

CITY OF KING CITY
WASHINGTON COUNTY, OREGON

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2018



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Tigard, OR 97223



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To the City Council
City of King City
Washington County, Oregon

In planning and performing our audit of the basic financial statements of the governmental activities and each major fund of City of King City (the City) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

1. The City does not maintain historical cost and depreciation records for streets and street improvements acquired prior to June 30, 2013. We were unable to apply alternative procedures to satisfy ourselves regarding the historical cost and depreciation of streets and street improvements. We recommend the City implement procedures to assist in documenting and tracking acquisition and depreciation of the City's infrastructure assets for those assets acquired before June 30, 2013.

Best Practices - No Significant Deficiencies

1. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (the Council). This can be accomplished by asking specifically designed questions to senior staff, by reviewing financial statements and projections and by comparing financial results to pre-established benchmarks. While the Council participates in the budget adoption process and receives staff prepared financial statements, these only partially fulfill the monitoring function.

We recommend that the Council articulate their monitoring practices and record in the minutes when those activities occur.

2. Fidelity Insurance Coverage

In reviewing fidelity (employee honesty) insurance coverage, we noticed that the City often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Council examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

3. 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. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Council continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

4. QuickBooks Accounting Software

QuickBooks accounting software is used. QuickBooks is not designed to segregate self-balancing funds and may allow users to delete transactions without any audit trail remaining. We recommend that the City evaluate the risk of using this program and consider purchasing an accounting software package specifically designed for governmental accounting.

5. Intellectual Property/Use of City Assets

In the documents provided to us, we saw no indication of a City policy regarding the use of City's assets for personal reasons or the ownership of intellectual property developed by staff either using City assets or during employment hours at the City. We recommend the creation of a City policy, if one is not already in place, to address the potential creation of patents, copyrights, and other claims on intellectual property using City assets or time, as well as use of City assets for personal reasons.

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



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