invoices can be made available to the Councilors in the event that City Council has any questions. The invoices are present when the checks are signed so that checks can be compared against invoices.

After checks have been approved and signed, they are returned to the Accounting Technician for mailing. Attachments are included with the checks if needed. Once checks are mailed, the paper documentation is filed.

Inventory of blank checks are kept in a safe within the Accounting Technician's locked office with limited access.

Credit/Debit Cards –

Credit/debit cards are issued to the City Administrator and the Public Works employee to be used for official City purchasing only. Credit/debit cards are kept in a locked safe within the City Administrator's office and may be requested by employees as needed. The employee requesting a card must sign and date a check-out sheet for each card. That check-out is co-signed by the City Administrator. The same process is completed on return of the card. Receipts and other documentation for card purchases must be provided as soon as possible.

Commented [NS2]: This could be stronger. I would recommend getting pre-approval based on a set spending limit. Receipts and purchase documentation should be provided for all purchases when the card is returned or within 5 business days of purchase, whichever comes first.

Credit/debit cards will not be used to supplant or circumvent other City purchasing policies and limited to the use of the following purchases:

- Fuel expenses required for authorized travel.
- Travel and/or expenses associated with conferences/workshops.
- Business meals must include documentation of the purpose of the meeting and names of attendees.
- Online purchases.
- Miscellaneous and incidental public works materials and supplies.
- Miscellaneous and incidental pre-approved purchases from the City Administrator for City business.

Credit/debit cards cannot be used for cash advances of any kind. Credit/debit cards cannot be used for payment of an invoice or statement without prior approval from the City Administrator.

When the credit card statement arrives, the receipts are given to the Accounting Technician to match with the statement and identify the appropriate GL number. The statement is returned to the City Administrator for approval before the invoice is paid.

Employee/Official Reimbursements –

Employees or governing officials submit requests for expense reimbursement to the City Administrator for approval. The City Administrator sends it to the Accounting Technician who identifies the appropriate GL account after which, the City Administrator verifies the vendor name, purpose of payment and GL account number. It is then returned to the Accounting Technician for payment, using the accounts payable process.

Per Diem Requests –

Employees and government officials submit per diem requests to the City Administrator for approval. A copy of the event schedule must be attached to the request. The Accounting Technician will verify the calculated amounts based on current IRS rates and negotiated lodging and meal costs defined in the Teamster's contract. The request is then forwarded to the City Administrator for approval. After City Administrator's approval, the per diem request is returned to the Accounting Technician for accounts payable processing. After processing, the Accounting Technician gives the paper check directly to the employee or governing official.

Payroll

Wage and salary by position and frequency of payroll and distribution are established by the collective bargaining agreement with the Teamsters Union. All changes in employment status (e.g., additions and terminations), salary, and wage rates should be properly authorized, approved, and documented to support employment status changes.

Employees are required to document days and hours worked and leave credits used on time cards. Time cards are reviewed and approved by the City Administrator. Approved time cards are submitted to the Accounting Technician for processing in the correct pay period.

The Accounting Technician logs all approved payroll data into the Caselle Payroll module. The City Administrator reviews the payroll data for accuracy, initials the Payroll Prelist Worksheet with their approval and returns it to the Accounting Technician for processing. After the payroll calculations have been completed, the City Administrator receives a packet that contains all payroll information for their records and a separate packet of the payroll pay period is placed into a binder in the Accounting Technician's office. Payroll is funded through Direct Deposit into each employee's banking account.

Prior written authorization shall be required for all nonemergency overtime hours and shall be granted only for specific, verifiable purposes, consistent with any collective bargaining agreements. In emergency situations, supervisors should verbally pre-approve overtime to be incurred, and follow up with a review of overtime records to determine the appropriateness of overtime hours incurred.

Employees are required to use leave request forms to document advance requests to use accrued leave credits and to document absences covered by the use of leave credits.

Commented [NS3]: This statement is too vague. Changes in employee salary and wages should be made in accordance with the provisions of their applicable contracts, and should be reviewed and approved at least yearly by Council during the budget cycle.

Commented [NS4R3]: Strengthen payroll controls. The other concern here is that there is no oversight of the City Administrator's salary, and – in general – Council has no oversight of payroll. Monthly payroll reports should be provided in addition to the Bills Paid reports. Due to privacy concerns, I understand if the details are not made visible to Citizens, however all Councilors should have monthly reports on payroll for each employee – not simply an aggregated number.

Commented [NS5]: The document does not provide expectations for how often this occurs. I assume it's either every two weeks or twice a month. The timing expectations should be spelled ou.

Is it possible to utilize electronic storage, instead of – or in addition to – a binder. It would be appropriate to use cloud storage that has a non-editable backup, so data is not lost or changed.

Commented [NS6R5]: Records have been lost in the audits for 2020 and 2021, so storing copies in an offsite backup, or electronic repository where documents are retained by a third-party would be the best way to handle. And, given the fire danger in Shady Cove that will also protect records from loss in a fire.

