



## **AGENDA & Notice of Joint Meeting of the Urban Renewal Agency Meeting, City Council and the Audit Committee**

The City Council of the City of Newport will hold a Joint meeting of the Urban Renewal Agency, City Council and Audit Committee on Monday, March 17, 2014, at 5:30 P.M. The Joint meeting will be held in City Council Chamber at City Hall, located at 169 S.W. Coast Highway, Newport, Oregon 97365. A copy of the agenda follows.

The meeting location is accessible to persons with disabilities. A request for an interpreter for the hearing impaired, or for other accommodations for persons with disabilities, should be made at least 48 hours in advance of the meeting to Peggy Hawker, City Recorder at 541.574.0613.

The City Council reserves the right to add or delete items as needed, change the order of the agenda, and discuss any other business deemed necessary at the time of the meeting.

### **JOINT MEETING OF THE URBAN RENEWAL AGENCY, CITY COUNCIL AND AUDIT COMMITTEE AGENDA Monday, March 17, 2014 5:30 P.M.**

#### **I. Call to Order and Roll Call**

- A. City Council
- B. Urban Renewal Agency
- C. Audit Committee

#### **II. Public Comment**

*This is an opportunity for members of the audience to bring to the Council's attention any item not listed on the Agenda. Comments will be limited to three (3) minutes per person with a maximum of 15 minutes for all items. Speakers may not yield their time to others.*

#### **III. Communication**

*Any agenda items requested by the Mayor, city Council members, city attorney, or any presentations by boards or commissions, other governmental agencies, and general public will be placed on this part of the agenda.*

- A. Audit Committee-Report and Acceptance of the Independent Auditors' Report of the Financial Statements for the Fiscal Year Ending June 30, 2013 for the Newport Urban Renewal Agency.

B. Audit Committee-Report and Acceptance of the Independent Auditors' Report of the Financial Statements for the Fiscal Year Ending June 30, 2013 for City of Newport.

IV. Adjournment.



Spencer Nebel  
City Manager  
CITY OF NEWPORT  
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Newport, OR 97365  
[s.nebel@newportoregon.gov](mailto:s.nebel@newportoregon.gov)

## MEMO

DATE: March 13, 2014

TO: Mayor and City Council

FROM: Spencer Nebel, City Manager

SUBJECT: Annual Audit for the City Of Newport and the Urban Renewal Agency

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### Background:

The Audit Committee will be presenting the audited financial reports for the City of Newport and the Newport Urban Renewal Agency at a joint meeting that will be held at 5:30 PM on Monday, March 17, 2014. The City Council and the Urban Renewal agency have received the audit for the fiscal year ending June 30, 2013. The Audit Committee has reviewed the annual audit and will be presenting the audit to the City Council and the Urban Renewal Agency at this joint meeting. I am enclosing a copy of Resolution No. 3538 which created the Audit Committee, as well as information discussing the role of the elected official in reviewing an audit, and securing a quality audit through an RFP for your information. In addition, the actual audits were distributed by the Interim Finance Director, Bob Gazewood at the Preliminary Budget Committee meeting on Wednesday night for City Council members. Please bring your copy of the audit to the joint City Council, Urban Renewal Agency and Audit Committee meeting for this review. A copy of the 2012-2013 Exit Conference is provided for your review. Please note that Councilor Allen has provided definitions of "Significant Deficiencies" and "Material Weaknesses" for your review.

### Recommendation:

Upon completion of the review of the audits, I would recommend that the following motions be made:

#### Urban Renewal Agency

I move that the audited financial report from Pauly, Rogers and Co., P.C. for the Newport Urban Renewal Agency be accepted for the fiscal year ending June 30, 2013.

City of Newport

I move that the audited financial report from Pauly, Rogers and Co., P.C for the City of Newport be accepted for the fiscal year ending June 30, 2013.

