Prepared by the North Dakota Legislative Council staff for the Legislative Audit and Fiscal Review Committee

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POLITICAL SUBDIVISION AUDITS IN OTHER STATES

This memorandum provides information on North Dakota's and other states' provisions for political subdivision audits.

NORTH DAKOTA

North Dakota Century Code Sections 54-10-13 and 54-10-14 require the State Auditor to perform audits of political subdivisions. Section 54-10-14 further provides that the State Auditor charge the political subdivision an amount equal to the fair value of the audit and any other services rendered. In lieu of audit reports every two years, this section allows the State Auditor to receive annual reports from school districts with less than 100 enrolled students; cities with a population of less than 500; park districts and soil conservation districts with less than $200,000 of annual receipts; and other political subdivisions with less than $100,000 of annual receipts, excluding any federal funds passed through the political subdivision to another entity. The State Auditor may charge up to $80 per hour for the costs of reviewing the annual reports. The section also allows political subdivisions to choose to be audited by a certified public accountant or licensed public accountant rather than by the State Auditor. The public accountant must comply with generally accepted government auditing standards and submit copies of the audit report to the State Auditor's office when the report is delivered to the political subdivision. The State Auditor must review the audit report and may review the public accountant's workpapers to determine if the report and workpapers meet generally accepted government auditing standards. The State Auditor may charge the political subdivision a fee of up to $80 per hour, not to exceed $500, for costs related to reviewing the audit report and workpapers.

ARIZONA

Arizona Revised Statute 41-1279.21 requires the Auditor General to conduct or cause to be conducted annual financial and compliance audits of all state agencies, counties, community college districts, and universities. The Financial Audit Division of the Arizona Auditor General conducts these audits.

In July 2001 the Arizona Legislature established a schoolwide audit team to conduct performance audits of school districts and monitor the percentage of dollars spent in the classroom. The Division of School Audits carries out these responsibilities.

Arizona has established an audit services revolving fund which consists of money received by the Auditor General from state agencies for financial statement audits, special audits, audits of federal funds, and accounting services. Revenue deposited in the fund is used to conduct audits or to pay certified public accountants to conduct audits.

Incorporated cities are required to engage a certified public accountant or public accountant licensed by the Arizona State Board of Accountancy to provide annual financial audits, and incorporated towns are required to provide for two-year financial audits. Costs of the audits are to be paid by the city or town for which the audit is done.

ARKANSAS

The Division of Legislative Audit conducts annual financial audits of counties, municipalities, public school districts, and educational cooperatives. As an alternative to a financial audit, the Legislative Auditor may conduct an agreed-upon procedures engagement of the records and accounts of any municipality or county. Arkansas statute allows political subdivisions to choose to be audited by a certified public accountant or licensed public accountant rather than by the Legislative Auditor.

Administrative costs of auditing political subdivisions are paid from the ad valorem tax fund. Ad valorem taxes are levied against property used in the operation of intercounty bus lines, intercounty motor freight, airline, water transportation company, and private car companies. If the money in the ad valorem tax fund is not sufficient, then the audit costs are paid from the general revenue fund.

HAWAII

Hawaii Revised Statute Section 23-4 requires the Hawaii State Auditor to conduct audits of the transactions, accounts, programs, and performance of the state's political subdivisions at least once every two years.

Hawaii has established an audit revolving fund which includes revenue received by the State Auditor from reimbursements by any department, office, or agency of the state and its political subdivisions for financial audits, funds received by the auditor for audit costs payable by special funds, revolving funds, capital improvement funds, or trust funds, legislative appropriations, and all interest and investment earnings of the fund. The fund is expended by the State Auditor to conduct audits of the state's departments, offices, agencies, and political subdivisions; audits of special, revolving, capital improvement, or trust funds; and for the services of certified public accountants contracted to conduct audits.

MINNESOTA

Minnesota Statutes Sections 6.48, 6.49, 6.50, and 6.51 give the Minnesota State Auditor the authority to supervise the accounts of all political subdivisions, including counties, cities, and towns. Minnesota

Statutes provides the following audit requirements for cities:

- Cities over 2,500 in population, according to the latest census, must have an annual audit in accordance with generally accepted accounting principles.
- Cities under 2,500, where there are separate offices of clerk and treasurer, are not required to have an audit.
- Cities under 2,500 with the combined office of clerk and treasurer must have an annual audit if total revenues exceed the annual threshold.
- Cities under 2,500 with the combined office of clerk and treasurer must have an audit once in every five-year period if total revenues are less than the annual threshold.
- For the year ended December 31, 2009, the audit threshold is $185,000.

