

Municipal Audits Proposed Changes

Prepared by:

Amy John and Dacia Smith (Municipal Audit Program, Secretary of State’s Office)

Kathy Wai (Legislative Analyst, Secretary of State’s Office)

- **HB 2103**- Technical Changes, general clean up.
- **HB 2110**- Elimination of withholding provisions; increase in expenditure threshold, replace review reports with AUP.

HB 2103: Technical Changes

Rationale for change	Changes that are in the updated Bill Draft will be in bold
<p>Section 1 AIJ – Adding a definition in rule will provide clarification and consistency.</p>	<p>The Secretary of State shall, by rule, specify categories and types of spending that constitute expenditures for purposes of ORS 297.435 and 297.485.</p>
<p>Section 2 Removing unnecessary language, referring industry standards in Statute rather than dictate specific procedures. Standard audit procedures are promulgated by the American Institute of Certified Public Accountants (AICPA) and require the same work, making Statute redundant and unnecessary.</p>	<p>297.425. (1) Except as provided in ORS 297.435, the accounts and fiscal affairs of every municipal corporation shall be audited and reviewed at least once each [<i>calendar or</i>] fiscal year[, <i>and more often if considered advisable by the governing body or managing executive officer of the municipal corporation</i>]. The audits and reviews shall be made by accountants pursuant to contracts entered into by the governing body, or managing or executive officer, and accountants, or by the Secretary of State pursuant to the duly adopted ordinance or resolution. Upon request of the secretary, the governing body, or managing or executive officer, shall provide the secretary with a copy of the contract entered into or an ordinance or resolution adopted under this section. (4) Audits and reviews required by this section shall [<i>inquire into:</i>]</p>

	<p>[(a) <i>The principles of accounting and methods followed by the municipal corporation in recording, summarizing and reporting its financial transactions and financial condition;</i>] [(b) <i>The accuracy and legality of the transactions, accounts, records, files and financial reports of the officers and employees of the municipal corporation as the relate to its fiscal affairs; and</i>]</p> <p>[(c) <i>Compliance with requirements, orders and regulations of other public officials which pertain to the financial condition or financial operations of the municipal corporation.</i>] be performed in accordance with standards promulgated by the American Institute of Certified Public Accountants and shall inquire into principles of accounting, methods of operations and compliance with regulations as identified by rule of the Secretary of State.</p>
<p>Section 3 Remove unnecessary (and unutilized) provisions</p>	<p>ORS 297.455 and 297.459 are repealed.</p> <p><i>297.455 [If the accounts and fiscal affairs of a municipal corporation are audited and reviewed for a calendar or fiscal year, in accordance with the requirements of ORS 297.465, by auditors provided by the federal government, the Secretary of State may accept for review and filing the audit reports of such federal auditors if the reports also comply with the requirements set forth in ORS 297.465. Any such audit reports filed with the Secretary of State shall be subject to the filing fee required by ORS 297.485. If the audits and reviews and resulting audit reports are found by the Secretary of State to comply with ORS 297.465, the municipal corporation will be considered in compliance with ORS 297.425.]</i></p> <p><i>297.459 [An accountant who furnishes an audit report to a county pursuant to ORS 297.465 shall, at the same time, furnish a copy of the audit report to the Department of Revenue.]</i></p>
<p>Section 4 Remove unnecessary language and clarifying program’s option to communicate with the</p>	<p>ORS 297.465 (2) The municipal corporation shall be furnished with a written audit report, containing a signed expression of opinion, in the form prescribed by the Secretary of State. A copy of the audit report shall be furnished to each person who was a member of the governing body at the end of the [calendar or] fiscal year and to each member of the</p>