Commented [NS7]: There's a big gap here – What Internal Financial Controls are being put in place to prevent a reoccurrence of failures to pay and report PERS, benefits, and IRS liabilities?

Banking Procedures

The City of Shady Cove maintains one checking account with Chase Bank. This account is used for general banking transactions including accounts payable checks, payroll checks, ACH transactions and deposits.

New accounts and changes in authorized signers are authorized by the City Council. Requests for changes in accounts and signers are submitted to Chase Bank in the form of a City of Shady Cove resolution with original signatures. When an official authorized to sign checks or to perform wire transfers leaves the local government, the bank must be immediately contacted to revoke their check signing authority, online banking capabilities and wire transfer authority.

The City of Shady Cove also maintains one account at the Local Government Investment Pool (LGIP). It is used primarily as a secure savings account. County and State revenues are transferred directly into this LGIP account. Transactions needed for the RVSS billing process administered by the City of Shady Cove are also executed in this account. Funds are transferred from this account to the Chase Bank account as needed for City expenses. No check stock is maintained for the LGIP account. LGIP bank reconciliation is completed monthly.

The Chase Bank account operates as the City's checking account. Pre-numbered check stock is maintained for the Chase Bank checking account and all checks are issued from this account. Transfers between LGIP and the Chase Bank account and RVSS are transacted by the City Administrator. In the event that a transfer is needed, the Accounting Technician generates a memo or email to the City Administrator for the amount, the reason for the needed transfer and the City Administrator then initiates that transfer via the LGIP website. The Accounting Technician records the transfers in the general ledger by journal entry with supporting documents.

The City requires two signatures on each check from the Chase Bank account. There must be one signature from the Governing Body and one from the City Administrator. The City does not use wire transfers as a standard form of payment and wire transfers are only used under exceptional circumstances. The City Administrator is the only one to make a transfer with approval of the Mayor or Council President. Under exceptional circumstances, the Accounting Technician is authorized to make a transfer in the absence of the City Administrator, after seeking written approval from the Mayor or Council President. Authorized signers for the City of Shady Cove Chase Bank account are: the Mayor or Council President, and the City Administrator.

There are no signature stamps used for check signatures. Check stock is kept in a locked safe within the Accounting Technician's office. Check numbers are tracked by the Caselle financial software.

Commented [NS8]: A couple things should be added in this section. The internal controls need to provide ability for independent "read-only" oversight of the Chase Bank Account, LGIP Account, and monthly reconciliation.
Council members should have read-only access to the Chase Bank account, or if not possible, should receive copies of the bank statements every month.
The City has well over $1M in Oregon LGIP, and activity in the investment account also needs to be monitored. LGIP allows read-only accounts, every Council member should have this access.
Lastly, every Council member should receive a copy of the reconciliation report.

This ensures that Council has oversight, and is able to confirm that required actions are taking place. Council – perhaps on a rotating basis – should be spot-checking bank statements against the bills paid report and payroll report.

Commented [NS9]: This section also needs to have alternate procedures, in case either the City Administrator or the Accounting technician are unavailable.

In the event of an extended absence of the Accounting technician, who is authorized to make the journal entries --this would be good to have backup from RVCOG or other Caselle support.

If the City Administrator is absent, who performs their duties?

Commented [NS10]: Since wire transfers are an exception, they should be called out on the monthly Bills Paid report.

The bank statements are electronic and are downloaded and maintained by the Accounting Technician.

The Accounting Technician balances the statement against the general ledger using the Caselle General Ledger module. Once the bank reconciliation is completed, a reconciliation report, the monthly bank statement and any supporting documentation is provided to the City Administrator for review. The City Administrator verifies and initials the report for approval. Bank reconciliations are completed within 15 days of the end of the month that is being reconciled.

Credit/debit card statements are reconciled monthly to verify that each individual day's batch totals submitted match the amount funded. Any monthly charges automatically deducted by the credit card company are entered into the Caselle software by journal entry by the Accounting Technician.

Journal Entries

The Accounting Technician is responsible for input of all journal entries. The journal entries are submitted to the City Administrator for review for accuracy and approval. Once approved, the accounting technician posts the entries, prints the journal summary, and files the posted journal entries and summary.

Commented [NS11]: Who has oversight of journal entry corrections, on a monthly or quarterly basis?

Accounts Receivable/Receipts

The City of Shady Cove regularly receives and processes payments including:

- utility bills
- fees for planning, permits, business licenses
- franchise, raft, transient taxes
- various miscellaneous revenues

Payments are received in cash (money, checks, money orders), by credit card and by ACH.

Credit card payments are submitted through Express Bill Pay. Credit card payment files are received daily and uploaded to the Caselle integrated finance system for processing. The credit card statements are reconciled each month to verify daily batch totals submitted were fully funded, less any appropriate service charges and fees that are automatically deducted. The card service charges and fees are entered in the accounts payable month-end process.

For electronic money transfers (ACH), utility customers provide a check to the Shady Cove Accounting Technician who sets up the automatic transfer of funds from the customer's account to the City's account at Chase Bank. The transaction is automatically recorded in the Caselle finance system. Payments amounts are scheduled to be transferred on the tenth of each month. Monthly file transfers are reviewed and verified.

