

**CITY OF NEWPORT
RESOLUTION NO. 3945**

**A RESOLUTION ADOPTING A CORRECTIVE PLAN OF ACTION FOR FINDINGS
RELATED TO THE 2020/2021 FISCAL YEAR AUDIT**

WHEREAS, the City of Newport's, 2020/2021 Fiscal Year (FY) audit is complete and the Annual Comprehensive Financial Report (ACFR) has been issued and approved by the Audit Committee and the City Council.

WHEREAS, the City of Newport's 2020/2021 FY audit contained two findings reported in the Single Audit Report and the two reportable conditions in the ACFR, one, the City had five programs where actual reportable costs exceeded the Council Budgeted Appropriations, these are considered deficiencies and a corrective action plan is necessary to be filed with the Oregon Secretary of State and the Federal (Audit) Clearinghouse, and two, deficit budgetary basis fund balances and these too are filed with the Secretary of State.

WHEREAS, upon receipt of an audit report under ORS 297.465(2), the governing body of a municipal corporation shall determine the measures it considers necessary to address any deficiencies disclosed in the report. The governing body shall adopt a plan of action to address the deficiencies. The plan must include the estimated period of time necessary to complete the planned actions. This resolution must be filed within 30 days after filing an audit report with the Secretary of State under ORS 297.465.

THE CITY OF NEWPORT RESOLVES AS FOLLOWS:

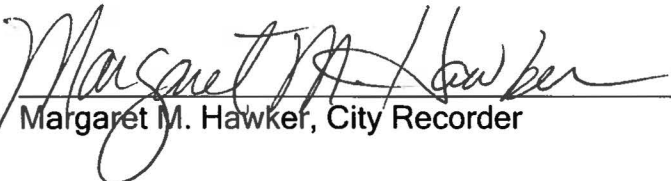
1. The City Council adopts the Corrective Action Plan for the audit findings for the Annual Comprehensive Financial Report for the Year Ended June 30, 2021 marked Attachment A.
2. This resolution will become effective immediately upon passage.

Adopted by the Newport City Council on March 7, 2022.

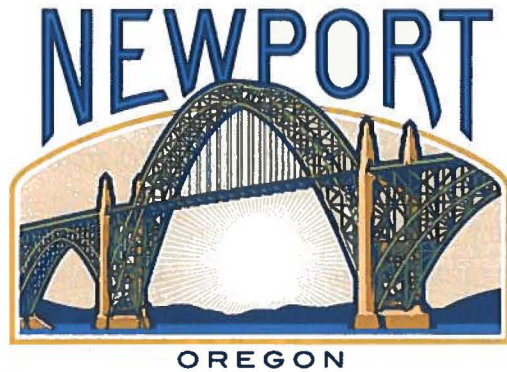


Cynthia Jacobi, Council President

Attest:



Margaret M. Hawker, City Recorder



CITY OF NEWPORT – FINANCE
169 SW COAST HIGHWAY
NEWPORT, OR 97365

February 11, 2022

Background Information:

The Auditor has issued the 2020/2021 Annual Comprehensive Finance Report. As part of the financials but separately file, the Single Audit report is complete but still in the draft stage waiting for the Corrective Action Plan. As part of both reports the auditor has issued two findings, one for the Financial Statements and one in the Federal Awards in the Single Audit Report and five over-expended appropriations and one deficit fund balance in the annual financial report. City staff has prepared and attached the Corrective Action Plan to address these two reports, and they are presented for your review.

General Finding for Financial Statements (2021-001):

Finding: This pertained the schedules for the long-term debt, PERS, and fiduciary funds which were the documentation for the financial statements. Data entry errors caused financial records to be inaccurate. The city has a lack of oversight and controls over year-end supporting documentation. Oversight and controls help prevent or detect and correct misstatements in a timely manner. Adjustments were required to correct the accounting records and financial reporting. A lack of controls can result in errors not being caught in a timely manner. The lack of oversight and controls over financial processes results in a significant deficiency.

