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## COMMENTS AND DISCLOSURES OF INDEPENDENT AUDITOR REQUIRED BY STATE STATUE

Honorable Mayor and City Commission  
City of Florence, Oregon

We have audited the basic financial statements of the City of Florence, Oregon ("City") as of and for the year ended June 30, 2019, and have issued our report thereon dated September 29, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 to 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe the City of Florence, Oregon was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

1. Expenditures exceeded budgeted amounts as described in note II.B. to the financial statements.
2. Accounting records were not prepared timely and accurately.
3. Internal controls were limited due to a lack of segregation of duties.

**OAR 162-10-0230 Internal Control**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified a deficiency in internal control over financial reporting that we consider to be a material weaknesses, as described in the AU Section 325 written communication.

This report is intended for the information of the City Council and the Secretary of State Division of Audits of the State of Oregon. However, this report is a matter of public record and is not intended to be and should not be used by anyone other than these parties.

Isler CPA

By:



Paul R Nielson, CPA, a member of the firm

Eugene, Oregon

September 29, 2020



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Commission  
City of Florence

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Florence as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Florence's basic financial statements, and have issued our report thereon dated September 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Florence's internal control over financial reporting (internal control) to determine the 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 City of Florence's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Florence's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. During our audit we did identify a deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2019-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Florence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Isler CPA

A handwritten signature in black ink that reads "Paul R. Nielson". The signature is written in a cursive style with a prominent flourish at the end of the name.

By: Paul Nielson, CPA, a member of the firm  
Eugene, Oregon  
September 29, 2020



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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and City Commission  
City of Florence

### Report on Compliance for Each Major Federal Program

We have audited the compliance of City of Florence with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Florence's major federal programs for the year ended June 30, 2019. The City of Florence's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Florence's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Florence's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Florence's compliance.

### Opinion on Each Major Federal Program

In our opinion, City of Florence, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## Report on Internal Control Over Compliance

Management of City of Florence, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Florence's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Florence's internal control over compliance. A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Isler CPA



By: Paul Nielson, CPA, a member of the firm  
Eugene, Oregon  
September 29, 2020

CITY OF FLORENCE  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) that are not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 516(a) of the Uniform Guidance?	Yes

Identification of Major Federal Award Programs:

Name of Federal Program or Cluster	CFDA Number
Airport Improvement Program	20.106
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

CITY OF FLORENCE  
Schedule of Findings and Questioned Costs, continued  
Year Ended June 30, 2019

Section I – Financial Statement Findings

Finding 2019-001

Criteria: Internal controls over financial reporting should include a process for ensuring that the financial records can be closed in a timely manner.

Condition: The City was unable to prepare the original information needed to support the financial statements in a timely manner.

Cause: Review of audit documentation resulted in both changes to the original documentation and the preparation of journal entries to correct the trial balance. The trial balance originally provided to the auditor required 36 journal entries.

Effect: Lack of proper documentation or a correct recording of transactions at year end could result in a material misstatement that is not detected and corrected in a timely manner.

Response

The staff on the June 30, 2019 audit was new (less than six months). Prior staff that had control over the GL had made accounting decisions that weren't conveyed to the new staff. Many of the 36 journal entries that were done were to reverse what had been done by the prior Finance Director and it is expected that there will always be corrections to the trial balance as the auditors complete their work.

Every attempt was made to have all information to the auditors in a timely manner, however when questions are posed on December 26<sup>th</sup> and later, it makes it difficult on staff to respond in time for a December 31 report. Staff received ten emails from the auditors after the visit in October, two of which were in December (4<sup>th</sup> and 26<sup>th</sup>). The average response time for these questions was ten days. Staff received another seven emails from the period of January 2020 to April 2020.

I was not informed of any lack of documenting journal entries and have been working with staff on this since my joining the team in March of 2019. I feel that this finding is unfair in that Isler appeared to not start working on the report until December and has had multiple deadlines for its completion not met. Several requests for ETA's have gone unanswered.

Section II – Federal Award Findings and Questioned Costs

None

Section III – Summary Schedule of Prior Audit Findings

None



CITY OF FLORENCE  
Schedule of Expenditures of Federal Awards  
For the Year Ended  
June 30, 2019

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Expenditures
<b>U.S. Department of Interior</b>		
<i>Passed through State of Oregon Parks and Recreation Department</i>		
Outdoor Recreation, Acquisition, Development and Planning	15.916	\$ <u>22,275</u>
<b>U.S. Department of Justice</b>		
<i>Passed through Oregon Department of Justice</i>		
Bulletproof Vest Partnership Program	16.607	3,099
Public Safety Partnership & Community Policing Grants	16.710	<u>26,210</u>
Total U.S. Department of Justice		<u>29,309</u>
<b>U.S. Department of Transportation</b>		
Airport Improvement Program	20.106	795,714
<i>Passed through Oregon Department of Transportation</i>		
Highway Planning and Construction	20.205	<u>1,900,395</u>
Total Highway Planning and Construction Cluster		1,900,395
<i>Passed through Oregon Association of Chiefs of Police</i>		
State and Community Highway Safety	20.600	<u>4,642</u>
Total U.S. Department of Transportation		<u>2,700,751</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 2,752,335</u></u>

Notes to Schedule of Expenditures of Federal Awards

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Florence under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operation of the City of Florence, it is not intended to and does not present the financial position, changes in financial position, or cash flow for the City of Florence.

**2. Summary of Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles. Expenditures reported on this schedule are recognized following the cost principles in Title 2 US Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, where certain types of expenditures are not allowable or are limited as to reimbursement. There where no grant funds pass-through to other entities.

The City of Florence has not elected to use the 10% *de minimis* cost rate.