

An Act

ENROLLED HOUSE
BILL NO. 2362

By: Boles of the House

and

Garvin of the Senate

An Act relating to cities and towns; amending 11 O.S. 2021, Section 17-105, as amended by Section 2, Chapter 254, O.S.L. 2022 (11 O.S. Supp. 2023, Section 17-105), which relates to annual audits of municipalities; deleting certain requirements for agreed-upon-procedures engagement; providing requirements for agreed-upon-procedures engagement; allowing certain public trusts to follow certain audit procedures; amending 60 O.S. 2021, Section 180.1, which relates to annual audits; allowing certain public trusts to follow certain audit procedures; and providing an effective date.

SUBJECT: Cities and towns

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

SECTION 1. AMENDATORY 11 O.S. 2021, Section 17-105, as amended by Section 2, Chapter 254, O.S.L. 2022 (11 O.S. Supp. 2023, Section 17-105), is amended to read as follows:

Section 17-105. A. The governing body of each municipality with Fifty Thousand Dollars (\$50,000.00) or more in total revenue to 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 accountant, an annual financial statement audit to be conducted in

accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards as issued by the Comptroller General of the United States. Such audit shall be ordered within thirty (30) days of the close of each fiscal year. Copies shall be filed with the State Auditor and Inspector within six (6) months after the close of the fiscal year in accordance with the provisions of ~~this act~~ the Municipal Audit Reform Act of 2022 and with the governing body of the municipality.

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

~~The governing body of each municipality may alternatively request a biennial agreed-upon-procedures engagement to be prescribed by the State Auditor and Inspector, developed in collaboration with a representative from a statewide organization that has represented municipal governments for at least fifty (50) years, a representative from an organization that advises or trains municipal clerks and treasurers, and a certified public accountant. Each biennial agreed-upon-procedures engagement shall cover the two (2) preceding years.~~

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

The audit or agreed-upon-procedures engagement shall be ordered within thirty (30) days of the close of the fiscal year that the audit is due. Copies shall be filed with the State Auditor and Inspector within nine (9) months after the close of the fiscal year in accordance with the provisions of paragraph 2 of subsection A of Section 212A of Title 74 of the Oklahoma Statutes and with the governing body of the municipality, with the deadline to order and file the audit or agreed-upon procedures eligible for extension by the State Auditor and Inspector for special circumstances or emergencies.

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

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

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

2. Obtain two (2) months of bank statements of the general fund and utility fund and confirm that cash deposits were made in the appropriate accounts and verify utility billing receipts or posting reports agree with the daily deposits;

3. Agree upon a pay rate for the city manager or town administrator, city or town clerk, city or town treasurer, and payroll clerk, to be authorized and documented in the personnel file or in approved meeting minutes. If any employee received compensation over and above his or her authorized salary or hourly rate, the payroll clerk, upon request, shall provide appropriate documentation of authorization for such pay. The requirements of

this paragraph shall not include expense reimbursements but shall include any allowances considered taxable;

4. Determine the establishment of policies of use, proper municipal purpose, and adherence to prescribed policies for entities that use debit or credit cards;

5. Select a sample of transactions to test for supporting documentation;

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

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

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

9. Inquire if any instances of known fraud, illegal acts, or noncompliance with laws and regulations have occurred; and

10. Compare the use of material-restricted revenues and resources to the restrictions of the governing body of the municipality.

E. A public trust with a municipal government or governments as the beneficiary that meet the same financial requirements established in subsection B of this section may, as an alternative to obtaining an audit as required in Section 180.1 of Title 60 of the Oklahoma Statutes, follow the biennial agreed-upon-procedures engagement outlined in subsection D of this section.

SECTION 2. AMENDATORY 60 O.S. 2021, Section 180.1, is amended to read as follows:

Section 180.1 A. The trustees of every trust created for the benefit and furtherance of any public function with the State of Oklahoma or any county or municipality as the beneficiary or beneficiaries thereof, with assets or revenues in excess of Fifty Thousand Dollars (\$50,000.00) or with outstanding debt obligations, must cause an audit to be made of the financial statements of the

trust, such audit to be ordered within thirty (30) days of the close of each fiscal year of the trust. The audit shall be filed in accordance with the requirements set forth for financial statement audits in Section 212A of Title 74 of the Oklahoma Statutes.

B. The trustees of a trust which has more than Fifty Thousand Dollars (\$50,000.00) in revenues or assets, and for whom an annual financial statement audit is not required by another law, regulation or contract, shall cause to be conducted, by an independent licensed public accountant or a certified public accountant, an annual audit of the trust's financial statements in accordance with auditing standards generally accepted in the United States and Government Auditing Standards as issued by the Comptroller General of the United States or an agreed-upon-procedures engagement over certain financial information and compliance requirements to be performed in accordance with the applicable attestation standards of The American Institute of Certified Public Accountants. The specific procedures to be performed are:

1. Prepare a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund and determine compliance with any applicable trust or other prohibitions for creating fund balance deficits;

2. Agree material bank account balances to bank statements, and trace significant reconciling items to subsequent clearance;

3. Compare uninsured deposits to fair value of pledged collateral;

4. Compare use of material-restricted revenues and resources to their restrictions;

5. Determine compliance with requirements for separate funds; and

6. Determine compliance with reserve account and debt service coverage requirements of bond indentures.

Such engagement shall be ordered within thirty (30) days of the close of each fiscal year of the trust. Copies of the annual audit or agreed-upon-procedures report shall be filed with the State Auditor and Inspector within six (6) months after the close of the fiscal year and with the trustees and governing body of the beneficiaries.

C. Public trusts which have less than Fifty Thousand Dollars (\$50,000.00) in revenue and less than Fifty Thousand Dollars (\$50,000.00) in assets, and for whom an annual financial statement audit is not required by another law, regulation or contract and any public trust which did not have financial activity exceeding Fifty Thousand Dollars (\$50,000.00) since its last audit shall be exempt from the requirements of subsections A and B of this section unless the public trust has outstanding debt obligations.

D. A public trust with a municipal government or governments as the beneficiary that meet the same financial requirements established in subsection B of Section 17-105 of Title 11 of the Oklahoma Statutes may, as an alternative to obtaining an audit as required in this section, follow the biennial agreed-upon-procedures engagement outlined in subsection D of Section 17-105 of Title 11 of the Oklahoma Statutes.

SECTION 3. This act shall become effective November 1, 2024.

Passed the House of Representatives the 6th day of May, 2024.

Presiding Officer of the House
of Representatives

Passed the Senate the 23rd day of April, 2024.

Presiding Officer of the Senate

OFFICE OF THE GOVERNOR

Received by the Office of the Governor this _____

day of _____, 20_____, at _____ o'clock _____ M.

By: _____

Approved by the Governor of the State of Oklahoma this _____

day of _____, 20_____, at _____ o'clock _____ M.

Governor of the State of Oklahoma

OFFICE OF THE SECRETARY OF STATE

Received by the Office of the Secretary of State this _____

day of _____, 20_____, at _____ o'clock _____ M.

By: _____