



FAQ



FAQ on Municipal Audits

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The Oregon Municipal Audit Law¹ requires Oregon’s local governments, including cities, to comply with financial reporting requirements.

The following list of *frequently asked questions* (FAQs) answers some questions cities may have about the requirements imposed upon them under the Municipal Audit Law. League members are encouraged to speak with their city attorneys for specific advice about municipal audits and reviews.

1. Who is Subject to the Municipal Audit Law?

Cities, counties, special districts, and school districts are among several municipal corporations which are subject to the Oregon Municipal Audit Law.² Some cities have created boards or commissions to operate water or electric utilities. These water and electric utilities are considered separate municipal corporations and therefore are required to undergo a separate audit from the city itself.³

2. Who Sets the Audit Standards for Cities in Oregon?

The Oregon Secretary of State – in cooperation with the Oregon Board of Accountancy, and in consultation with the Oregon Society of Certified Public Accountants – prescribes the minimum standards for conducting audits and reviews of municipal corporations.⁴ Those minimum standards are provided for in ORS Chapter 297 and by administrative rules issued by the Secretary of State’s Audits Division. Oregon Administrative Rules (OAR) Chapter 162, Division 10 provides the minimum standards for municipal audits and OAR Chapter 162, Division 40 provides the minimum standards for municipal reviews.⁵

3. How Often Must Audits Be Conducted and by Whom?

The accounts and fiscal affairs of every municipal corporation must be audited and reviewed at least once each calendar or fiscal year.⁶ The audits and reviews shall be completed by an independent accountant who is listed on a roster maintained by the Oregon Board of Accountancy.⁷ In addition to the annually required audit, the governing body or executive officer of any city may call for additional audits.⁸

4. When is the Filing Deadline?

Audit reports must be filed with the Audit Division of the Secretary of State’s office within six (6) months after the close of the city’s calendar or fiscal year under audit.⁹ Upon receipt of its audit, the city is required to provide copies of the audit to each member of its governing

¹ ORS 297.405 – 297.555, and 297.990.

² ORS 297.405(5).

³ ORS 297.527.

⁴ ORS 297.465.

⁵ OAR 162-001-0000 – 162-010-0330 and OAR 162-040-001 – 162-040-0160.

⁶ ORS 297.425.

⁷ ORS 297.405(1), 297.670.

⁸ ORS 297.425.

⁹ ORS 297.465(2).

body who was in office during the applicable year of the audit and who currently holds office. The city is then required to review the audit to determine if any deficiencies in the city's financial operations were found.

5. Are there Exceptions to the 6-Month Filing Deadline?

Yes. A city may request a filing extension up to one year after the close of the calendar or fiscal year under audit for good cause shown. The Secretary of State may grant an extension beyond one year if the Secretary finds that extraordinary circumstances justify a longer extension.¹⁰ An extension may be requested online at:

<http://sos.oregon.gov/audits/Pages/extension-request.aspx>.

6. What Do Audits and Reviews Inquire Into?

Audits are required to inquire into:

- The methods followed by the city in recording, summarizing and reporting its financial transactions and financial condition;
- The accuracy and legality of the transactions, accounts, records, files and financial reports of the officers and employees of the city as they relate to fiscal affairs;
- The city's compliance with the requirements, orders and regulations of public officials which pertain to the financial conditions and operations of the city;
- The city's compliance with the legal provisions of federal laws, state laws, charter provisions, court orders, ordinances, resolutions, and rules and regulations issued by any governmental entity; and
- The city's compliance with programs wholly or partially funded by federal, state or other local government agencies.¹¹

7. What Must an Audit Report Contain?

At a minimum, the Secretary of State requires the following to be included in any city audit report:

- The names and mailing addresses of officers of the municipal corporation and members of its governing body;
- An individual schedule of receipts/revenues, expenditures/expenses, and changes in fund balances/net position, budgeted and actual, for each fund of the city for which budgets are legally required;

¹⁰ ORS 297.465(3).

¹¹ ORS 297.425, OAR 162-010-0020.

