AN ACT REVISING LOCAL GOVERNMENT FINANCIAL REPORTING AND AUDIT REQUIREMENTS; ALLOWING FOR AN ALTERNATIVE FINANCIAL REPORT FOR LOCAL GOVERNMENTS WITH A POPULATION UNDER 10,000; REMOVING THE REQUIREMENT TO WITHHOLD STATE FINANCIAL AID TO LOCAL GOVERNMENT ENTITIES WHO FAIL TO REMIT AUDIT FEES; EXTENDING RULEMAKING AUTHORITY; AND AMENDING SECTIONS 2-7-503 AND 2-7-517, MCA.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 2-7-503, MCA, is amended to read:

"2-7-503. Financial reports and audits of local government entities. (1) (a) The governing body or managing or executive officer of a local government entity, other than a school district or associated cooperative, shall ensure that a financial report is made every year. A school district or associated cooperative shall comply with the provisions of 20-9-213.

(i) The financial report must cover the preceding fiscal year and be in a form prescribed by the department or be in an alternative form acceptable to the department as provided in subsection (1)(a)(ii), be in a form prescribed by the department, and be completed and submitted to the department for review within 6 months of the end of the reporting period. The completed report must be submitted to the department for review within 6 months of the end of the reporting period. The department may grant a 3-month extension for the submittal of an audit in lieu of a financial report.

(ii) An alternative format of a financial report acceptable to the department may be used by local government entities with a population of 10,000 or less as reported in the most recent decennial survey issued by the United States census bureau and that meets the requirements outlined in department rule.

(b) The financial report of a local government that has authorized the use of tax increment financing pursuant to 7-15-4282 must include a report of the financial activities related to the tax increment
financing provision.

(2) The department shall prescribe a uniform reporting system for all local government entities subject to financial reporting requirements, other than school districts. The superintendent of public instruction shall prescribe the reporting requirements for school districts.

(3) (a) The governing body or managing or executive officer of each local government entity receiving revenue or financial assistance in the period covered by the financial report that is in excess of $500,000 and that is also in excess of the threshold dollar amount established by the director of the office of management and budget pursuant to 31 U.S.C. 7502(a)(3), regardless of the source of revenue or financial assistance, shall cause an audit to be made at least every 2 years. The audit must cover the entity’s preceding 2 fiscal years. The audit may cover the entity’s preceding 2 fiscal years and must commence within 9 months from the close of the last fiscal year of the audit period. The audit must be completed and submitted to the department for review within 1 year from the close of the last fiscal year covered by the audit.

(b) The governing body or managing or executive officer of a local government entity that does not meet the criteria established in subsection (3)(a) shall at least once every 4 years, if directed by the department, or, if directed by the department, or, in the case of a school district, if directed by the department at the request of the superintendent of public instruction, cause a financial review, as defined by department rule, to be conducted of the financial statements of the entity for the preceding fiscal year.

(4) An audit conducted in accordance with this part is in lieu of any financial or financial and compliance audit of an individual financial assistance program that a local government is required to conduct under any other state or federal law or regulation. If an audit conducted pursuant to this part provides a state agency with the information that it requires to carry out its responsibilities under state or federal law or regulation, the state agency shall rely upon and use that information to plan and conduct its own audits or reviews in order to avoid a duplication of effort.

(5) In addition to the audits required by this section, the department may at any time conduct or contract for a special audit or review of the affairs of any local government entity referred to in this part. The special audit or review must, to the extent practicable, build upon audits performed pursuant to this part.

(6) The fee for the special audit or review must be a charge based upon the costs incurred by the department in relation to the special audit or review. The audit fee must be paid by the local government entity
to the state treasurer and must be deposited in the enterprise fund to the credit of the department.

(7) Failure to comply with the provisions of this section subjects the local government entity to the penalties provided in 2-7-517."

Section 2. Section 2-7-517, MCA, is amended to read:

"2-7-517. Penalties -- rules to establish fine. (1) Except as provided in 15-1-121(12)(b), when a local government entity has failed to file a report as required by 2-7-503(1) or to make the payment required by 2-7-514(2) or make payment required by 2-7-514(2) within 60 days, the department may issue an order stopping payment of any state financial assistance to the local government entity or may charge a late payment penalty as adopted by rule. Upon receipt of the report or payment of the filing fee, all financial assistance that was withheld under this section must be released and paid to the local government entity.

(2) In addition to the penalty provided in subsection (1), if a local government entity has not filed the audits or reports pursuant to 2-7-503 within 180 days of the dates required by 2-7-503, the department shall notify the entity of the fine due to the department and shall provide public notice of the delinquent audits or reports.

(3) When a local government entity has failed to make payment as required by 2-7-516 within 60 days of receiving a bill for an audit, the department may issue an order stopping payment of any state financial aid to the local government entity. Upon payment for the audit, all financial aid that was withheld because of failure to make payment must be released and paid to the local government entity.

(4) The department may grant an extension to a local government entity for filing the audits and reports required under 2-7-503 or may waive the fines, fees, and other penalties imposed in this section if the local government entity shows good cause for the delinquency or demonstrates that the failure to comply with 2-7-503 was the result of circumstances beyond the entity’s control.

(5) The department shall adopt rules establishing a fine, not to exceed $100, based on the cost of providing public notice under subsection (2), for failure to file audits or reports required by 2-7-503 in the timeframes required under that section.”

- END -
I hereby certify that the within bill,

HB 262, originated in the House.

___________________________________________
Chief Clerk of the House

___________________________________________
Speaker of the House

Signed this _______________________________day
of______________________________________, 2023.

___________________________________________
President of the Senate

Signed this _______________________________day
of______________________________________, 2023.
HOUSE BILL NO. 262
INTRODUCED BY J. SCHILLINGER

AN ACT REVISING LOCAL GOVERNMENT FINANCIAL REPORTING AND AUDIT REQUIREMENTS; ALLOWING FOR AN ALTERNATIVE FINANCIAL REPORT FOR LOCAL GOVERNMENTS WITH A POPULATION UNDER 10,000; REMOVING THE REQUIREMENT TO WITHHOLD STATE FINANCIAL AID TO LOCAL GOVERNMENT ENTITIES WHO FAIL TO REMIT AUDIT FEES; EXTENDING RULEMAKING AUTHORITY; AND AMENDING SECTIONS 2-7-503 AND 2-7-517, MCA.