

# Improvement for Municipal Audit Law HB 2110

To promote To promote transparency and accountability of local governments

## BACKGROUND

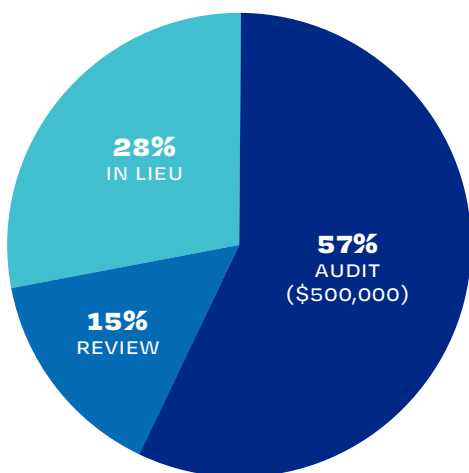
Secretary Fagan's mission is to **build trust** between the people of Oregon and our state government so that public services can make a positive impact in people's lives. We seek to achieve this mission by making improvements to our municipal audits law, which promotes local **government transparency** and **accountability**.

## HOW HB2110 IMPROVES ACCOUNTABILITY AND PROMOTES EFFICIENCIES

1. Reporting thresholds have not kept up with inflation, subjecting smaller governments to costly audit and review requirements.
2. Mid-level governments are currently allowed to submit a financial review which provides important information on the government's financial position and operations. We propose to change the review reporting to instead required certain Agreed Upon Procedures (AUP) be performed by a licensed municipal auditor. These procedures are performed in accordance with professional standards and would more clearly address the unique risks and operations of each local government. The AUP will result in a report that provides important information to better inform the local government and the public about the government's fiscal affairs, internal controls, and compliance.
3. Changes made in 2015 (HB 2174) imposed sanctions (withholding of certain state funding) on cities and counties that don't file timely. These sanctions are and administrative burden and not as effective as intended. Cities and counties are not found to be filing more timely. All amounts withheld are distributed to the city or county once they file and none of it is kept as a fine, nor are costs of administration by state agencies recouped.

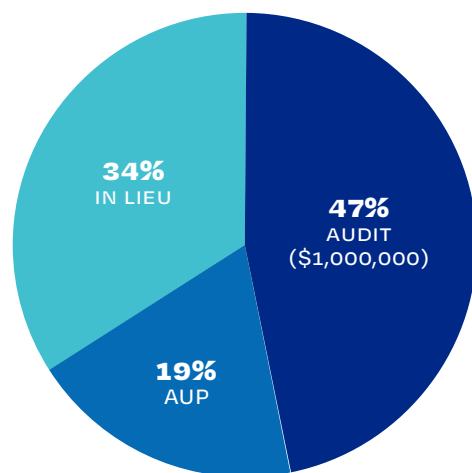
### CURRENT

% of entities (2019 data)



### IMPACT OF HB2110

% of entities



## HISTORICAL THRESHOLD INFORMATION

YEAR	IN LIEU	REVIEW	AUDIT	CALCULATION
1977	\$100,000	\$100,000 to \$500,000	\$500,000 or more	Revenues + Expenditures
1999	\$150,000	\$150,000 to \$500,000		
2005	\$150,000			

**NOTE:** Adjusting minimum filing thresholds and/or the calculation to determine the threshold in prior years resulted in increased thresholds. Years with threshold adjustments are in blue.

### HOW HB2110 HELPS OREGONIANS

The legislature will play an important role in setting policy priorities necessary to improve local government accountability and meet our current and future goals within the municipal audit law.

We propose three solutions:

- 1. Increase reporting thresholds** for audit exemption (ORS 297.435). The thresholds were last adjusted in 2005 and need to be adjusted again due to inflation:
  - increase audit requirement from \$500,000 to \$1,000,000
  - cut-off for In Lieu reports from \$150,000 to \$250,000
- 2. Replace Review reports with targeted Agreed Upon Procedures (AUP)** (ORS 297.435) to better report on risks, compliance, and operations in local government, increasing accountability and transparency.

We propose to change the review reporting requirement to an Agreed Upon Procedures (AUP) reporting requirement. Procedures are performed by a licensed municipal auditor in accordance with professional standards and would more clearly address the unique risks and operations of each local government.

- 3. Eliminate ineffective withholdings provision (ORS 297.466)**

Since this provision was added to statute in 2015, it has not resulted in increased or more timely submission of reports by cities and counties. This sanction is ineffective and does not warrant the administrative efforts required. 100% of the withholdings are disbursed to the city or county after they file their required report; none is kept by the state as a fine or used to offset administrative costs.