<p>Oregon Board of Accountancy when determined necessary. Allowing use of email enhances safety of elected officials and increases efficiency of communication.</p>	<p>current governing body. <i>[Other copies shall be furnished the municipal corporation as are requested by the chairperson of the governing body or the managing or executive officer.]</i> The accountant shall furnish the audit report to the municipal corporation within six months after the close of the <i>[calendar or]</i> fiscal year under audit, unless the secretary has granted the municipal corporation an extension under the subsection (3) of this section.</p> <p>(3)(a) The municipal corporation shall file one copy of its audit report with the Secretary of State within six months after the close of the <i>[calendar or]</i> fiscal year under audit, unless the secretary, for good cause shown, grants to the municipal corporation a reasonable extension or time. The extension may not exceed one year after the close of the <i>[calendar or]</i> fiscal year under audit unless the secretary finds that extraordinary circumstances justify a longer extension. A municipal corporation is delinquent for purposes of the filing requirement under this subsection of the municipal corporation does not file the audit report by the deadline or any extended deadline described in this subsection.</p> <p>(b) The report is subject to review by the secretary, who may also require submission of the supporting documentation and audit programs of the accountant.</p> <p>(c) If an audit, audit report or expression of opinion is found by the secretary not to be in accordance with the prescribed standards, the secretary shall request compliance. <i>[If the accountant fails to comply with the request,]</i> The secretary <i>[shall]</i> may report the <i>[failure]</i> request to comply to the Oregon Board of Accountancy, which may investigate the accountant's work or remove or suspend the name of the accountant from the roster required by ORS 297.670.</p> <p>(4) Audit reports or financial statements filed with the Secretary of State as required by ORS 297.405 to 297.555 shall include the names, physical or electronic mailing addresses and titles of the officers and members of the governing board of the municipal corporation. The report or statement of a special district shall include the name of its registered agent and the address of its registered office as provided by ORS 198.335 to 198.365.</p>
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<p>Section 5 Remove unnecessary verbiage; removing specific and outdated definition of expenditures to clarify and redefine in rule using current terminology and reporting criteria.</p>	<p>(1) At the time an audit report, prepared by an accountant, is filed with the Secretary of State, as required by ORS 297.465, the municipal corporation shall pay to the Secretary of State a filing fee. The filing fee shall be determined by the total expenditures made by the municipal corporation [<i>for any and all purposes</i>] during the [<i>calendar or</i>] fiscal year audited[, <i>except that expenditures for principal of bonded debt, principal of short-term loans, principal of warrants redeemed which were issued during prior audit periods, transfers or loans between funds and turnovers of taxes or other trust moneys to other municipal corporations shall not be included in the total expenditures upon which the amount of the fee is based.</i>]</p>
<p>Section 6 Creates ability for Secretary of State to define “cost audit”, providing requested clarification to auditors for what meets this requirement.</p>	<p>ORS 297.525 The annual audit required to be made of the accounts and fiscal affairs of a county shall include a cost audit, in accordance with rules of the Secretary of State, of the cost account for county road work.</p>
<p>Section 7 Repeal as no longer applicable due to date.</p>	<p>297.701 [<i>Persons on roster on August 5, 1959; removal. Notwithstanding the repeal of ORS 297.700, any person who is on the roster referred to in ORS 297.670 on August 5, 1959, shall remain thereon subject only to removal under ORS 297.710.</i>]</p>
<p>Section 8 *We propose an amendment to leave this section of statute untouched except for the amount of the municipal license.</p>	<p>ORS 297.670 to 297.740 are added to and made a part of ORS 673.010 to 673.465. This section would remove the portions of statute applicable to the Oregon Board of Accountancy.</p>
<p>Section 9</p>	<p>ORS 297.720 The fee shall be in an amount [<i>not to exceed \$100 as</i>] determined by the board by rule.</p>
<p>Section 10 Cleanup, consistent terminology</p>	<p>(1) Subject to ORS 297.445, ORS 297.425 does not apply to any municipal corporation, except a county or a school district, if, with respect to any one [<i>calendar year or</i>] fiscal year, the municipal corporation meets all the conditions in either subsection (2) or (3) of this section. (2)(a) Total expenditures for all purposes, including moneys expended for debt retirement, did not exceed \$150,000 for the year;</p>

	<p>(b) The municipal corporation has submitted financial statements for the year to the Secretary of State within 90 days following the end of the year; and</p> <p>(c) A certificate has been submitted with the financial statements stating that the principal responsible official of the municipal corporation was covered during the entire year by a fidelity or faithful performance bond in an amount at least equal to the total amount of moneys received by the municipal corporation during the year.</p> <p>(3)(a) Total expenditures for all purposes, including moneys expended for debt retirement, exceeded \$150,000 but did not exceed \$500,000 for the year;</p> <p>(b) The municipal corporation has submitted financial statements for the year to the Secretary of State within 180 days following the end of the year, and the financial statements have been reviewed by an accountant or the Secretary of State in accordance with standards prescribed by the Secretary of State; and</p> <p>(c) A certificate has been submitted with the financial statements stating that the official responsible for receiving and disbursing moneys on behalf of the municipal corporation was covered during the entire year by a fidelity or faithful performance bond in an amount at least equal to 10 percent of the total receipts for the year, but not less than \$10,000.</p> <p>(4) The financial statements required by this section shall be in a form prescribed by the Secretary of State and shall be considered audit reports for the purpose of the filing fee required by ORS 297.485.</p> <p>(5) The provisions of ORS 297.466 apply to financial statements for cities reviewed under subsection (3) of this section.</p>
<p>Section 11 Cleanup, consistent terminology</p>	<p>(1) ORS 297.435 does not apply to a municipal corporation for any [<i>calendar or</i>] fiscal year if a petition requesting an audit, signed by residents of the municipal corporation who are subject to taxes, fees, assessments or other charges levied by the municipal corporation, is filed with the Secretary of State within six months of the end of the fiscal year for which the audit is requested. In a municipal corporation with a population of 150 or less, the petition must be signed by at least 10 residents. In a municipal corporation with a population of more than 150, the petition must be signed by at least 30 residents.</p>

