

1 **HOUSE OF REPRESENTATIVES - FLOOR VERSION**

2 STATE OF OKLAHOMA

3 1st Session of the 59th Legislature (2023)

4 COMMITTEE SUBSTITUTE
5 FOR
6 HOUSE BILL NO. 2362

By: Boles of the House

and

7 **Garvin** of the Senate

8
9 COMMITTEE SUBSTITUTE

10 An Act relating to cities and towns; amending 11
11 O.S. 2021, Section 17-105, as amended by Section
12 2, Chapter 254, O.S.L. 2022 (11 O.S. Supp. 2022,
13 Section 17-105), which relates to annual audits
14 of municipalities; providing agreed-upon-
15 procedures; directing the governing body of each
16 municipality to carry out certain audit
17 procedures; and providing an effective date.

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

19 SECTION 1. AMENDATORY 11 O.S. 2021, Section 17-105, as
20 amended by Section 2, Chapter 254, O.S.L. 2022 (11 O.S. Supp. 2022,
21 Section 17-105), is amended to read as follows:

22 Section 17-105. A. The governing body of each municipality
23 with Fifty Thousand Dollars (\$50,000.00) or more in total revenue to
24 all funds, including component units of which the municipality is a
beneficiary, during a fiscal year shall cause to be prepared, by an
independent licensed public accountant or a certified public

1 accountant, an annual financial statement audit to be conducted in
2 accordance with auditing standards generally accepted in the United
3 States of America and Government Auditing Standards as issued by the
4 Comptroller General of the United States. Such audit shall be
5 ordered within thirty (30) days of the close of each fiscal year.
6 Copies shall be filed with the State Auditor and Inspector within
7 six (6) months after the close of the fiscal year in accordance with
8 the provisions of this act and with the governing body of the
9 municipality.

10 B. The governing body of each municipality with Fifty Thousand
11 Dollars (\$50,000.00) or more in total revenue to all funds,
12 including component units of which the municipality is a
13 beneficiary, and with a population of less than two thousand five
14 hundred (2,500) as of the most recent Federal Decennial Census, and
15 for whom an annual financial statement audit is not required by
16 another law, regulation or contract, shall cause to be prepared, by
17 an independent licensed public accountant or a certified public
18 accountant, a biennial financial statement audit in accordance with
19 auditing standards generally accepted in the United States and
20 Government Auditing Standards as issued by the Comptroller General
21 of the United States. Each biennial audit shall cover the two (2)
22 preceding years.

23 The governing body of each municipality may alternatively
24 request a biennial agreed-upon-procedures engagement ~~to be~~

1 ~~prescribed by the State Auditor and Inspector, developed in~~
2 ~~collaboration with a representative from a statewide organization~~
3 ~~that has represented municipal governments for at least fifty (50)~~
4 ~~years, a representative from an organization that advises or trains~~
5 ~~municipal clerks and treasurers, and a certified public accountant.~~
6 ~~Each biennial agreed-upon procedures engagement shall cover the two~~
7 ~~(2) preceding years.~~

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

18 The audit or agreed-upon-procedures engagement shall be ordered
19 within thirty (30) days of the close of the fiscal year that the
20 audit is due. Copies shall be filed with the State Auditor and
21 Inspector within nine (9) months after the close of the fiscal year
22 in accordance with the provisions of paragraph 2 of subsection A of
23 Section 212A of Title 74 of the Oklahoma Statutes and with the
24 governing body of the municipality, with the deadline to order and

1 file the audit or agreed-upon procedures eligible for extension by
2 the State Auditor and Inspector for special circumstances or
3 emergencies.

4 C. The municipal income requirements in subsections A and B of
5 this section shall not include any grant monies provided to a
6 municipality from any federal, state, or other governmental entity.
7 The municipal income requirements shall not include income of any
8 public trust established under Sections 176 through 180.4 of Title
9 60 of the Oklahoma Statutes with a municipality as the beneficiary
10 of the trust; provided, income from trusts established principally
11 for the purpose of operating electric, water, wastewater, and
12 sanitation utilities shall be included for purposes of the municipal
13 income requirements.

14 D. The governing body of each municipality that requests the
15 biennial agreed-upon-procedures engagement of subsection B of this
16 section shall:

17 1. Determine the establishment of policies related to
18 adjustments, write-downs, or write-offs for various receivables due
19 to the municipality and/or the utility-related trust and select a
20 sample of adjustments to test for adherence to policies and for
21 appropriate supporting documentation;

22 2. Obtain two (2) months of bank statements of the General Fund
23 and Utility Fund and confirm that cash deposits were made in the
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1 appropriate account(s) and verify utility billing receipts and/or
2 posting reports agree to the daily deposits;

3 3. For the following four positions: city manager/town
4 administrator, city/town clerk, city/town treasurer, and payroll
5 clerk, the governing body shall agree upon a pay rate to be
6 authorized and documented in the personnel file or in approved
7 meeting minutes. Inquire of the payroll clerk or equivalent if any
8 employees received compensation over and above their authorized
9 salary or hourly rate, and if so, trace to appropriate documentation
10 of authorization for such pay. This shall not include expense
11 reimbursements, but shall include any allowances considered taxable;

12 4. For entities that use debit or credit cards, determine the
13 establishment of policies of use, select a sample of transactions to
14 test for supporting documentation, proper municipal purpose, and
15 adherence to prescribed policies;

16 5. Prepare a cash basis schedule of changes in fund balances
17 for each fund and determine compliance with the statutory
18 prohibition of creating fund balance deficits;

19 6. Agree material fiscal year-end bank account balances to bank
20 statements and trace significant reconciling items to subsequent
21 clearance; shall determine if any bank accounts exist that are not
22 under city council purview;

23 7. Compare uninsured deposits at fiscal year-end to the fair
24 value of pledged collateral;

1 8. Inquire if any instances of known fraud, illegal acts, or
2 noncompliance with law and regulations have occurred; and

3 9. Compare the use of material-restricted revenues and
4 resources to their restrictions.

5 E. Public trusts with municipal governments as the beneficiary
6 that meet the same financial requirements established in subsection
7 B of this section may, in alternative to obtaining an audit as
8 required in Section 180.1 of Title 60 of the Oklahoma Statutes,
9 follow the biennial agreed-upon-procedures engagements outlined in
10 subsection D of this section.

11 SECTION 2. This act shall become effective November 1, 2023.

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13 COMMITTEE REPORT BY: COMMITTEE ON COUNTY AND MUNICIPAL GOVERNMENT,
14 dated 02/22/2023 - DO PASS, As Amended and Coauthored.

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