Personnel to Effect Change: Finance Director and Assistant Finance Director

City Response and Corrective Action Plan: Please note, this type of finding is the first for the city. Also note, the city does NOT have "lack of oversight and controls over year-end supporting documentation," the errors found were in a perfect world, normal! In this case, normally, the city prepares the financials including the GASB 34 conversion which encompasses this finding. However, the financial statements were prepared with the aid of the audit firm, Merina, as city staff is not able to participate as much as needed. And, because of this, it takes a fair amount of collaboration and great communication between the two in order to check numbers. In this instance, the city was NOT notified of any errors until AFTER the statements were prepared. We understand the errors, but we were never given an opportunity to work through the errors, simple as they were. Therefore, the city will spend more time reviewing our draft documents and making sure that they meet the standard required.

Anticipated Completion Date(s): June 30, 2022

General Finding for Federal Program 20.106 Airport Improvement Program (2021-002):

Finding: Amounts reported on the original Schedule of Expenditures of Federal Awards (SEFA) were not adequately supported and listed under the wrong grant number which has different applicable compliance requirements. Poor communication between departments resulted in the incorrect grant number being reported on the SEFA. Additionally, lack of sufficient review of the supporting documentation caused the error to not be caught in a timely manner. Corrections were required to revise the amounts reported on the SEFA. A lack of controls can result in errors not being caught in a timely manner. Improper identification of grants can result in the city not performing the proper compliance requirements applicable for the grant agreement and its related expenditures. Failure to adequately support the amounts reported on the SEFA could result in sanctions and/or withdrawal of grant funding from the awarding agency.

Personnel to Effect Change: Finance Director and Capital Projects & Grant Accountant

City Response and Corrective Action Plan: We understand this issue, there was a communication disconnect between Finance and the Airport Director. The monies for the AIP 27 project was available in September 2020 but they were accounted for in AIP 25 that fiscal year. The City Finance staff found out about this in early July 2021, which was too late to complete a supplemental budget to separate the project. This also messed up the initial SEFA. Going forward, Finance will monitor the communications between the Airport and the contracted FAA manager more closely.

Anticipated Completion Date(s): June 30, 2022

Budgets Legally Required to be in Compliance with Budgeted Appropriations:

Finding: The budgets with expenditures in excess of appropriations were:

<u>Fund/Category</u>	<u>Appropriation</u>	<u>Actual</u>	<u>Variance</u>
Parks & Recreation-Administration	\$ 190,497	\$ 194,676	\$ (4,179)
Street Fund-Storm Drain	0	17,910	(17,910)
Governmental Debt Service Fund	88,135	88,785	(650)
Water Fund-Water Plant	1,574,381	1,629,150	(54,769)
City Facility-Parks Facilities & Grounds	431,916	443,311	(11,395)

Within the Parks & Recreation Fund – Administration exceeded budgets due to an accrual from 2021/2022 fiscal year for an Integrated Resource Management invoice.

The Street Fund – Storm Drain is over budget due to a misclassification within the budgets and financial statements.

The Governmental Debt Service Fund exceeded budgets due to increased loan fees and additional interest payment for the Airport Fuel Farm loan.

The Water fund – Water Plant exceeded budget due to purchase of additional Chemicals at the end of the fiscal year plus Wages & Salaries.

Within the City Facility – Park Facilities & Grounds program was over budget for a total of \$11,395; it appears that the Cleaning expenses were over budget due to accrual of Associated Cleaners from the 2021/2022 fiscal year.

Deficit budgetary basis fund balances:

The Governmental G.O. Debt Service Fund incurred a deficit balance of (\$3,518). This was caused by receiving less property taxes than anticipated. Finance has corrected this deficit in the current budget.

Personnel to Effect Change: Finance Director and Assistant Finance Director

City Response and Corrective Action Plan: Finance strives to stay on top of the budgets and sometimes the budgets at year-end are off due to unknown costs associated with the programs. For the current year, we are already working with departments to get ahead of any overages so any changes are caught in time for the supplemental budgets of the 2021/2022 Fiscal Year.

Anticipated Completion Date(s): Have already been corrected.