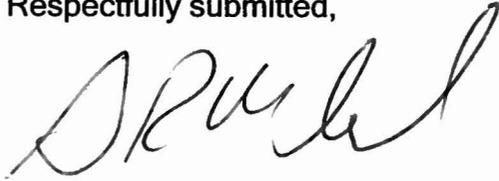
Fiscal Effect:

None by accepting the audit reports.

Alternatives:

None recommended

Respectfully submitted,

A handwritten signature in black ink, appearing to read "SR Nebel", written in a cursive style.

Spencer R. Nebel  
City Manager

## Spencer Nebel

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**From:** David Allen  
**Sent:** Thursday, March 13, 2014 4:22 PM  
**To:** Spencer Nebel; Bob Gazewood  
**Cc:** Laura Swanson; Fred Springsteen; Mark Saelens; Peggy Hawker  
**Subject:** Audit Committee presentation

Spencer - the following definitions can be found in the auditor's Management Letter (SAS 115 Letter), which was distributed at the April 18, 2013 Audit Committee meeting:

- 1) "Material weakness" means "a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis."
- 2) "Significant deficiency" means "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."

The above definitions would pertain to the auditor's Exit Conference document that will be discussed at Monday's council/URA joint meeting with the Audit Committee starting at 5:30 p.m. Thanks. --David

CITY OF NEWPORT  
Resolution No. 3538

A Resolution Creating an Audit Committee

Findings:

The City is strengthening its oversight of financial activities, including those involving its auditing efforts.

Based on these Findings, THE CITY OF NEWPORT RESOLVES AS FOLLOWS:

**Section 1.** An Audit Committee is hereby established by the City Council. The Audit Committee shall consist of a total of three (3) members. Two (2) members shall be members of the City Council; and one (1) member shall be either a registered voter residing within the city limits, or an owner of property within the city limits. All Audit Committee members shall be selected at a public meeting of the City Council by a majority vote of the Council. The City's Finance Director and his/her designee shall be the staff to the Audit Committee and shall assist the Audit Committee as requested. Committee rules are as follows:

- A. **Quorum:** Two members of the committee shall constitute a quorum. A majority of the quorum is required to act on any matter before the committee.
- B. **Term:** Subject to the terms and conditions of this resolution, each committee member is appointed for a two-year term. Committee members seated during 2011 will serve until December 31, 2013. Members of the committee may be reappointed without any limits on the total number of terms they have served.
- C. **Vacancies:** Committee vacancies shall be filled by a majority vote of the City Council, subject to the terms and conditions of this resolution. The term of any person appointed to the committee to fill a vacancy left by a vacating committee member shall expire on the expiration date of the vacating committee member.
- D. **Removal:** A committee member may be removed from the committee for any reason upon a majority vote of the City Council.
- E. **Meetings:** Meetings of the committee are subject to Oregon's Public Meetings Law. Staff to the committee will keep an accurate record of committee meetings, which shall be subject to Oregon's Public Records Law and shall be provided to the City Recorder.

**Section 2.** The Audit Committee will meet at least twice a year, at its discretion. It is tasked with the following:

- a) Meet with the Auditor at the conclusion of the audit firm's field audit in the spring.

# Your City's AUDIT

## The Role of the Elected Official

By Brad Nanke & Deborah Bond, CPA

### COUNCIL'S ROLE

**E**lected officials have a duty to the public to ensure that their government's resources are properly managed. Reliable financial reporting, produced in a timely manner, is an essential communication tool for officials to retain the trust of their constituents. By adopting and enforcing sound management and financial policies, elected officials establish the guidance for the best practices and procedures used by senior management in daily operations that support responsible stewardship of public funds.

An audit committee, composed of elected officials, is a practical tool for ensuring that the governing body periodically considers the internal control environment and quality of the financial reporting. The committee further serves as the direct contact with the auditor for communications during the audit process. In its recommended practices, the Government Finance Officers Association states that every governing body, no matter the size, should formally establish an audit committee of its members.

