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**PERMANENT ADMINISTRATIVE ORDER**

**AUDIT 3-2024**

CHAPTER 162  
SECRETARY OF STATE  
AUDITS DIVISION

**FILED**

06/03/2024 2:08 PM  
ARCHIVES DIVISION  
SECRETARY OF STATE  
& LEGISLATIVE COUNSEL

FILING CAPTION: Revisions to align with 2023 legislative amendments to Municipal Audit Law.

EFFECTIVE DATE: 07/01/2024

AGENCY APPROVED DATE: 05/30/2024

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**RULES:**

162-010-0010, 162-010-0020, 162-010-0030, 162-010-0050, 162-010-0320, 162-010-0330

AMEND: 162-010-0010

RULE TITLE: Definitions

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Amended to define "expenditures" as required by 2023 legislation.

**RULE TEXT:**

The following definitions describe terms within the context of their application to Municipal Audit Law.

(1) "Independent Auditor" means the Accountants whose names are included in the roster prepared and maintained by the Oregon Board of Accountancy and defined in ORS 297.405.

(2) "Municipal Audit Law" means the laws enacted by the Oregon Legislature and prescribed in Oregon Revised Statutes (ORS) Chapter 297.405 to 297.740 and 297.990.

(3) "Municipal Corporation" means any public entity subject to audit defined in ORS 297.405.

(4) "Cash basis or modified cash basis" means a basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support, such as recording depreciation on capital assets. The cash basis of accounting is the only special purpose framework allowable under Oregon law.

(5) "Fiscal year" means for a municipal corporation with the power to impose ad valorem property taxes, the fiscal year commencing on July 1 and ending on June 30, and for all other municipal corporations, an accounting period of 12 months ending on the last day of any month.

(6) "Documentation" means the written record of procedures performed, relevant evidence obtained, and conclusions

the independent auditor reached.

(7) "Governing body" means the city council, board of commissioners, board of directors, county court or other managing board of a municipal corporation including a board managing a municipality owned public utility or a dock commission.

(8) "Management" means the person(s) with executive responsibility for the conduct of the municipal corporation's operation and may include some or all of those charged with governance; for example the elected or appointed public officials.

(9) "Legally adopted budget" means the statutory budget required by Oregon law prescribed on ORS Chapter 294.305 to 294.565 (Local Budget Law) and intergovernmental entities formed under ORS Chapter 190.

(10) "Expenditures" for the purpose of ORS 297.435 and 297.485 and throughout OAR 162-010 and 162-040 includes the amount reported as expenses on the government-wide Statement of Activities; or, in the case of a municipal corporation that reports only proprietary funds, expenditures include total operating and non-operating expenses reported on the proprietary fund operating statement.

STATUTORY/OTHER AUTHORITY: ORS 297

STATUTES/OTHER IMPLEMENTED: ORS 297.465

AMEND: 162-010-0020

RULE TITLE: General Requirements

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Amended to align with reporting standards.

RULE TEXT:

(1) All municipal corporations, as defined in ORS 297.405, are required to have their accounts and fiscal affairs audited annually in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (AICPA), unless they qualify under 297.435 for agreed-upon procedures reporting in accordance with Statements on Standards for Attestation Engagements (SSAE), or file financial reports in lieu of having an audit.

(2) The independent auditor who contracts to conduct an audit of a municipal corporation must personally conduct the audit to an extent satisfactory to the Secretary of State, prepare an Independent Auditor's Report and express an opinion on the accounts in accordance with these rules. The expression of opinion must be signed by the independent auditor. The Independent Auditor's Report and expression of opinion are to be issued to the municipal corporation within six months after the close of the calendar or fiscal year unless an extension of time has been granted by the Secretary of State.

(3) Management (of the municipal corporation) has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. The independent auditor's knowledge of such transactions is limited to that acquired through the audit. Accordingly, the fairness of the representations made through financial statements is an implicit and integral part of management's responsibility. The independent auditor may make suggestions as to the form or content of financial statements or he/she may draft them in whole or in part, based on management's accounts and records. However, responsibility for the statements examined is confined to the expression of opinion on them. The financial statements remain the representations of management.

