

Date Rep Letter Signed, 2022

Management and City Council
City of Sodaville
Lebanon, Oregon 97355

In planning and performing our audit of the basic financial statements of the City of Sodaville as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Sodaville'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 of Sodaville'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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness 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 misstatements, or to 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible: The chance of the future event or events occurring is more than remote but less than likely.
- Probable: The future event or events are likely to occur.

We consider the following deficiency in the City's internal control to be a material weakness:

Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Bank deposits, bank reconciliations, and journal entries have no separate review process other than the general financial monitoring completed by management and the city council. Consequently, the possibility exists that unintentional errors or irregularities could exist and not be promptly detected. We recommend that additional controls be implemented to ensure that deposits and journal entries are monitored at a high enough degree that risks are mitigated to an acceptable level.

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 the City's internal control to be significant deficiencies:

Accrued Payroll and Vacation Liabilities

During our audit, we noted that the City is not accruing payroll and associated liabilities for the time period between the last paycheck of the year and year end. We also noted that accrued payroll liabilities were not expensed and reconciled correctly throughout the year, and that accrued payroll liabilities were not correctly allocated across funds. In addition, we noted that vacation accrual policy was not being followed and accrued amounts were not properly recorded. Failure to properly accrue payroll and vacation liabilities and record payroll expenses can result in a misstatement of accrued liabilities and expenses. We recommend that the City record payroll expenses and accrued liabilities in accordance with accounting principles generally accepted in the United States of America (GAAP).

Recording of Revenue

During our audit, we noted that the City is not recording revenue in the proper accounts throughout the year. Failure to keep accurate records of revenue, including posting invoices and payments to customer accounts can result in material misstatements. We recommend that the City implement a system to consistently record revenue in the appropriate revenue and customer accounts.

Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)

Auditing standards require us to assess the internal control system of the City. In addition, the standards require us to extend this assessment of controls over financial statement preparation. Proper controls over financial statement preparation require adequate knowledge and involvement to detect errors and omissions in the financial statements. The City relies on us, as the auditor, to assist them in drafting the financial statements. In addition, we verify that the financial statements, including note disclosures, contain all of the elements required to comply with accounting principles generally accepted in the United States of America. We do believe that the City has staff with the ability to understand, review, and take responsibility for the financial statements required to comply with independence standards; however, our assistance in drafting the financial statements described above does produce a significant deficiency in the City's internal control system. We do not recommend any change in the preparation of the financial statements, but the council should be aware of this deficiency and stress the importance of thorough review of the financial statements prior to approval of the audit.

Compliance with Oregon Budget Law

During our audit, we noted that the City expended funds in excess of the amounts appropriated, which is in violation of ORS 294.100. We also noted a lack of records relating to Oregon Minimum Standards. We recommend that the City assign appropriate staff to compare the budget and actual amounts and prepare supplemental budgets or appropriation transfers as necessary in order to keep over-expenditures from taking place, and to retain records to confirm compliance with related standards.

During our audit, we also noted the following matters that are presented for your consideration:

Bank Reconciliation

During our audit, we noted that there is no indication that the bank statements and reconciliations are being reviewed, including resolving uncleared reconciling items. Failure to review bank reconciliations can result in material misstatement. We recommend that the City implement a system to regularly review bank reconciliations, including resolving uncleared reconciling transactions.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management, the city council, others within the City, 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,

Debra L. Blasquez, CPA
Koontz, Blasquez & Associates, P.C.

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