The auditor may encounter deficiencies during the course of their testing of controls. Deficiencies are categorized by the degree that they could cause a misstatement in the financial statements. For significant deficiencies or material weaknesses, the auditor has a professional responsibility to inform senior management and the governing body. While these audit findings are included as part of the auditor's reports provided at the conclusion of the audit, it is important that communication with the governing body in this regard occur prior to the final report being issued. A governing body should not be surprised with a finding when reviewing the audit report for the first time.

Management has a duty to investigate and resolve deficiencies or weaknesses but ultimately, it is the governing body's responsibility to ensure that any problems disclosed by the auditor are satisfactorily resolved in a timely manner. The governing body or the audit committee should have formal review procedures, timelines for resolving an audit issue and reporting requirements for documenting corrective actions taken by management. They should also follow up on corrective actions not yet taken.

At the conclusion of the audit, the financial statements prepared by management will be issued together with the Independent Auditor's Report. When reviewing the financial reports several items should be considered. The Independent Auditor's Report will identify whether the audit is unqualified (clean), if there are suggestions for improvement, or if deficiencies have been identified. The auditor's report on their tests of internal control over financial reporting describes the results of their testing and should be considered in assessing the results of the audit.

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The Management's Discussion and Analysis (MD&A) contains the overview of the financial activities of the government entity and an analysis of operating results for the year. It is most critical that a governing body understand the budgetary statements and remembers that capital assets don't play a big factor in financial health. What matters most is that the debt capacity can be addressed by the revenue generation capacity.

While an audit represents that financial statements are materially accurate and are performed to comply with state law, it is important to remember that there are limitations to the audit. The audit purpose is not to expose fraud. Some auditors will identify fraud, while others may miss it. An audit also tells you the financial situation for an identified period of time. An audit does not necessarily identify the financial

future even a few years down the road. There are budgetary items that are difficult to predict that can affect future performance; PERS is one such example of an item that can have a significant impact.

Fiscal oversight of city resources is one of the many important roles assumed by elected officials. The auditors and city management can serve to support the governing body in fulfilling this role to meet the expectations of their constituents. To the right are some helpful questions that elected officials can use to begin to engage in a conversation with staff and the auditors about the annual financial audit.

*Editor's Note: Mr. Nanke is a Salem city councilor and a member of the LOC Board of Directors. Ms. Bond is the administrative services director for the city of Salem. ■*

### Questions for the auditor:

- Did the auditor issue an unqualified ("clean") opinion? If not, why?
- Did management fully cooperate with the auditor during the audit?
- What programs, services or accounts did you focus your testing on this year?
- Were there any issues that came to the auditor's attention during the audit that did not rise to a deficiency or weakness that was reportable but that we should be made aware of?
- Does the auditor have any observations or recommendations for improving operational efficiencies?

### Questions for the staff:

- Who are our auditors and when are we scheduled to meet with them?
- What are the auditors' qualifications for performing a municipal audit of our size?
- When will the audit and financial statements be completed?
- When will the auditors issue their report?
- Were the financial statements and auditor's report filed timely with the state and other agencies?
- When was the last time a Request for Proposals was issued for audit services?
- How many years has the auditor been performing our audit?

# THE CITY COUNCIL'S FIDUCIARY DUTY

By Josh Kam

The term "fiduciary" originates from Latin long ago meaning "holding in trust." A fiduciary holds the duty of actively safeguarding another's interest—considered the highest standard of care at either equity or law.

Members of a city council are elected, and therefore inherit a fiduciary duty to actively safeguard the interest of those they serve.

When performing a fiduciary duty, council members must be aware of the following key items:

- Duty of loyalty and care
- Conflicts of duty and interest
- The No-Profit Rule
- Acting in good faith

There are two branches of fiduciary duty—the duties of loyalty and care. The duty of loyalty is a negative one—it requires an individual to not perform any action that may harm the principal. The duty of care requires an individual to promote the ends of the principal. Council members must be aware of both duties and must act to fulfill each. Issues arise where individuals or organizations hold multiple interests, where one interest could potentially affect the motivation for another. Such circumstances may lead to two types of conflicts—conflicts of duty and of interest.

