



CITY OF NEWBURYPORT  
FINANCE DEPARTMENT

60 PLEASANT STREET  
NEWBURYPORT, MA 01950  
PHONE: 978-465-4404

WWW.CITYOFNEWBURYPORT.COM/FINANCE

SEAN R. REARDON  
MAYOR

ETHAN R. MANNING  
FINANCE DIRECTOR/CITY AUDITOR

To: President and Members of the Newburyport City Council

From: Ethan R. Manning, Finance Director/City Auditor

Date: April 5, 2022

Subject: Annual Audit of the City's FY2021 Financial Statements

---

The certified public accounting firm, Melanson, has completed the annual audit of the City's FY2021 financial statements. This audit must be performed by an independent CPA firm and is required by bond rating agencies, financial institutions, local charter and various state and federal agencies. The City's financial statements, as well as, the Popular Annual Financial Report (PAFR) can be located electronically in the "Financial Reports Center" section of the Finance Department website at: <https://www.cityofnewburyport.com/financials>.

The FY2021 audit was conducted in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that the audit is planned and performed in order to obtain a reasonable assurance that the City's financial statements are free of material misstatements. In addition, the audit assesses the accounting principles used and significant estimates made by City management.

The scope of the audit is discussed in the independent auditor's report, which prefaces the financial statements. With respect to the FY2021 financial statements, it is the opinion of the independent auditor that they "present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of June 30, 2021."

The audit also includes a management report that contains recommendations for strengthening internal controls and operating efficiency. Significant progress has been made by the City in implementing the recommendations of the independent auditors. For FY2021, one prior year

recommendation was resolved and one new recommendation was added. Below is a summary of the recommendations that appear in the FY2021 management letter:

1) Improve Compensated Absences Accounting (Prior Year)

The auditors recommend that the City centralize and automate the accounting for employee compensated absences (i.e. vacation, sick time), which will increase the accuracy, efficiency, and controls over the payment of compensated absences.

The City continues to review time and attendance platforms that would automate the approval and tracking of employee compensated absences. Such platforms have been rolled out departmentally, however the City is working to streamline into one platform that could be used City-wide (with the exception of the schools).

Human Resources and Finance are currently working on testing a platform called “EasyWorkforce” that has been used by DPS for tracking employees’ time and can integrate with the City’s payroll system.

2) Improve Bank Account Reconciliations (Prior Year)

The auditors recommend that the City continue to address some lingering prior year reconciling items despite the overall number of items and the time outstanding decreasing over the past several years.

The Treasurer’s and Auditor’s offices have made strides in the current fiscal year to identify and remove prior year adjustments from bank reconciliations and continue to meet regularly to address issues. We are mindful of the need to simplify the process and have streamlined bank accounts to scale down the lengthy process of reconciling accounts. We have since implemented tailings processes and reconciling procedures into the City’s Financial Policies.

3) Consider Improving Segregation of Human Resources and Payroll Duties (Prior Year)

In the prior year, the auditors recommended the City review control activities and related monitoring activities to ensure that fundamental controls are implemented over payroll processing.

Changes to departmental processes and reporting structure were made based on this recommendation and the auditors consider this matter to be sufficiently resolved.

4) Reconcile and Maintain Investment Accounts at Fair Value (New)

With respect to the City’s trust funds, the auditors recommend that all investment accounts are reported at fair value on both the accounting records (general ledger) and treasury

records (bank accounts). Currently, adjustments are required to reflect the fair value of investments at year-end.

This recommendation is based on Governmental Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurement and Application*. The City Treasurer is working with the auditors and investment advisors to recognize, implement and monitor the investment portfolio at fair value. Accounting and treasury will continue to coordinate on the regular reconciliation of trust funds to avoid having to make adjustments at year-end to reflect any differences.

5) Prepare for Implementation of GASB Statement No. 87 (Informational)

GASB has issued Statement No. 87, *Leases*, that will apply to the City's FY2022 financial statements; a change to the way certain leases are to be accounted for. The auditors recommend that the City prepare to implement this new statement. The Finance Department is aware of this statement and is working to ensure compliance with the new guidance.

As always, please do not hesitate to contact me with any questions.