

House Bill 2086

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SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced**.

Deletes provisions allowing municipal corporations to request that Secretary of State develop or revise and install accounting systems. Modifies requirement that contracts for conducting municipal audits be provided to Secretary of State. Modifies language to conform with current usage.

A BILL FOR AN ACT

1
2 Relating to municipal corporation audits; creating new provisions; and amending ORS 297.425,
3 297.465, 297.466 and 297.475.

4 **Be It Enacted by the People of the State of Oregon:**

5 **SECTION 1.** ORS 297.425 is amended to read:

6 297.425. (1) Except as provided in ORS 297.435, the accounts and fiscal affairs of every municipal
7 corporation shall be audited and reviewed at least once each calendar or fiscal year, and more often
8 if considered advisable by the governing body or managing or executive officer of the municipal
9 corporation. The audits and reviews shall be made by accountants pursuant to contracts entered
10 into by the governing body, or managing or executive officer, and accountants, or by the Secretary
11 of State pursuant to a duly adopted ordinance or resolution[, *a copy of which shall be furnished to*
12 *the Secretary of State*]. **Upon request of the Secretary of State, the governing body, or manag-**
13 **ing or executive officer, shall provide the secretary with a copy of the contract entered into**
14 **or an ordinance or resolution adopted under this section.**

15 [*(2) Municipal corporations may enter into contracts, or by ordinance or resolution request the*
16 *Secretary of State, to develop or revise and install accounting systems.*]

17 [(3)] **(2)** All contracts for conducting audits and reviews [*or for developing or revising and in-*
18 *stalling accounting systems*] shall be in a form prescribed or approved by the Secretary of State. [*A*
19 *copy of each completed contract shall be furnished the Secretary of State.*]

20 [(4)(a)] **(3)** The compensation for audits and reviews performed by accountants shall be as agreed
21 upon between the governing body, or managing or executive officer of the municipal corporation,
22 and the accountant, and shall be paid in the same manner as other claims against the municipal
23 corporation are paid.

24 [(b)] *The compensation for installation of accounting systems performed by parties under subsection*
25 *(2) of this section, other than the Secretary of State, shall be as agreed upon between the governing*
26 *body, or managing or executive officer of the municipal corporation, and the other party, and shall be*
27 *paid in the same manner as other claims against the municipal corporation are paid.*]

28 [(5)] **(4)** All expenses and costs incurred by the Secretary of State in conducting audits and
29 reviews[, *and installing accounting systems*] for municipal corporations shall be borne by the munic-
30 ipal corporation for which a particular audit[, **or** review [*or installation*]] is made. The expenses and

NOTE: Matter in **boldfaced** type in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted. New sections are in **boldfaced** type.

1 costs shall be paid to the Secretary of State in the same manner as other claims against the mu-
2 nicipal corporation are paid.

3 [(6)] (5) Audits and reviews required by this section shall inquire into:

4 (a) The principles of accounting and methods followed by the municipal corporation in recording,
5 summarizing and reporting its financial transactions and financial condition;

6 (b) The accuracy and legality of the transactions, accounts, records, files and financial reports
7 of the officers and employees of the municipal corporation as they relate to its fiscal affairs; and

8 (c) Compliance with requirements, orders and regulations of other public officials which pertain
9 to the financial condition or financial operations of the municipal corporation.

10 **SECTION 2.** ORS 297.465 is amended to read:

11 297.465. (1) The Secretary of State, in cooperation with the Oregon Board of Accountancy, and
12 in consultation with the Oregon Society of Certified Public Accountants, shall prescribe the mini-
13 mum standards for conducting audits of municipal corporations, preparing the resulting audit reports
14 and expressing opinions upon the financial condition and results of operation for the period under
15 audit. The expression of opinion shall be signed by the accountant signing the contract, or in the
16 case of a partnership or professional corporation, by a partner or stockholder who is an accountant
17 as defined in ORS 297.405, who has personally conducted the audit to an extent satisfactory to the
18 Secretary of State and to the municipal corporation.

19 (2) The municipal corporation shall be furnished with a written audit report, containing a signed
20 expression of opinion, in the form prescribed by the Secretary of State. A copy of the audit report
21 shall be furnished to each person who was a member of the governing body at the end of the cal-
22 endar or fiscal year and to each member of the current governing body. Other copies shall be fur-
23 nished the municipal corporation as are requested by the chairperson of the governing body or the
24 managing or executive officer. The accountant shall furnish the audit report to the municipal cor-
25 poration within six months after the close of the calendar or fiscal year under audit, except that the
26 Secretary of State, for good cause shown, may grant to the accountant a reasonable extension of
27 time.

28 (3) The municipal corporation shall file one copy of its audit report with the Secretary of State.
29 The report shall be subject to review by the Secretary of State, who may also require submission
30 of the *[working papers]* **supporting documentation** and audit programs of the accountant. If an
31 audit, audit report or expression of opinion is found by the Secretary of State not to be in accord-
32 ance with the prescribed standards, the Secretary of State shall request compliance. If the ac-
33 countant fails to comply with the request, the Secretary of State shall so report to the Oregon Board
34 of Accountancy, which thereupon may remove or suspend the name of the accountant from the
35 roster required by ORS 297.670.

