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To Honorable Mayor and City Council
and Management of City of Rivergrove, Oregon

In planning and performing our audit of the cash basis financial statements of the governmental activities and each major fund of the City of Rivergrove, Oregon as of and for the year ended June 30, 2025 in accordance with auditing standards generally accepted in the United States of America, we considered the City of Rivergrove, Oregon'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 of Rivergrove, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rivergrove, Oregon'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 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 to be material weaknesses:

**2025-01 Lack of effective internal controls over financial reporting, cash receipting, and cash disbursements**

**Criteria:** Management is responsible for establishing and maintaining an effective system of internal controls over financial reporting. A robust control environment requires adequate segregation of duties, ensuring that no single individual has control over all key aspects of a financial transaction (authorization, custody, processing, recording, and review).

**Condition:** Internal controls over financial reporting, cash receipts, and cash disbursements were not operating effectively during the audit period. During the audit, we noted that bank reconciliations were not performed in a timely manner, electronic fund transfers (EFTs) were initiated and processed by the same individual without formal approval, and the individual responsible for preparing checks and recording disbursements was also an authorized check signer, allowing them to sign checks without a review or signature. Additionally, subsequent to the audit period, the individual responsible for initiating and recording transactions was also performing the bank reconciliations.

**Cause:** The organization lacks sufficient oversight mechanisms, written policies, and lack of segregated accounting duties within cash receipting and disbursements.

**Effect:** The lack of mitigating controls resulted in material audit adjustments and improper account classifications during the year-end audit. Without proper segregation of duties and timely independent reviews, errors or intentional misstatements could occur and not be prevented, or detected and corrected, on a timely basis.

**Recommendation:** We recommend that the city council restructure responsibilities and implement compensating controls to strengthen internal controls, including:

- Check signing authority: remove check-signing authority from any individual who is responsible for preparing checks, processing accounts payable, or recording disbursements in the general ledger. If removing check-signing authority is impractical for the City, establish dual-signature policy requirements. Checks under a specific threshold for routine pre-approved budgeted items can be signed by one individual but checks over the threshold require a second signature. Any check made out to the check signer cannot be signed by that individual and must be signed by another authorized check signer.

- Electronic transfers: implement banking controls that require an independent review and approval of all electronic fund transfers (EFTs) prior to execution, with documented evidence of approval and similar thresholds to check signing authority and pre-approved vendors and invoices, such as utilities or routine expenses.

- Independent and timely reconciliations: ensure monthly bank reconciliation is completed timely (e.g., within 15 days of month-end). The reconciliations should be performed by an individual who is not responsible for initiating, processing, recording, or signing checks/approving EFTs. If limitations prevent this, an independent individual must review, sign, and date the completed bank reconciliation and the corresponding bank statement each month (obtained directly from the bank or accessed independently through the bank portal).

**2025-02 Lack of historical support to determine accurate beginning fund balances and restrictions for all funds**

**Criteria:** Under the cash basis framework, the mayor and city council are responsible for establishing and maintaining an internal control system that ensures individual fund cash balances are accurately tracked, properly classified, and legally supported. Sound financial reporting requires that cash allocations to individual funds be backed by verifiable historical records to ensure compliance with restricted-use laws and to support financial statement disclosures regarding fund balance classifications and net position classifications.

**Condition:** The City did not maintain adequate supporting documentation or historical accounting records to substantiate the accuracy and classification of the cash balances, fund balance classification and net position classifications within its individual funds. Beginning balances for individual funds were recorded without documentation verifying the underlying transactions, historical tracking, or specific legal restrictions. Consequently, the auditors were unable to obtain sufficient, appropriate audit evidence regarding the accuracy of the cash balances for all individual funds and the legal nature and purpose of any restricted fund balances and net position.

**Cause:** The City lacks a reliable historical general ledger, formal tracking mechanisms for restriction, and robust month-end and year-end closing procedures necessary to verify and support individual fund allocations.

**Effect:** Due to the lack of verifiable supporting documentation for individual fund cash balances and their underlying restriction, the auditors issued a qualified opinion on all opinion units for the fiscal year ended June 30, 2025. Without accurate fund accounting, there is a severe risk that the City may misclassify balances, spend legally restricted cash on unallowable activities, or violate Oregon municipal budget and finance laws.

