

Secretary of State

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SECRETARY OF STATE AUDITS DIVISION Municipal Newsletter

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INTRODUCTION

The Division administers Municipal Audit Law, *Oregon Revised Statutes* 297.405 to 297.740 and 297.990, which requires Oregon's local governments, consisting of approximately 1,800 cities, counties, school districts, and special districts to comply with statutory annual financial reporting. The purpose of this newsletter is to update licensed municipal auditors on some of our recent efforts in administering Municipal Audit Law and address other issues of interest to them and their clients.

Desk Reviews

This year we reviewed 42 fiscal year 2013 audit reports issued by 21 firms. We reviewed a sample of cities, counties, sanitary districts, soil and water conservation districts, and county service districts. I am pleased to report the number of report deficiencies is declining in recent years.

Independent Auditor's Report

Every practitioner strives to issue an error free Independent Auditor's Report every time. Unfortunately, some reports don't quite reach the mark. Findings are of every nature and not specific to any one section of the report. They start in the introductory paragraph with references to aggregate remaining fund information when none is presented. There are references to opinion units not presented or do not address opinion units that are. Occasionally there are references to RSI budgetary information when the statements are presented as basic. There are references to *Government Auditing Standards* not performed or no reference when they are followed. Some errors are the result of "copy-and-paste" of prior year

engagements that are not updated for changes in financial conditions. This is common in entities with Single Audits in one or more years but not all. Most errors are obvious and easy fixes. More attention to quality control at the end of the engagement will eliminate most if not all errors.

The clarity standards made substantive changes to the report and our reviews show that firms did a nice job transitioning to the new format. The one area missed by a few is the final section addressing *Other Reporting Responsibilities* (SAS AU-C 700.37-.38). The report identifies *Government Auditing Standards* when applicable but does not reference the issuance of the Secretary of State Minimum Standards report.

One small item that can be easily overlooked impacts firms with multiple locations. Audit Standards (AU-C 700.40) require the audit report to include the name of the city and state where the auditor practices. AICPA Practice Aid (TIS 9100.08) clarifies that if an audit report is issued on a firm's letterhead that has multiple offices, the report needs to indicate which office is issuing the report.

Field Reviews

The most frequent finding is the absence of a documented review of the government's compliance with Public Contracting Code (ORS Chapters 279A, 279B, and 279C). Adopted policies and procedures are good but aren't always followed in practice. The auditor should test one or more capital asset purchases for compliance with competitive bidding requirements.



Report In-Lieu of Audit

Approximately 450 local governments are eligible to file the self prepared Report In-lieu of Audit each year. The majority has no employees, maintain accounting records consisting of a checkbook or QuickBooks, file cash basis reports, and have board members who are sometimes overwhelmed by the annual reporting requirements. Very few reports are the result of a compilation engagement. It is surprising so few seek the help of a CPA.

There are three conditions for self-reporting: total annual expenditures may not exceed \$150,000; reports are due within 90 days following the end of the fiscal year; and the principal responsible official receiving and disbursing moneys must be covered with a fidelity bond at least equal to the amount of money received by the municipality that year.

Timely reporting and accuracy have improved measurably in recent years. We simplified the information required and reduced the report from 4 to 2 pages. There is a fillable form online that performs calculations resulting in fewer math errors. We also perform in-lieu desk reviews more frequently, providing timely feedback to the municipalities.

This year we reviewed 416 fiscal year 2013 in-lieu reports. Findings fell into two categories: errors in completing the report and noncompliance. Seventy-three municipalities reported insufficient fidelity bond coverage for its responsible official. Fourteen reported no fidelity bond coverage at all. Twenty-seven did not name the responsible official covered by the bond. Fifty-six reports were filed late. Twenty-two reports were signed by the person preparing the report who was not a responsible official. The most serious finding is the sixty-nine reports filed using the wrong forms. On this note governments submitted bank statements, P&L statements, outdated In-lieu reports, and budget documents required by the Department of Revenue. We do understand that most reports are submitted by board members who are unpaid volunteers with little or no accounting background. We work with the officials in these situations because we know that most errors are the result of a general misunderstanding of reporting requirements.

