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**House Consumer Protection and Government
Effectiveness Committee**

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Testimony of Mary Wenger, Deputy Director
Audits Division, Oregon Secretary of State

Chair Fagan, members of the committee, my name is Mary Wenger, Deputy Director of the Secretary of State's Audits Division. Thank you for the opportunity to discuss HB 2174.

This bill authorizes the State to withhold 10% of state funds otherwise distributed if a city or county fails to file required audited financial statements in a timely manner. Withheld funds would be released after required filings were made. In addition, this bill eliminates the requirement that municipalities use a Secretary of State prescribed contract for procuring their financial audit services from private accounting firms.

As background, Oregon law requires most municipalities to hire an accounting firm to audit their annual financial statements. Current law requires a copy of the resulting audit report to be filed with the Secretary of State Audits Division. The smallest municipalities are only required to file a self-prepared report of their financial activities each year.

All of these required filings serve important purposes. They provide one measure of a government's financial management, they promote fiscal accountability, and they create a deterrent for possible fraud.

Unfortunately, municipalities don't always file required financial statements. In fact 62 municipalities were over 1 year late in their filings as of February 2, 2015, and some were late by multiple years. Further, many municipalities that miss their deadline do not engage with our office to explain their delay or request an extension.

Although a statutory mechanism clearly allows the withholding of 10% of state funding when municipalities fail to take adequate steps to correct problems identified in required filings, there is no statutory mechanism that clearly applies

when municipalities fail to submit required filings in the first place. H.B. 2174 addresses this by giving teeth to filing requirements.

Current agency policy following a municipality's failure to timely file is to maintain open lines of communication with that municipality and to grant it a reasonable extension when it has shown good cause for untimely filing. Secretary Brown is committed to continuing this policy.

Finally, as a housekeeping matter, HB 2174 would also eliminate the requirement that "All contracts for conducting audits and reviews shall be in a form prescribed or approved by the Secretary of State." Municipalities are already required to follow Oregon's Public Contracting Code (ORS Chapters 279A, 279B, and 279C).

Thank you for the opportunity to discuss this bill. I'm happy to answer any questions you may have.