36 (4) Audit reports or financial statements filed with the Secretary of State as required by ORS
37 297.405 to 297.555 shall include the names, mailing addresses and titles of the officers and members
38 of the governing board of the municipal corporation. The report or statement of a special district
39 shall include the name of its registered agent and the address of its registered office as provided
40 by ORS 198.335 to 198.365.

41 **SECTION 3.** ORS 297.466 is amended to read:

42 297.466. (1) In performing an audit and review required under ORS 297.425, the accountant under
43 contract with the municipal corporation or the Secretary of State, whoever performs the audit and
44 review, shall determine if the municipal corporation has, or has not, followed generally accepted
45 *[governmental]* accounting principles in reporting its financial condition and operations, established

1 appropriate accounting systems and internal controls and substantially complied with legal require-
 2 ments in conducting its financial affairs. The determination shall either be included in the signed
 3 expression of opinion or otherwise disclosed in the audit report required under ORS 297.465.

4 (2) Upon receipt of an audit report under ORS 297.465 the governing body of a county or city
 5 shall determine the measures it considers necessary to correct any deficiencies disclosed in the re-
 6 port. The governing body shall adopt a resolution setting forth the corrective measures it proposes
 7 and the period of time estimated to complete them.

8 (3) Within 30 days after a county or city files a copy of its audit report with the Secretary of
 9 State under ORS 297.465 a copy of the resolution prepared under subsection (2) of this section shall
 10 also be filed. Upon receipt of the audit report and the resolution, the Secretary of State shall either
 11 acknowledge the city or county’s plans to correct deficiencies cited in the audit report or notify the
 12 county or city of those deficiencies which, if not corrected, could result in withholding of funds
 13 under this section. At the request of the governing body of the city or county the Secretary of State
 14 shall make suggestions for correcting those deficiencies. If the governing body of the county or city
 15 does not agree with the notification by the Secretary of State, it shall be granted an opportunity for
 16 a conference regarding the notification, audit determinations or corrective measures to be taken.

17 (4) If the Secretary of State concurs with determinations made under subsection (1) of this sec-
 18 tion in two successive audits and reviews of the same county or city, and determines that the gov-
 19 erning body of the county or city has not taken adequate action to correct the deficiencies cited in
 20 the notifications given under subsection (3) of this section, the Secretary of State may certify these
 21 facts to the State Treasurer, the Director of the Department of Revenue, the Director of Transpor-
 22 tation and the Director of the Oregon Department of Administrative Services. The certificate of the
 23 Secretary of State shall only be issued after notice, opportunity to be heard and hearing pursuant
 24 to the provisions of ORS chapter 183, governing contested cases. The hearing shall be held within
 25 the jurisdiction of the county or city.

26 (5) Upon receipt of a certificate from the Secretary of State under subsection (4) of this section,
 27 the State Treasurer, the Director of the Department of Revenue, the Director of Transportation and
 28 the Director of the Oregon Department of Administrative Services shall withhold from distribution
 29 to the county or city 10 percent of the moneys otherwise to be distributed to it under ORS 221.770,
 30 323.455, 366.762 to 366.768, 366.785 to 366.820, 471.805 and 471.810. The moneys withheld shall be
 31 disbursed to the county or city only after the officer responsible for disbursement has received no-
 32 tice from the Secretary of State that the governing body of the county or city has taken action to
 33 follow generally accepted [*governmental*] accounting principles in reporting financial condition and
 34 operations and establish appropriate accounting systems and internal controls and will substantially
 35 comply with legal requirements in conducting its financial affairs.

36 (6) The Secretary of State [*shall*] **may** not issue a certificate under subsection (4) of this section
 37 for failure to follow generally accepted [*governmental*] accounting principles if a county or city has
 38 followed accounting practices authorized by state law.

39 (7) As used in this section, “generally accepted [*governmental*] accounting principles” means
 40 those accounting principles sanctioned by recognized authoritative bodies such as the [*National*
 41 *Council on Governmental Accounting*] **Governmental Accounting Standards Board**, the American
 42 Institute of Certified Public Accountants, the Financial Accounting Standards Board or their suc-
 43 cessors.

44 **SECTION 4.** ORS 297.475 is amended to read:

45 297.475. Whenever any municipal corporation has made a request to the Secretary of State,

1 pursuant to ORS 297.425, for the audit of its accounts and fiscal affairs, [*or for the installation of*
2 *accounting systems, or both,*] the municipal corporation may cancel that request by ordinance or re-
3 solution adopted and furnished to the Secretary of State at least 90 days prior to the end of a cal-
4 endar or fiscal year.

5 **SECTION 5. (1) The amendments to ORS 297.425 and 297.475 by sections 1 and 4 of this**
6 **2007 Act do not apply to requests for development or revision and installation of accounting**
7 **systems made to the Secretary of State prior to the effective date of this 2007 Act.**

8 **(2) The amendments to ORS 297.465 and 297.466 by sections 2 and 3 of this 2007 Act apply**
9 **to municipal audits commenced prior to, on and after the effective date of this 2007 Act.**

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