

HOUSE BILL NO. 328

INTRODUCED BY COBB, JERGESON, GRINDE, KEATING, KADAS,  
PAVLOVICH, SVRCEK  
BY REQUEST OF THE LEGISLATIVE AUDIT COMMITTEE

IN THE HOUSE

JANUARY 21, 1991                   INTRODUCED AND REFERRED TO COMMITTEE  
ON LOCAL GOVERNMENT.

JANUARY 22, 1991                   FIRST READING.

FEBRUARY 21, 1991                  COMMITTEE RECOMMEND BILL  
DO PASS AS AMENDED. REPORT ADOPTED.

FEBRUARY 22, 1991                  PRINTING REPORT.

MARCH 5, 1991                    SECOND READING, DO PASS.

MARCH 6, 1991                    ENGROSSING REPORT.

MARCH 7, 1991                    THIRD READING, PASSED.  
AYES, 96; NOES, 0.

TRANSMITTED TO SENATE.

IN THE SENATE

MARCH 8, 1991                    INTRODUCED AND REFERRED TO COMMITTEE  
ON FINANCE & CLAIMS.

FIRST READING.

MARCH 20, 1991                   COMMITTEE RECOMMEND BILL BE  
CONCURRED IN AS AMENDED. REPORT  
ADOPTED.

MARCH 22, 1991                   SECOND READING, CONCURRED IN.

MARCH 23, 1991                   THIRD READING, CONCURRED IN.  
AYES, 47; NOES, 0.

RETURNED TO HOUSE WITH AMENDMENTS.

IN THE HOUSE

APRIL 8, 1991                    RECEIVED FROM SENATE.

SECOND READING, AMENDMENTS  
CONCURRED IN.

APRIL 9, 1991.

THIRD READING, AMENDMENTS  
CONCURRED IN.

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 HOUSE BILL NO. 328  
 2 INTRODUCED BY Gibb Ferguson Loren the Governor  
 3 Hodes BY REQUEST OF THE LEGISLATIVE AUDIT COMMITTEE Scotty  
 4 Arland Smith

5 A BILL FOR AN ACT ENTITLED: "AN ACT ADOPTING THE STATE  
 6 SINGLE AUDIT ACT; GENERALLY REVISING AND CLARIFYING THE LAW  
 7 RELATING TO AUDITS OF LOCAL GOVERNMENT ENTITIES; REQUIRING  
 8 COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS; AUTHORIZING  
 9 THE CHARGING OF FEES COMMENSURATE WITH COSTS FOR STATE AUDIT  
 10 SERVICES; AMENDING SECTIONS 2-7-501, 2-7-502, 2-7-503,  
 11 2-7-504, 2-7-505, 2-7-506, 2-7-507, 2-7-508, 2-7-511,  
 12 2-7-512, 2-7-513, 2-7-514, 2-7-515, 2-7-516, 2-7-517,  
 13 2-7-518, 2-7-521, 3-5-902, 7-6-2352, 7-6-4113, 19-11-204,  
 14 19-11-205, 20-9-203, 20-9-213, AND 20-10-202, MCA; AND  
 15 PROVIDING A DELAYED EFFECTIVE DATE AND AN APPLICABILITY  
 16 DATE."

17  
 18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

19 **Section 1.** Section 2-7-501, MCA, is amended to read:

20 "2-7-501. Definition. Unless the context requires  
 21 otherwise, in this part, the following definitions apply:

22 (1) "Audit" means a financial audit and includes  
 23 financial statement and financial-related audits as defined  
 24 by government auditing standards as established by the U.S.  
 25 comptroller general.

1 (2) "Board" means the Montana board of public  
 2 accountants provided for in 2-15-1866.

3 (3) "department" "Department" means the department of  
 4 commerce.

5 (4) (a) "Financial assistance" means assistance  
 6 provided by a federal, state, or local government entity to  
 7 a recipient or subrecipient to carry out a program.  
 8 Financial assistance may be in the form of grants,  
 9 contracts, cooperative agreements, loans, loan guarantees,  
 10 property, interest subsidies, insurance, direct  
 11 appropriations, or other noncash assistance. Financial  
 12 assistance includes awards received directly from federal  
 13 and state agencies or indirectly when subrecipients receive  
 14 funds identified as federal or state funds by recipients.  
 15 The granting agency is responsible for identifying the  
 16 source of funds awarded to recipients. The recipient is  
 17 responsible for identifying the source of funds awarded to  
 18 subrecipients.

19 (b) Financial assistance does not include direct  
 20 federal, state, or local government cash assistance to  
 21 individuals.

22 (5) "Financial report" means a presentation of  
 23 schedules that reflect a current financial position and the  
 24 operating results for the 1-year reporting period.

25 (6) "Independent auditor" means:



1 (a) a federal, state, or local government auditor who  
 2 meets the standards specified in the government auditing  
 3 standards; or

4 (b) a public accountant who meets the standards in  
 5 subsection (6)(a).