Fillable Forms

The Summary of Revenue and Expenditures, Registered Agent, and Report in-lieu of Audit

are fillable forms available on our website. The first two are straight-forward. The last can be a little more involved:

1. Start with a current version of Adobe Reader (FREE) on your computer.
2. Download and save the report form to your computer before completing. If you try and complete the report online, the built-in math function will not work.
3. Finding the Municipal Account Number can be a little tricky; our database has many abbreviations like "CO" for County, "RFPD" for fire district, etc. Unless you know the exact spelling you may get "*no results for search criteria.*" I recommend starting with the Government Name field and type in one or two keywords. The system will generate a list of every entity with that word(s). If no luck, go to Government Type for an alpha listing. As a last resort, search all entities by County. If you still can't find it, call our office at 503-986-2255. One of us will help you.

The link to Municipal Forms is:

http://sos.oregon.gov/audits/Pages/municipal_audits.aspx

Audit Contracts

Every public body including state agencies and local governments is subject to the laws of the Public Contracting Code, ORS Chapters 279A, 279B, and 279C. The program and its administrative "Model Rules" are the responsibility of the Oregon Attorney General and are recorded in OAR Chapter 137, Divisions 46-49. Anyone wishing additional information should read these rules. The *Model Rules of Procedures* and the *Attorney General's Public Contracts Manual* are available for purchase on the Department of Justice website.

There is a practice and belief by some that an engagement letter issued by the independent auditor meets Oregon's public contracting laws. It does not. I confirmed this with an inquiry to the AICPA. Professional standards



address the conduct of the independent auditor. Oregon's Public Contracting Code prescribes the laws a public body must follow when entering into a contract.

In general, statutes require all procurements be through the competitive bidding process. One exception is personal service contracts where a professional's qualifications are considered of greater importance than cost alone (ORS 279A.055). If a local government chooses not to follow the Attorney General rules, and elects to form a local contract review board, it can adopt its own public contracting code and rules to address personal service contracts through ordinance, resolution, or charter.

Request for Extension of Time

Each year I receive about 200 requests for an extension of time to file reports but I always wonder why I don't receive requests from the other 100 late filers. It is the responsibility of the municipality to initiate the request but the independent accountants have a role in helping their client meet statutory requirements. Even if the request is denied the municipality will have satisfied the law by filing.

The most often cited reason for late reports is turnover or illness in government or firm personnel. Other common reasons are governments subject to their first Single Audit or delay due to severe weather conditions caused by floods or heavy snowfall. Another yearly occurrence is a few self-reporting governments incur unexpected expenditures because they received a loan or grant and now, for the first time, must find an auditor to perform an audit or review. Possibly the most common reason, but one I rarely see in writing, is the municipality not making the audit and timely reporting a priority. Despite the large number of late filers and reasons for delays, the process works reasonably well.

New Municipalities

On occasion, a county will send us notification of a newly formed municipal government. The new municipality does not yet have an official address or other contact information. Two such districts we became aware of this year are Jackson County Library District and Jackson County 4-H, Master Gardener and Agricultural Extension Service District. I bring these to your attention because each new entity is a potential client and possibly a component unit of an existing client.

List of Delinquent Filers

Two years ago our office began posting a list of delinquent filers on our website. The list is long and not very distinguished. Take a look. Some of them may be your clients.

<http://sos.oregon.gov/audits/Documents/Delinquent-filers-March-2016.pdf>

Legally adopted budgets– maybe

Last year I reported that a few municipalities improperly reported budgetary information. The confusion comes from not knowing what constitutes a "legally adopted annual budget" described in GASBS No. 34. Par. 130, and its application to Oregon municipal audit law. Most of the time this is easily determined but not always.

I recently received a call from a health district organized under ORS Chapter 440. I was told that even though they receive property taxes they are exempted from Local Budget Law and they did not wish to report their budgetary schedules as other information as required by their auditors. [Financial activities are reported in a single enterprise fund].

I did a little research and found that Local Budget Law (ORS 294.316) exempts health districts organized under ORS 440.315 to 440.410. I then researched ORS Chapter 440 and found that health districts are legally required to adopt an annual budget (ORS 440.403). The lesson for all of us is we



can't be certain of the peculiarities applicable to each type of government and its environment (SAS AU-C 315) unless we become familiar with its enabling statutes. Every municipality has one or more chapters in law addressing its formation, governing body, powers and duties, and finances (Appendix A). From a regulator's point of view, I'm always pleased when a firm's workpapers include the chapter of law specific to the entity.

Appendix A: List of Municipal Statutes

Citizens and government officials regularly call our office with questions about the powers and authority granted to their city, county, or district. To help with their questions, I made a list of the enabling statutes (ORS) specific to each government type. Attached is a copy. I pass it along in case you find it useful.