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April 13, 2022

COMMITTEE SUBSTITUTE  
FOR ENGROSSED  
HOUSE BILL NO. 1058

By: Boles of the House

and

Taylor and Hall of the  
Senate

An Act relating to cities and towns; providing short title; amending 11 O.S. 2021, Section 17-105, which relates to annual audits of municipalities; increasing municipal income threshold for required annual or biennial audits to be conducted; modifying manner in which threshold is calculated; modifying statutory references; defining scope of biennial audit; deleting certain required procedures; authorizing the use of alternate auditing procedure; directing development of alternate auditing procedure in collaboration with certain entities; providing time limitation for use of alternate auditing procedure; providing that act shall sunset by operation of law unless certain conditions have been met; requiring alternate auditing procedure to meet certain attestation standards; extending time for filing of audit; providing for additional extension of time under certain conditions; including and excluding income from certain trusts in calculating municipal income; amending 11 O.S. 2021, Section 17-107, which relates to the failure to file an audit; specifying condition under which withholding of certain gasoline taxes shall cease; requiring certain withheld funds to be deposited in certain revolving fund; creating the Special Investigative Unit Auditing Revolving Fund; making fund continuing and nonfiscal; stating sources of revenue; stating purpose of fund; establishing procedures of expenditures of monies accruing to the credit of the fund; repealing 11 O.S. 2021, Section 17-108, which relates to municipal trust exemptions; providing for

1 noncodification; providing for codification;  
2 providing an effective date; and declaring an  
3 emergency.

4 BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

5 SECTION 1. NEW LAW A new section of law not to be  
6 codified in the Oklahoma Statutes reads as follows:

7 This act shall be known and may be cited as the "Municipal Audit  
8 Reform Act of 2022".

9 SECTION 2. AMENDATORY 11 O.S. 2021, Section 17-105, is  
10 amended to read as follows:

11 Section 17-105. A. The governing body of each municipality  
12 with ~~an income of Twenty-five Thousand Dollars (\$25,000.00)~~ Fifty  
13 Thousand Dollars (\$50,000.00) or more ~~to its general fund in total~~  
14 revenue to all funds including component units of which the  
15 municipality is a beneficiary, during a fiscal year shall cause to  
16 be prepared, by an independent licensed public accountant or a  
17 certified public accountant, an annual financial statement audit to  
18 be conducted in accordance with auditing standards generally  
19 accepted in the United States of America and "Government Auditing  
20 Standards" as issued by the Comptroller General of the United  
21 States. Such audit shall be ordered within thirty (30) days of the  
22 close of each fiscal year. Copies shall be filed with the State  
23 Auditor and Inspector within six (6) months after the close of the  
24 fiscal year in accordance with the provisions of ~~Sections 3022 and~~

1 ~~3023 of this act Title 68 of the Oklahoma Statutes~~ and with the  
2 governing body of the municipality.

3 B. The governing body of each municipality with ~~an income of~~  
4 ~~Twenty five Thousand Dollars (\$25,000.00)~~ Fifty Thousand Dollars  
5 (\$50,000.00) or more ~~to its general fund during a fiscal year in~~  
6 total revenue to all funds including component units of which the  
7 municipality is a beneficiary, and with a population of less than  
8 two thousand five hundred (2,500) as of the most recent Federal  
9 Decennial Census, and for whom an annual financial statement audit  
10 is not required by another law, regulation or contract, shall cause  
11 to be prepared, by an independent licensed public accountant or a  
12 certified public accountant, ~~an annual~~ a biennial financial  
13 statement audit in accordance with auditing standards generally  
14 accepted in the United States and Government Auditing Standards as  
15 issued by the Comptroller General of the United States, ~~or an~~  
16 ~~agreed-upon-procedures engagement over certain financial information~~  
17 ~~and compliance requirements to be performed in accordance with the~~  
18 ~~applicable attestation standards of The American Institute of~~  
19 ~~Certified Public Accountants. The specific procedures to be~~  
20 ~~performed are as follows for the fiscal year:~~

21 1. ~~Prepare a schedule of changes in fund balances for each fund~~  
22 ~~and determine compliance with the statutory prohibition of creating~~  
23 ~~fund balance deficits;~~

1       ~~2. Prepare a budget and actual financial schedule for the~~  
2 ~~General Fund and any other significant funds listing separately each~~  
3 ~~federal fund and determine compliance with the legal level of~~  
4 ~~appropriations by comparing expenditures and encumbrances to~~  
5 ~~authorized appropriations;~~

6       ~~3. Agree material bank account balances to bank statements, and~~  
7 ~~trace significant reconciling items to subsequent clearance;~~

8       ~~4. Compare uninsured deposits to fair value of pledged~~  
9 ~~collateral;~~

10       ~~5. Compare use of material-restricted revenues and resources to~~  
11 ~~their restrictions;~~

12       ~~6. Determine compliance with requirements for separate funds;~~  
13 ~~and~~

14       ~~7. Determine compliance with reserve account and debt service~~  
15 ~~coverage requirements of bond indentures. Each biennial audit shall~~  
16 ~~cover the two (2) preceding years.~~