	<p>(2) The Secretary of State shall give notice of the petition to the governing body of the municipal corporation within 10 days of its receipt. Upon receipt of notice of the petition from the Secretary of State, the governing body or managing or executive officer of the municipal corporation shall immediately comply with the provisions of ORS 297.425. If a copy of a signed contract between the governing body or managing or executive officer and an accountant, or a duly authorized ordinance or resolution requesting an audit by the Secretary of State, is not received within 30 days of the dispatch of notice of petition, the Secretary of State shall cause an audit and review to be made of the accounts and fiscal affairs of the municipal corporation designated in the petition.</p> <p>(3) The costs incurred by the Secretary of State in making the audit and review shall be borne by the municipal corporation, and shall be paid to the Secretary of State in the same manner as other claims against the municipal corporation.</p>
<p>Section 12 Cleanup, consistent terminology</p>	<p>297.471 (1) For each [<i>calendar or</i>] fiscal year under audit, the Secretary of State shall prepare and maintain a summary report that includes, at a minimum:</p> <ul style="list-style-type: none"> (a) A list of the municipal corporations that were required to file audit reports with the secretary for the [<i>calendar or</i>] fiscal year as required by ORS 297.405 to 297.555; (b) A list of the municipal corporations that filed audit reports with the secretary within six months after the close of the [<i>calendar or</i>] fiscal year under audit; (c) A list of the municipal corporations that did not request a filing extension and did not file audit reports with the secretary within six months after the close of the [<i>calendar or</i>] fiscal year under audit; (d) A list of the municipal corporations that requested and were granted filing extensions and either filed or did not file audit reports with the secretary in accordance with the approved extension; (e) A list of the number and type of deficiencies cited in the audit report by the accountants for each municipal corporation for the [<i>calendar or</i>] fiscal year under audit; and (f) A description of whether the municipal corporation submitted a plan of action for deficiencies cited in the audit report for the [<i>calendar or</i>] fiscal year under audit to the secretary as described in ORS 297.466 (2) and (3).

	<p>(2) Not later than March 1 of each odd-numbered year, the Secretary of State shall submit to the appropriate legislative committee with authority over audits copies of the two most recent summary reports prepared under subsection (1) of this section. The secretary shall make the summary reports available for public inspection in accordance with the secretary's established procedures.</p>
<p>Section 13 Cleanup, consistent terminology</p>	<p>297.475 Whenever any municipal corporation has made a request to the Secretary of State, pursuant to ORS 297.425, for the audit of its accounts and fiscal affairs, the municipal corporation may cancel that request by ordinance or resolution adopted and furnished to the Secretary of State at least 90 days prior to the end of a [<i>calendar or</i>] fiscal year.</p>

HB 2110: Elimination of withholding provisions; increase in expenditure threshold; replace review reports with AUP