Cash payments (money, checks, money orders) are submitted at City Hall or directed to the City's post office box. There is also a drop box site for utility bill payments located just outside City Hall.

Check payments are given to the Accounting Technician. Checks are immediately processed through a check scanner which records a same-day deposit with Chase Bank. Scanned checks are then verified against the cash receipt tender report from the Caselle cash receipting system and verified by a second employee. A scanned check log is created and a volunteer compares the log to actual checks received to verify the amount and the correct account coding, then initials and dates the verification.

Commented [NS12]: Is this a volunteer or a second City employee? This entire process seems cumbersome. Is it possible to create an electronic version of the scanned check log, in an electronic repository that cannot be deleted, with an email attestation that is retained for the City's records?

Commented [NS13R12]: Also, any volunteers should be rotated (not one person all the time) and their report should be included to Council along with the reconciliation reports.

Other receipts (cash, money order, checks rejected by the check scanner) are posted to the cash receipting module to the appropriate general ledger account. The Accounting Technician or Administrative Assistant enters the transaction date, customer name, account number and form of payment. Any payments received as cash also has a handwritten receipt at the time it was received indicating the payee, the account number, the date, the cash amount, and the receiving employee's signature. The original receipt copy is given to the customer; the receipt books are retained for review.

Each payment is entered as a separate transaction with a system-generated sequential receipt number. Caselle records the number of cash transactions, check transactions and credit/debit card transactions. Cash payments and check payments are entered in separate batches. Cash deposits prepared by the Accounting Technician or Administrative Assistant are verified by the City Administrator, sealed in a Chase Bank deposit bag for delivery to the bank by the City Administrator. Should the City Administrator be unavailable to verify the deposit amounts, another City employee is to verify the cash deposit amount, initial the deposit document, and take the deposit to Chase Bank.

The cash drawer is maintained by the front counter employee. Personal or payroll checks cannot be cashed for money in the cash drawer. Checks for over the amount cannot be accepted for "cash back". The Accounting Technician reconciles the cash drawer/petty cash on the last business day of each month. Another staff employee will then count and verify the amount in the cash drawer/petty cash, initial and date the cash count. In the event that petty cash is needed, a check is issued to the City Administrator for the exact amount needed, they cash the check at Chase Bank and return the denomination amounts needed to the Accounting Technician. If change is needed for the cash drawer, cash is given to the City Administrator to take to the bank and return the amount of change needed to the Accounting Technician to be placed in the cash drawer.

Finance System Security

Caselle financial system user access is administered by the City Administrator, the Accounting Technician and the contract IT Technician. User access to Caselle applications and programs is based on the employee's job function and further defined as update and query access by application. Each user establishes an individual Caselle user password administered by the contract IT Technician.

Caselle system updates are coordinated between the City Administrator, Accounting Technician, and Caselle.

Management and Council Review

In addition to all controls listed in the City of Shady Cove Internal Control Procedures, the following steps are taken to ensure that controls are functioning properly and evaluated to see if changes are needed:

- The procedures are reviewed annually to determine if changes are needed based on system changes, job duties, and recommendations from the auditing firm regarding procedure.
- The City Council is provided with a monthly financial report by fund, including year-to-date revenue and expenditures compared to budget. The City Administrator presents the monthly financial report to City Council, and the City Administrator is available to provide additional information and answer any questions that Council may have.
- On a monthly basis, the City Administrator and the Accounting Technician review the monthly budget-to-actual financial report including the percentage of budget expended for respective funds to identify any areas of concern.

Fraud Escalation Provisions

The document needs to include a section that makes it clear how internal and external concerns regarding fraud are handled. This could include things like:

- A Fraud hotline
- Requirements for reporting concerns to Supervisor with escalation to management if the Supervisor is suspected of fraud.
- There should be some sort of defined Investigation Chain with an independent reviewer, potentially a pre-approved time & materials contract with the City's Auditor or RVCOG staff aug accountant.
- There should be mandatory notification to ALL council members.
- Council members should also be trained on their duties as Fiduciaries to report fraud.

Commented [NS14]: Please confirm that the IT Technician does not have the ability set long-term passwords. They should only be able to set an initial password which must be immediately changed by the user, and expire an account.

There should also be a recommendation to provide a quarterly review of user access, with the completed review provided to the City Council.

Commented [NS15]: This was already mentioned in the section on bank reconciliation, however I am mentioning it again here.

The internal controls need to provide ability for independent "read-only" oversight of the Chase Bank Account, LGIP Account, and monthly reconciliation by Council members. .
Council members should have read-only access to the Chase Bank account, or if not possible, should receive copies of the bank statements every month.
Oregon LGIP allows read-only accounts, every Council member should have this access.
Lastly, every Council member should receive a copy of the monthly reconciliation report.

This ensures that Council has oversight, and is able to confirm that required actions are taking place. Council – perhaps on a rotating basis – should be spot-checking bank statements against the bills paid report and payroll report.