- A comparison between the estimated budget schedule with the actual revenues or receipts, transfers in, expenditures or disbursements, transfers out and ending balances on the basis of the legally adopted budget;
- If the city has made appropriations in a manner which differs materially from the presentation of estimated expenditures in the budget document, a separate schedule must be included which compares actual expenditures/expenses with the legally adopted appropriations;
- A schedule of accountability for each independently elected official collecting or receiving money on behalf of the city;
- Appropriate comments and disclosures relating to the independent auditor's review of fiscal affairs and compliance with legal requirements;
- A separately issued by-product report, that in planning the audit, the auditor followed generally accepted auditing standards in obtaining an understanding of the city and its internal control over financial reporting;
- Comments regarding the city's compliance with ORS Chapter 295 – Depositories of Public Funds and Securities;
- Comments regarding the city's compliance relating to short-term and long-term debt;
- Comments regarding the city's compliance with the legal requirements relating to the preparation, adoption, and execution of the annual or biennial budget for the year being audited;
- Comments regarding the city's compliance with the legal requirements relating to the preparation, adoption, and execution of the budget for the next succeeding year;
- Disclosure of the financial or organizational level at which the city's governing body makes its annual appropriations;
- Comments regarding the city's compliance with the legal requirements and the city's policies relating to insurance and fidelity bond coverage;
- Comments regarding the city's compliance with appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies;

- Comments regarding the city’s compliance with the legal requirements pertaining to the use of revenue from taxes on motor vehicle use and fuel;
- Comments regarding the city’s compliance with the legal requirements pertaining to the use of road funds;
- Comments regarding the city’s compliance with the legal requirements pertaining to the investment of public funds; and
- Comments regarding the city’s compliance with the Public Contracting Code’s provisions regarding the awarding of public contracts and the construction of public improvements.¹²

8. What Must a City Do if There are Deficiencies?

Should a deficiency be found in the audit, the city is required to put forward a plan for rectifying the deficiencies. The plan must contain estimated deadlines for compliance. The city’s plan must be submitted to the Secretary of State within 30 days of having submitted its audit. If the Secretary of State disagrees with the city’s plan, it can reject it. Should a rejection occur, the city can request a conference with the Secretary of State.¹³

9. What Happens if a City Fails to Comply with the State’s Requirements?

In the event a city fails to submit an audit or fails to comply with a plan to fix deficiencies found during a prior audit, the Secretary of State can file a certification of these failures with the State Treasurer, the Director of the Oregon Department of Revenue, the Director of the Oregon Department of Transportation, and the Director of the Oregon Department of Administrative Services. Upon receipt of such a certification these state departments and agencies are to withhold ten (10) percent of the monies that would otherwise be distributed to the city from their respective departments and agencies. Cities are entitled to object to the Secretary of State’s certification and will be provided a hearing prior to the funds being withheld.¹⁴

10. Are There Exemptions from Audit Requirements?

Yes. There are two instances in which a city is exempt from having to undergo an audit. The first instance in which a city is not required to undergo an audit occurs when the following conditions are met:

- The total expenditures for all purposes, including moneys expended for debt retirement, did not exceed \$150,000 for the year;
- The city has submitted financial statements for the year to the Secretary of State within 90 days following the end of the year; and

¹² OAR 162-010-0130 to OAR 162-010-0310.

¹³ ORS 297.466.

¹⁴ *Id.*

- A certificate has been submitted with the financial statements stating that the principal responsible official of the city was covered during the entire year by a fidelity or faithful performance bond in the amount at least equal to the total amount of moneys received by the city during the year.¹⁵

A second instance in which a city is not required to undergo an audit occurs when the following conditions are met:

- Total expenditures for all purposes, including moneys expended for debt retirement, exceeded \$150,000 but did not exceed \$500,000 for the year;
- The city 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
- A certificate has been submitted with the financial statements stating that the official responsible for receiving and disbursing moneys on behalf of the city was covered during the entire year by a fidelity or faithful performance bond in an amount at least equal to ten (10) percent of the total receipts for the year but not less than \$10,000.¹⁶

Neither of these two audit exemptions are applicable if the Secretary of State receives a petition requesting an audit from the city's citizens. The petition for a city with a population of less than 150 residents must contain the signatures of at least ten (10) residents. A petition for a city with a population of 151 or more residents must contain the signatures of at least 30 residents. The petition must be submitted to the Secretary of State within six months of the end of the calendar or fiscal year.¹⁷

¹⁵ ORS 297.435.

¹⁶ *Id.*

¹⁷ ORS 297.445.