<p>Section 1 Remove the provision to withhold funds from cities and counties with inadequate corrective action plans or who have not filed timely. The provision is an administrative burden for all agencies involved and has not accomplished the goal of improved corrective action and more timely filing.</p>	<p>ORS 297.466 (3)[(a)] Within 30 days after filing an audit report with the Secretary of State under ORS 297.465, a municipal corporation shall file with the secretary a copy of the plan of action adopted under subsection (2) of this section.</p> <p><i>[(b) At the request of the governing body of the municipal corporation, the secretary shall make suggestions for addressing the deficiencies cited in the audit report.]</i></p> <p><i>[(c) For counties and cities, upon receipt by the secretary of the audit report and the plan of action adopted under subsection (2) of this section, the secretary shall either acknowledge the county or city’s plan of action to address the deficiencies cited in the audit report or notify the county or city of deficiencies that, if not addressed, could result in withholding of funds under this section. If the governing body of the county or city does not agree with the notification by the secretary, the secretary shall provide the governing body with an opportunity for a conference regarding the notification, audit determinations or corrective measures to be taken.]</i></p> <p><i>[(4) If the Secretary of State determines that a county or city has not filed an audit report with the secretary as required under ORS 297.465, the secretary may certify the determination to the State Treasurer, the Director of the Department of Revenue, the Director of Transportation and the Director of the Oregon Department of Administrative Services.]</i></p> <p><i>[(5) If the Secretary of State concurs with determinations made under subsection (1) of this section in two successive audits and reviews of the same county or city, and determines that the governing body of the county or city has not taken adequate action to address the deficiencies cited in the notifications given under subsection (3) of this section, the secretary may certify the determination to the State Treasurer, the Director of the Department of Revenue, the Director of Transportation and the Director of the Oregon Department of Administrative Services. The certificate of the secretary under this subsection may be issued only after notice, opportunity to be</i></p>
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	<p><i>heard and hearing pursuant to the provisions of ORS chapter 183, governing contested cases. The hearing shall be held within the jurisdiction of the county or city.]</i></p> <p><i>[(6) Upon receipt of a certificate from the Secretary of State under subsection (4) or (5) of this section, the State Treasurer, the Director of the Department of Revenue, the Director of Transportation and the Director of the Oregon Department of Administrative Services shall withhold from distribution to the county or city 10 percent of the moneys otherwise to be distributed to it under ORS 221.770, 323.455, 366.762 to 366.768, 366.785 to 366.820, 471.805 and 471.810. The moneys withheld shall be disbursed to the county or city only after the officer responsible for disbursement has received notice from the secretary that:]</i></p> <p><i>[(a) The county or city has filed the audit report required under ORS 297.465 with the secretary; or]</i></p> <p><i>[(b) The governing body of the county or city has taken action to follow generally accepted accounting principles in reporting financial condition and operations and establish appropriate accounting systems and internal controls and will substantially comply with legal requirements in conducting its financial affairs.]</i></p> <p><i>[(7) The Secretary of State may not issue a certificate under subsection (5) of this section for failure to follow generally accepted accounting principles if a county or city has followed accounting practices authorized by state law.]</i></p> <p><i>[(8)] (4) As used in this section, “generally accepted accounting principles” means those accounting principles sanctioned by recognized authoritative bodies such as the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, the Financial Accounting Standards Board or their successors.</i></p>
<p>Section 2 Increases the threshold for determining the type of financial report an entity must file. The thresholds were last adjusted in 2005 and need to be adjusted again due to inflation. Also, there is a decreasing number of municipal auditors; demand</p>	<p>ORS 297.435 (2)(a) Total expenditures <i>[for all purposes, including moneys expended for debt retirement,]</i> did not exceed [\$150,000] \$250,000 for the year;</p> <p>(3)(a) Total expenditures <i>[for all purposes, including moneys expended for debt retirement,]</i> exceeded [\$150,000] \$250,000 but did not exceed [\$500,000] \$1,000,000 for the year;</p>

<p>outpaces supply and entities are finding it more difficult to comply.</p> <p>(b) updates the type of reporting allowed for mid-sized entities to Agreed Upon Procedures. This engagement type may be more economical and specifically address risks of each government type, providing better accountability.</p>	<p>(b) The municipal corporation has submitted financial statements for the year to the Secretary of State within 180 days following the end of the year, and <i>[the financial statements have been reviewed by and accountant or the Secretary of State in accordance with standards prescribed by the Secretary of State]</i> an accountant or the Secretary of State has performed the procedures established under subsection (5) of this section on the financial statements; and</p> <p>(c) A certificate has been submitted with the financial statements stating that the official responsible for receiving and disbursing moneys on behalf of the municipal corporation was covered during the entire year by a fidelity or faithful performance bond in an amount at least equal to 10 percent of the total receipts for the year, but not less than \$10,000.</p> <p>(4) The financial statements required by this section shall be in a form prescribed by the Secretary of State and shall be considered audit reports for the purpose of the filing fee required by ORS 297.485.</p> <p><i>[(5) The provisions of ORS 297.466 apply to financial statements for cities reviewed under subsection (3) of this section.]</i></p> <p>(5)(a) The Secretary of State shall establish, by rule, procedures that the secretary deems appropriate for addressing risks to municipal corporations to be performed on financial statements under subsection (3) of this section.</p> <p>(b) In adopting or amending rules under this subsection, the Secretary of State shall consult with the Oregon Board of Accountancy, the Oregon Society of Certified Public Accountants and one or more organizations representing municipal corporations.</p>
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