(4) Since the functions and forms of government, as well as the accounting, internal control, and management information systems, will vary greatly among municipal corporations, the independent auditor must be familiar with legal provisions applicable to municipal corporations and the accounting principles promulgated by GASB and other accounting principles considered to be generally acceptable for governmental organizations. The independent auditor shall review the information systems of accounting and internal control, develop audit programs to adequately test those systems, and form an opinion with respect to the financial statements of the municipal corporation.

(5) Officials of the municipal corporation should make an accounting of all resources for which they are responsible. Preparation of the financial statements and notes thereto and the supplementary schedules considered necessary for full disclosure of financial position and results of operations as set forth in OAR 162-010-0050 through 162-010-0140 will be considered an appropriate accounting.

(6) The independent auditor is expected to determine if the accounts and records are maintained in a manner that will permit the preparation of financial statements that will fairly present the financial position and results of operations of the municipal corporation in accordance with legal provisions and in accordance with generally accepted accounting principles. The accounting principles contemplated are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB), the AICPA and the

Financial Accounting Standards Board (FASB). If the municipal corporation fails to prepare and present the financial statements specified in OAR 162-010-0050 through 162-010-0140, the independent auditor may consider modifying the engagement terms and making a reasonable attempt to draft them for the municipal corporation from the accounts and records made available or, encourage the municipality to engage with another accountant to perform that work. If the financial statements cannot be drafted with reasonable effort, appropriate comments must be included in the audit report, together with recommendations for improvements necessary to permit their preparation in the future. Wherever there is a conflict between legal provisions and professional standards setting bodies, legal provisions are to take precedence. The independent auditor shall make appropriate disclosure of such conflicts and shall be aware that a qualification of the opinion may be necessary.

(7) In addition to auditing the accounts and financial statements of a municipal corporation, the independent auditor is required to review the municipal corporation's fiscal affairs. The review shall include, but not necessarily be limited to, determining if financial operations have been carried out in accordance with appropriate legal provisions including federal and state laws, charter provisions, court orders, ordinances, resolutions, and rules and regulations issued by other governmental agencies. It is the independent auditor's responsibility to disclose in the audit report material instances of noncompliance with such legal provisions.

(8) The scope of the audit of a municipal corporation shall include programs wholly or partially funded by other federal, state, or local governmental agencies. In determining the audit procedures to be applied to such programs, the independent auditor shall consider any specific audit procedures which may have been developed for those programs by appropriate governmental agencies. The independent auditor shall also determine if financial reporting requirements applicable to such programs have been complied with.

(9) The audit report of a municipal corporation shall contain financial statements with appropriate notes, the Independent Auditor's Report containing his or her expression of opinion on the financial statements, or an assertion that an opinion cannot be expressed, and the auditor's comments relating to the review of fiscal affairs and compliance with legal requirements.

(a) The independent auditor must prepare the independent auditor's opinion in accordance with the Statements on Auditing Standards issued by the AICPA.

(b) The independent auditor's report should include either an opinion on whether the accompanying financial information is fairly presented in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion depending on whether the information has been subjected to the auditing procedures applied in the audit of the basic financial statements.

(c) In a GAAP presentation the independent auditor shall express an "in relation to" opinion on budgetary comparison schedules presented as required supplementary information.

(d) The independent auditor shall express an "in relation to" opinion on the combining and individual fund statements and schedules presented as supplementary information required by OAR 162-010-0050 through 162-010-140.

(e) The auditor's comments relating to the review of fiscal affairs, including compliance with legal requirements shall be in accordance with the provisions of OAR 162-010-200 through 162-010-0320.

(10) Audit reports are required to contain, immediately inside the front cover, the names and addresses of officers of the municipal corporation and members of its governing body. In addition, audit reports of special districts, as defined by law, shall contain the name of the district's registered agent and its registered address. If a special district has not designated a registered agent or registered address, then the audit report shall so indicate.

(11) It is the responsibility of the municipal corporation to file a copy of its audit report with the Secretary of State. The reports are subject to review for compliance with these rules, and the Secretary of State may call for submission by the

independent auditor of the work papers and audit programs covering an engagement. The work papers and audit programs must contain satisfactory documented evidence of compliance with these rules.

(12) The municipal corporation or its designee shall submit a summary of the revenues, expenditures of the municipal corporation, for the period covered by the audit, or other information as requested. The summary shall be made in the manner as prescribed by the Secretary of State, and within 30 days after delivering the audit report, as required by law.