17       The governing body of each municipality may alternatively  
18 request a biennial agreed-upon-procedures engagement to be  
19 prescribed by the State Auditor and Inspector, developed in  
20 collaboration with a representative from a statewide organization  
21 that has represented municipal governments for at least fifty (50)  
22 years, a representative from an organization that advises or trains  
23 municipal clerks and treasurers, and a certified public accountant.  
24

1 Each biennial agreed-upon-procedures engagement shall cover the two  
2 (2) preceding years.

3 For engagements performed for the fiscal year ending June 30,  
4 2023, the prescribed procedures developed under the terms of this  
5 subsection will be utilized on a one-year basis ending June 30,  
6 2024. The procedures shall then be submitted to the Legislature for  
7 ratification. If the rules are not ratified by the Legislature on  
8 or before December 31, 2023, the Municipal Audit Reform Act of 2022  
9 shall sunset and be repealed as a matter of law. Agreed-upon  
10 procedures required under this act shall be performed in accordance  
11 with the applicable attestation standards of The American Institute  
12 of Certified Public Accountants.

13 ~~Such~~ The audit or agreed-upon-procedures engagement shall be  
14 ordered within thirty (30) days of the close of ~~each~~ the fiscal year  
15 that the audit is due. Copies shall be filed with the State Auditor  
16 and Inspector within ~~six (6)~~ nine (9) months after the close of the  
17 fiscal year in accordance with the provisions of ~~Sections 3022 and~~  
18 ~~3023~~ paragraph 2 of subsection A of Section 212A of Title 68 74 of  
19 the Oklahoma Statutes and with the governing body of the  
20 municipality-, with the deadline to order and file the audit or  
21 agreed-upon procedures eligible for extension by the State Auditor  
22 for special circumstances or emergencies.

23 C. The municipal income requirements in subsections A and B of  
24 this section shall not include any grant monies provided to a

1 municipality from any federal, state, or other governmental entity.  
2 The municipal income requirements shall not include income of any  
3 public trust established under Sections 176 through 180.4 of Title  
4 60 of the Oklahoma Statutes with a municipality as the beneficiary  
5 of the trust; provided, income from trusts established principally  
6 for the purpose of operating electric, water, wastewater, and  
7 sanitation utilities shall be included for purposes of the municipal  
8 income requirements.

9 SECTION 3. AMENDATORY 11 O.S. 2021, Section 17-107, is  
10 amended to read as follows:

11 Section 17-107. If a municipality does not file a copy of its  
12 audit or agreed-upon-procedures report as provided in Section 17-105  
13 of this title, the State Auditor and Inspector shall notify the  
14 Oklahoma Tax Commission which shall withhold from the municipality  
15 its monthly allocations of gasoline taxes until notified by the  
16 Office of the State Auditor and Inspector that the audit report ~~is~~  
17 has been filed. If a report is not filed within two (2) years after  
18 the close of the fiscal year in the case of an annual audit, or the  
19 second fiscal year of a biennial audit period, the funds being  
20 withheld shall be remitted by the Oklahoma Tax Commission to the  
21 ~~county in which the incorporated city or town is located and~~  
22 ~~deposited to the county highway fund of that county to be used as~~  
23 ~~otherwise provided by law~~ Special Investigative Unit Auditing  
24 Revolving Fund created pursuant to Section 4 of this act.

1       SECTION 4.       NEW LAW       A new section of law to be codified  
2 in the Oklahoma Statutes as Section 17-107A of Title 11, unless  
3 there is created a duplication in numbering, reads as follows:

4       There is hereby created in the State Treasury a revolving fund  
5 for the State Auditor and Inspector to be designated the "Special  
6 Investigative Unit Auditing Revolving Fund". The fund shall be a  
7 continuing fund, not subject to fiscal year limitations, and shall  
8 consist of all monies received by the State Auditor and Inspector  
9 from funds withheld from a municipality's allocations of gasoline  
10 taxes as provided in Section 17-107 of Title 11 of the Oklahoma  
11 Statutes and all monies received from legislative appropriations for  
12 the purpose of conducting investigative municipal audits. All  
13 monies accruing to the credit of such fund are hereby appropriated  
14 and may be budgeted and expended by the State Auditor and Inspector  
15 for the purpose of offsetting expenses incurred from special  
16 investigative audit activities relating to municipal government.  
17 Expenditures from the fund shall be made upon warrants issued by the  
18 State Treasurer against claims filed as prescribed by law with the  
19 Director of the Office of Management and Enterprise Services for  
20 approval and payment.

21       SECTION 5.       REPEALER       11 O.S. 2021, Section 17-108, is  
22 hereby repealed.

23       SECTION 6. This act shall become effective July 1, 2022.  
24

SECTION 7. It being immediately necessary for the preservation  
of the public peace, health or safety, an emergency is hereby  
declared to exist, by reason whereof this act shall take effect and  
be in full force from and after its passage and approval.

COMMITTEE REPORT BY: COMMITTEE ON RULES  
April 13, 2022 - DO PASS AS AMENDED