



City of **SHADY COVE**

small town, BIG ADVENTURES

Mayor

Lena Richardson

Councilors

Steve Mitchell

Kathy Nuckles

Jeffrey Vanier

Paige Winfrey

February 5, 2026

Oregon Secretary of State
Audits Division
255 Capitol St. NE, Suite #180
Salem, OR 97310

Plan of Action for City of Shady Cove, Oregon

Shady Cove City Council respectfully submits the following corrective action plan in response to deficiencies reported in our audit of fiscal year ended June 30, 2023. The audit was completed by the independent auditing firm KDP Certified Public Accountants, LLP and reported the deficiencies listed below. The plan of action was adopted by the members of the governing body at their meeting on February 5, 2026, as indicated by signatures below.

The deficiencies are listed below, including the adopted plan of action and timeframe of each.

1. Deficiency #1

a. Material Weakness - Improve Quality of Financial Reporting

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.

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b. Plan of Action

Since 2021, Shady Cove has experienced significant staff turnover and change in governance resulting in serious neglect of financial reporting and the yearly auditing process. The City's established affiliation with KDP Certified Public Accountants was severed and no audits were conducted for FY21 or FY22. In 2023, there was a complete change in the governing body and the prior years' disregard of financial reporting and the audit process was discovered. At that time, a change in management was initiated and Isler CPA firm in Eugene, OR, was hired to perform the delinquent audits. The change in management was completed in May 2024. The Isler audits of FY21 and FY22 were completed with disclaimers of opinion in April 2024 and February 2025, respectively. In April 2025, the City was able to again engage KDP Certified Public Accountants to perform the FY23 audit which was filed with the Oregon Secretary of State Audit Division on December 10, 2025. Shady Cove and KDP will continue working on the FY24 and FY25 audits which will be completed in early 2026.

The 2024 change in City management did not bring about the expected improvement in financial reporting and personnel qualifications, experience and knowledge. The City Council is currently in the process of management recruitment with a focus on financial reporting proficiency and a commitment to proper staff assessment and implementation of changes necessary to ensure that staff has the knowledge and experience necessary to implement internal controls and a financial reporting process consistent with U.S. GAAP accounting practices.

c. Timeframe for Implementation

Management recruitment is expected to be complete by March 31, 2026, with implementation of staff changes by June 30, 2026. External factors such as job market and availability of applicants with the necessary skillset could affect the timeline.

2. Deficiency #2

a. Material Weakness - Strengthen Controls over Bank Reconciliations

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 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.

b. Plan of Action

Aided by the auditing team, training in bank reconciliations took place in late 2025. Monthly reconciliations will continue each month and prior period reconciliations will be completed.

c. Timeframe for Implementation – January 2026

3. Deficiency #3

a. Material Weakness – Maintain a Schedule of Property Additions

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.

b. Plan of Action

Format for a property schedule along with data collection and retention will be established. Prior period property acquisition information will be accumulated and ongoing property information will be collected in the proper format and retained in a place and manner that allows for review and verification.

c. Timeline for Implementation

Schedule format will be established and data collection will begin in early 2026 with the expectation of a complete schedule and proper retention process in place by June 2026.

4. Deficiency # 4

a. Significant Deficiency – Improve Segregation of Accounting Duties

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.

b. Plan of Action

The City recognized the need to engage the professional services of a licensed CPA with governmental accounting experience and expertise to update policies and procedures along with methods of more timely and accurate financial reporting. This will require coordination with upcoming changes in management and staff for the process to be most effective.

c. Timeline of Implementation

This will be initiated in early 2026 along with recruitment and hiring of the City Administrator and other staff changes to follow. The completion goal is December 2026.

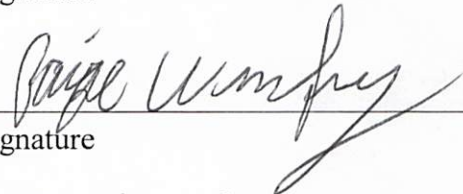
Steve Mitchell, Council President


Signature

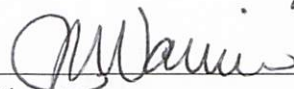
Kathy Nuckles, Councilor


Signature


Paige Winfrey, Councilor


Signature

Jeff Vanier, Councilor


Signature

Lena Richardson, Mayor


Signature 02/05/2026