**Recommendation:** We recommend that the city council reconstruct its historical information to restore financial integrity:

- Fund balance reconstruction: perform a rigorous reconstruction of the City's individual funds to determine accurate balances and identify legally restricted balances, this needs to be completed by an individual who has the skills, knowledge and expertise, such as an independent financial professional or contracted accountant. This project would trace historical cash inflows and outflows, restricted funds, grant awards, and ordinances to re-establish a verifiable, legally defensible, and properly classified baseline for each individual fund balance.

- Implement fund-based accounting controls: ensure the City's accounting software is strictly configured to prevent the blending of distinct funds. All cash receipts and disbursements should be mapped to specific funds and proper restriction categories at the time of the transaction.

- Review of individual fund accounting: the mayor and/or city council should receive reports reconciling the total cash balances directly to the individual fund ledger balances. The city council should formally review and document this review (e.g., by signing and dating the reports) to ensure individual fund integrity and legal compliance is being maintained throughout the year.

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:

**2025-03: Lack of controls and documentation over expenditures and contracted services**

**Criteria:** Management is responsible for establishing and maintaining effective internal controls over disbursements, procurement, and interfund transactions. Sound internal controls require that all expenditures, personal service contracts, vendor agreements, and interfund transfers be supported by legally binding written contracts, itemized invoices, or other verifiable documentation (such as time studies or log sheets). Furthermore, all financial transactions must be processed through a centralized accounting workflow governed by a formalized procurement policy that establishes spending limits and vendor approval protocols to ensure completeness, proper authorization, and accurate financial reporting.

**Condition:** The City lacks adequate internal controls and documentation supporting certain expenditures and contracted services. During our audit, we noted isolated instances regarding the absence of formal written contracts, invoices, or supporting documentation. In addition, invoices and expenditure transactions were not always consistently retained within the City's central accounting records. In an instance, a vendor invoice was routed directly to a City Council member for handling rather than being processed through a centralized administrative system. Lastly, the City lacked documentation to support interfund cost allocations.

**Cause:** The City has not established formalized procurement policies, uniform document retention practices, a formal cost-allocation methodology for restricted funds, or a centralized accounts payable workflow to govern vendor services and expenditures.

**Effect:** The lack of centralized controls and documentation increases the risk that City expenditures could be unauthorized, improperly classified, or omitted from the financial records entirely. Additionally, this deficiency resulted in noncompliance with State Highway Fund restrictions, risks that restricted public funds are used on unallowable City operations. It also limits the City's ability to demonstrate to regulatory bodies and residents that public funds are being used appropriately, services are being provided as intended, and costs are legally supported.

**Recommendation:** We recommend that the City Council establish formal purchasing and disbursement controls, including:

- Adopt a comprehensive procurement policy: establish a formalized municipal procurement policy to strengthen oversight of purchasing activities. The policy should establish formal spending thresholds, approval requirements, purchasing procedures for various types of expenditures and ensure it is in compliance with Oregon Revised Statute public contracting requirements. In addition, the City should maintain and periodically review a list of approved vendors.
- Execute formal written contracts: mandate that all personal and professional services, particularly for key administrative positions, be governed by an updated, legally binding written contract that explicitly details duties, compensation rates, termination clauses and billing requirements.
- Centralize accounts payable: implement a strict policy requiring all vendor invoices and bills to be sent to a single, centralized City address or email inbox. Individual Council members should be prohibited from receiving or holding original invoices.

- Standardize voucher support: require that every disbursement be supported by an itemized invoice and a formal approval sign-off by an authorized individual before payment is issued.
- Establish allocation support: require that administrative transfers of restricted funds be backed up by proper documentation. The City needs to establish allocation methodologies that are supported by evidence demonstrating a benefit to the restricted activity (e.g., such as time studies or actual time spent) or document its use of de minimis amounts as approved by the relevant regulatory authority.
- Establish a document retention system: ensure that all financial records, signed contracts, paid invoices, and allocation methodologies are digitally or physically archived within the City's permanent central accounting files to maintain records.

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

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Tualatin, Oregon
June 3, 2026