STATUTORY/OTHER AUTHORITY: ORS 297

STATUTES/OTHER IMPLEMENTED: ORS 297.465

AMEND: 162-010-0030

RULE TITLE: Contracts

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Strikes references that were repealed by HB 2110 A.

RULE TEXT:

Municipal Audit Law requires audits be performed pursuant to a contract between the independent accountant and the governing body, or managing or executive officer, of the municipal corporation. Laws governing contracts are prescribed in the Oregon Public Contracting Code, ORS Chapters 279A, 279B, and 279C.

STATUTORY/OTHER AUTHORITY: ORS 297.465

STATUTES/OTHER IMPLEMENTED: ORS 297.465

AMEND: 162-010-0050

RULE TITLE: Financial Statements

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Amended to clarify allowable basis of accounting.

RULE TEXT:

(1) The GASB is recognized as the standard-setting authority of GAAP for state and local governments. As such, fair presentation of financial position and results of operations in conformity with GAAP for Oregon municipal corporations are those financial statements, notes thereto, and supporting information consistent with GASB Statements and Interpretations and the hierarchy of GAAP applicable to state and local governments established by the AICPA and adopted by GASB.

(2) Since the focus of accounting in a governmental unit is the individual fund, the financial statements to be presented in the municipal corporation's annual report must also include nonmajor fund combining statements and individual fund statements/schedules.

(3) Compliance with municipal audit law includes financial statements prepared on the cash basis or modified cash basis of accounting.

(4) If information necessary to prepare the financial statements, or any of them individually, is not readily available or is not maintained by the municipal corporation appropriate disclosure must be made in the auditor's report.

STATUTORY/OTHER AUTHORITY: ORS 297

STATUTES/OTHER IMPLEMENTED: ORS 297.465

AMEND: 162-010-0320

RULE TITLE: Other Comments and Disclosures

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Amended to clarify county cost audits.

RULE TEXT:

(1) The independent auditor shall include such other comments or disclosures with respect to the review of fiscal affairs and compliance with legal requirements as may be appropriate in the circumstances.

(2) Other comments and disclosures may include those related to any county cost audit performed in accordance with ORS 297.525. A cost audit may be performed at a county, specific to any road fund, if (1) the county performs their own road work, (2) the road fund is reported as a major fund, and (3) the county and accountant engagement terms include a cost audit in the scope of work. The cost audit does not consist of specific procedures required by these Minimum Standards; the objectives are to verify the cost of performance and administration of county road work performed by the county, establish the accuracy of costing data and expense records, and determine whether the county adhered to approved budgets and planning. Contracted road work is not subject to cost auditing. The auditor should perform cost audit procedures in accordance with professional standards, be responsive to the auditor's risk assessment procedures, and consider the intent of material compliance as imbedded within these Minimum Standards for audits.

STATUTORY/OTHER AUTHORITY: ORS 297

STATUTES/OTHER IMPLEMENTED: ORS 297.465



AMEND: 162-010-0330

RULE TITLE: Extensions of Time to Deliver Audit Reports

NOTICE FILED DATE: 04/09/2024

RULE SUMMARY: Amended to align with HB 2110 A.

RULE TEXT:

If the required report is not filed with the Secretary of State within six months following the end of the fiscal year, the municipal corporation shall file a written request for extension of time. The request shall state the reasons for the delay and the expected filing date of the report. The Secretary of State, for good cause shown, may grant the request for a reasonable period of time.

(1) Requests for extensions of time to deliver audit reports must be submitted in a manner as prescribed by the Secretary of State. The request must contain the following information:

- (a) The name and registered or mailing address of the municipal corporation;
- (b) The name, address, and signature of the accountant or firm, if known, conducting the audit;
- (c) The accounting period under audit;
- (d) A statement setting forth the reasons for the delay in delivering the audit report;
- (e) The signed approval or disapproval of the request by the chair of the governing body, or managing or executive officer, of the municipal corporation. Reasons for disapproval must be included;
- (f) Requests applicable to school districts and community colleges must also contain the signed approval or disapproval of the local district superintendent or the superintendent's designee.

(2) A request for extension of time shall be submitted to the Secretary of State. The Secretary of State shall notify the independent auditor and the municipal corporation of its approval to grant an extension of time or reasons for its disapproval.

STATUTORY/OTHER AUTHORITY: ORS 297

STATUTES/OTHER IMPLEMENTED: ORS 297.465