

December 8, 2025

Honorable Mayor and Members of City Council  
City of Shady Cove  
Shady Cove, OR 97539

In planning and performing our audit of the financial statements of the City of Shady Cove, Oregon (the City) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, 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 opinion 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. 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.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 the City's internal control to be material weaknesses:

#### **Improve Quality of Financial Reporting - Material Weakness**

During the audit, we identified material accounting errors due to not having formalized accounting policies and procedures relating to financial reporting in accordance with U.S. GAAP. 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

- hiring additional competent and qualified personnel with relevant knowledge and practical U.S. GAAP accounting and reporting experience and/or relevant knowledge and working experience with internal control over financial reporting to monitor daily activities.

### **Strengthen Controls over Bank Reconciliations- Material Weakness**

During our audit, we noted that bank reconciliations were not consistently being completed and formally reviewed in a timely manner. Because of the large amount of transactions that the City receives, performing timely monthly bank reconciliations is critical to reduce the risk that fraud or errors will go occur and go undetected and/or uncorrected, which could lead to misstatements not being identified and resolved in a timely manner. Therefore, we recommend that the City perform and review monthly bank reconciliations within 15 to 30 days of the month-end and that reconciling items are resolved within 45 to 60 days from the date they are identified. That will ensure the timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported.

### **Maintain a Schedule of Property Additions - Material Weakness**

A schedule of additions should be maintained as assets are purchased to simplify the process of capitalizing property and equipment additions at year end. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors.

A significant deficiency is a deficiency, or 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 the City's internal control to be significant deficiencies:

### **Improve Segregation of Accounting Duties - Significant Deficiency**

Consistent with many organizations of similar size and scale, we noted certain segregation of duties issues within the internal control over financial reporting environment. Segregation of duties requires that no one employee have access to both physical assets and the related accounting records or to all phases of a transaction. The small size of the City's staff limits its ability to fully establish proper segregation of duties, and we recognize that the hiring of additional personnel to achieve full separation of duties is not cost effective. Although we noted mitigating controls, our professional standards require that we advise you of this matter. Therefore, we recommend the City continue to evaluate and implement segregation of duties to the extent possible.

Following are descriptions of certain matters involving internal control and other operational matters that we determined did not constitute significant deficiencies or material weaknesses but are presented for your consideration:

### **Perform Fraud Risk Assessment**

Although our fraud risk assessment did not indicate a high risk of material misstatement due to fraud, it is management's responsibility to design and implement programs and controls to

prevent and detect fraud. One of the primary fraud risks for smaller organizations is the risk of misappropriation of assets. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. A fraud risk assessment can be an informal process. It can be performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals at the City have the opportunity to misappropriate assets?
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets?
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen?
- How could potential misappropriation of assets be concealed?

Once areas vulnerable to fraud have been identified, a review of the City's systems, procedures, and existing controls relating to the identified areas should be conducted and documented. The City should consider additional controls that need to be implemented to reduce the risk of fraud.

General controls that reduce an employee's ability to commit fraud without detection include the following:

- Requiring periodic job rotation and mandatory vacations.
- Instituting surveillance techniques.
- Implementing an employee hotline.

### **Adopt a Storage Policy for Accounting Records**

To prevent the loss or misplacement of accounting records, the City should adopt a policy of storing basic source documents (such as the general ledger, detail property records, detail accounts receivable records, etc.). Such a policy should be adhered to at all times because the reconstruction of these records would be costly and time consuming.

### **Approve and Sign the Minutes of Board Meetings**

Our review of the minutes of the meetings of the City Council disclosed that several had not been signed. We recommend that all minutes be formally approved at the subsequent City Council meeting and appropriately signed as an indication of approval.

### **Engage Professional Assistance in Developing Accounting Procedures**

In a rapidly expanding organization such as the City's, it is frequently good practice to obtain professional assistance in the organization and development of accounting routines and methods, which will provide timely and accurate information to management. This assistance can include a

review of current chart of accounts as well as developing an accounting procedures manual to streamline timely and effective financial reporting.

We appreciate the efforts of the City and have seen progress since the prior audit. We bring these deficiencies in internal control to the attention of governance and management to assist in further refining and improving on the processes within the City.

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

Very truly yours,



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December 8, 2025