A conflict of duty arises when an individual has a conflict between two parties. For example a lawyer could not represent both the defendant and the plaintiff in a case as the duties to each client are in opposition to each other. To apply this to elected city officials, council members must ensure that they do not have conflicts of duty between competing parties, such as the government they serve, and a third party in a transaction.

A conflict of interest arises when an individual takes advantage of a gain at the expense of the organization they serve. A conflict of interest arises when a council member puts personal interests ahead of the city's interests or utilizes the their position for personal gain. Council members should also be aware of the No-Profit rule. The No-Profit rule states that a fiduciary may not profit from a transaction entered into on behalf of the organization, unless all material facts are disclosed to the constituents served, and are approved by and through the resolution process.

Although the city council members' responsibilities and tasks may vary depending on a variety of factors, the key items mentioned above apply in most situations. Council members must demonstrate the duties of loyalty and care in their roles, and must ensure that there are no conflicts of interest that would compromise their ability to perform their given tasks.

*Editor's Note: Mr. Kam is an assurance senior with the firm of Talbot, Korvola & Warwick, LLP in Lake Oswego.*

# Securing a Quality Audit Through an RFP

For cities, the reward for taking the time to choose a quality auditor should be a smooth, timely and comprehensive audit. In addition, a city can avoid wasting the taxpayers' money on a substandard audit. As stated in *An Elected Official's Guide to Auditing*, a publication of the Government Finance Officers Association (GFOA), "a poor quality audit is no bargain, at any price." While the selection of an auditor is a subjective process, price alone should not be the sole determining factor.

## The RFP Process

When creating a request for proposal, or RFP, for auditing services, it is essential to communicate the audit requirements and solicit proposals from as many qualified audit firms as possible. The prime consideration in preparing an RFP is to make sure it contains enough information to provide proposers with a common basis by which to prepare proposals that address a city's audit needs. In Oregon, essential elements of an RFP include:

- Introductory information about the RFP and how it should be submitted;
- A description of the government, the records to be audited and the nature of services provided; and
- Questions for perspective auditors that will help a city make its selection, such as:
  - o How would they conduct the audit?
  - o What are their qualifications and the qualifications of those who will work on your audit?
  - o Do they have a list of references?
  - o Are they licensed or on the list of approved auditors?
  - o Does their staff receive continuing education?
  - o What are their fees?

## Online Resources for Cities

To assist cities in the selection of a quality auditor, there are multiple resources available from GFOA. A model audit RFP and a best practices report on procuring audit services can be found online at: [www.gfoa.org/downloads/caafr-audit-procurement.pdf](http://www.gfoa.org/downloads/caafr-audit-procurement.pdf).

In addition, the Oregon Secretary of State Audits Division prepares and maintains a roster of accountants authorized to conduct municipal audits in Oregon. The 2012 list of approved auditors can be found at: [www.oregon.gov/BOA/docs/muniroster-march2012.pdf](http://www.oregon.gov/BOA/docs/muniroster-march2012.pdf).

Because each city varies with regard to management structure, management information systems and internal controls, it is

important that an independent auditor be familiar with the legal provisions applicable to a municipal corporation and the accounting principles recommended by Government Accounting Standards Board (GASB) and other accounting principles considered to be generally acceptable for governmental organizations.

According to the Oregon Administrative Rules (162-010-0030), once proposals have been received and a city is ready to make its selection, audits are to be undertaken in accordance with a contract executed by the independent auditor and the municipal corporation. The contract clearly sets forth the scope of work to be conducted by the auditor, and must include provisions for an expression of opinion on the financial statements of the municipal corporation and for a determination of compliance with finance related legal provisions. A standard contract, including all required language, is available on the secretary of state's website at: [http://arcweb.sos.state.or.us/pages/rules/oars\\_100/oar\\_162/162\\_010.html](http://arcweb.sos.state.or.us/pages/rules/oars_100/oar_162/162_010.html). ■

## GIVE ENERGY EFFICIENCY THE GREEN LIGHT

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