Minnesota Statutes provides the following audit requirements for towns:

- Towns over 2,500 in population, according to the latest census, must have an annual audit in accordance with generally accepted accounting principles if total revenues exceed the annual threshold.
- For the year ended December 31, 2009, the audit threshold for towns over 2,500 is $826,000.
- Towns under 2,500, where there are separate offices of clerk and treasurer, are not required to have an audit.
- Towns under 2,500 with the combined office of clerk and treasurer must have an annual audit if total revenues exceed the annual threshold.
- Towns under 2,500 with the combined office of clerk and treasurer must have an audit once in every five-year period if total revenues are less than the annual threshold.
- For the year ended December 31, 2009, the audit threshold for towns under 2,500 is $185,000.

The counties and cities are billed for all services provided, including the cost of an audit.

MISSOURI

Missouri Revised Statute Section 29.230 requires the State Auditor to audit any county which does not elect a county auditor, at no cost to the county, at least once during the term for which any county officer is chosen. The State Auditor does not have original jurisdiction over local governmental entities. Therefore, statute requires the State Auditor to audit any political subdivision, including counties without a county auditor and cities and school districts, if requested by a petition signed by the requisite percentage of qualified voters of the political subdivision. Audit costs for audits requested by petition are paid for by the political subdivision for which the audit was conducted.

MONTANA

Montana Code Annotated Section 2-7-503 requires that the Montana Department of Administration provide a uniform reporting system for all local government entities. Local government entities must ensure that a financial report is made to the Department of Administration each year. If a local government entity receives revenue or financial assistance in excess of the dollar threshold amount established by the Office of Management and Budget, the entity must provide an audit at least every two years to the Department of Administration. Local government entities that do not receive revenue or financial assistance in excess of the dollar threshold must provide an audit once every four years, if directed by the Department of Administration. The Department of Administration maintains a roster of independent auditors authorized to conduct audits of local government entities.

All audits of local governments are conducted by private auditing firms. The Department of Administration's audit review section reviews all audit reports and financial reports.

NEW HAMPSHIRE

In 2006 the Audit Division of the New Hampshire Office of Legislative Budget Assistant was given authority to conduct audits of non-state agencies, including political subdivisions, to the extent state funds were provided to the non-state agency. The division is limited by Section 14:31 of New Hampshire Revised Statutes Annotated to auditing five non-state agency entities in a five-year period.

Political subdivisions must arrange for annual financial and single audits with private auditing firms. The cost of these audits is the responsibility of the political subdivision for which the audit is done.

SOUTH DAKOTA

The South Dakota Department of Legislative Audit performs financial and compliance audits of counties, municipalities, school districts, and townships. In addition, the department develops and maintains accounting manuals and financial statement formats for counties, municipalities, and school districts. South Dakota statute identifies the following criteria for conducting political subdivision audits:

- Financial and compliance audits in accordance with generally accepted government auditing standards of each municipality and county in the state shall be made at least once every two years.
- Municipalities with less than $600,000 in annual revenue that are required to have an audit pursuant to federal regulations shall be audited in accordance with federal guidelines.
- Municipalities with less than $600,000 in annual revenue that are not required to have an audit pursuant to federal regulations may submit an annual report in lieu of a formal audit. This

report shall be submitted to the Department of Legislative Audit on forms prescribed by the department.

The department conducts all county audits. Although the department maintains authority to conduct audits of municipalities, most are conducted by private auditing firms.

The department must conduct an internal control review every five years for municipalities with less than $600,000 in revenue if they are not required to have a federal audit, have revenues of $100,000 or more in any one year, and have not had an internal control review in the last five years.

School districts must have financial and compliance audits performed at least every two years. The audits may be done by the department or by a private auditing firm authorized by law to audit financial records of school districts.

For each audit made of any county, municipality, or school district, the audited agency is required to pay for audit services costs computed by dividing the estimated total expenses of the Department of Legislative Audit relating to political subdivision audits for the current fiscal year by the estimated number of audit and travel hours to be spent performing political subdivision audits during the same year and the result multiplied by the number of hours spent on the particular audit.