6 (7) (a) "Local government entity" means a county, city,  
 7 district, or public corporation that:

8 (i) has the power to raise revenue for the purpose of  
 9 servicing the general public;

10 (ii) is governed by a board, commission, or individual  
 11 elected or appointed by the public or representatives of the  
 12 public; and

13 (iii) receives local, state, or federal financial  
 14 assistance.

15 (b) Local government entities include but are not  
 16 limited to:

17 (i) airport authority districts;

18 (ii) cemetery districts;

19 (iii) counties;

20 (iv) county housing authorities;

21 (v) county road improvement districts;

22 (vi) county sewer districts;

23 (vii) county water districts;

24 (viii) county weed control districts;

25 (ix) drainage districts;

1 (x) fire department relief associations;

2 (xi) fire districts;

3 (xii) hospital districts;

4 (xiii) incorporated cities or towns;

5 (xiv) irrigation districts;

6 (xv) mosquito districts;

7 (xvi) municipal housing authority districts;

8 (xvii) port authorities;

9 (xviii) refuse disposal districts;

10 (xix) rural improvement districts;

11 (xx) school districts including a district's  
 12 extracurricular funds;

13 (xxi) soil conservation districts;

14 (xxii) special education or other cooperatives;

15 (xxiii) television districts;

16 (xxiv) urban transportation districts;

17 (xxv) volunteer fire departments; and

18 (xxvi) water conservancy districts.

19 (8) "Revenues" means all receipts of a local government  
 20 entity from any source excluding the proceeds from bond  
 21 issuances."

22 **Section 2.** Section 2-7-502, MCA, is amended to read:

23 "2-7-502. Audit Short title -- purpose. (1) This part  
 24 may be cited as the "State of Montana Single Audit Act".

25 (2) The purpose purposes of the-audit-of-the-affairs--of

1 ~~the governmental entities as set forth in~~ this part shall be  
2 are to:

3 (a) improve the financial management of local  
4 government entities with respect to federal, state, and  
5 local financial assistance;

6 (b) establish uniform requirements for financial  
7 reports and audits of local government entities;

8 (c) insure ensure constituent interests by determining  
9 that compliance with all appropriate statutes and  
10 regulations is accomplished;

11 (d) ensure that the financial condition and operations  
12 of the local government entities are reasonably conducted  
13 and reported;

14 (e) ensure that the stewardship of such local  
15 government entities is conducted in such a manner as to  
16 preserve and protect the public trust; and to

17 (f) ensure that local government entities accomplish,  
18 with economy and efficiency, the duties and responsibilities  
19 of the entities in accordance with the legal requirements  
20 imposed and the desires of the public; and

21 (g) promote the efficient and effective use of audit  
22 resources."

23 **Section 3.** Section 2-7-503, MCA, is amended to read:

24 "2-7-503. (Temporary) Audits Financial reports and  
25 audits of local governmental government entities. (1) The

1 ~~department shall audit the affairs of all:~~

2 ~~(a) counties;~~

3 ~~(b) incorporated cities and towns having a population~~  
4 ~~of more than 300 in the most recent census taken under the~~  
5 ~~direction of congress;~~

6 ~~(c) first and second class school districts and~~  
7 ~~third class school districts that maintain a high school;~~

8 ~~(d) school district extracurricular funds for pupil~~  
9 ~~functions;~~

10 ~~(e) irrigation districts, except as provided in~~  
11 ~~subsection (7);~~

12 ~~(f) conservancy districts;~~

13 ~~(g) fire districts and volunteer fire departments in~~  
14 ~~unincorporated areas, towns, and villages supported by a~~  
15 ~~mill levy, except as provided in subsection (6);~~

16 ~~(h) fire department relief associations, except as~~  
17 ~~provided in subsection (6); and~~

18 ~~(i) cemetery districts;~~

19 ~~(2) Each audit shall be made every 2 years and shall~~

20 ~~cover the immediately preceding 2 fiscal years of the~~  
21 ~~governmental governing body or managing or executive officer~~

22 ~~of a local government entity, unless annual audits are~~  
23 ~~requested by the governmental entity other than a school~~

24 ~~district or associated cooperative, shall ensure that a~~  
25 ~~financial report is made every year. A school district or~~

1 associated cooperative shall comply with the provisions of  
 2 20-9-213. The financial report must cover the preceding  
 3 fiscal year, be in a form prescribed by the department, and  
 4 be completed within 4 months of the end of the reporting  
 5 period. The local government entity shall submit the  
 6 financial report to the department for review.

7 ~~(3) Each audit shall be initiated not later than 24~~  
 8 ~~months from the close of the fiscal year for which the audit~~  
 9 ~~is conducted.~~

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

15 (3) (a) The governing body or managing or executive  
 16 officer of each local government entity receiving revenues  
 17 or financial assistance in the period covered by the  
 18 financial report in excess of \$100,000 or federal financial  
 19 assistance in excess of \$25,000 shall cause an audit to be  
 20 made at least every 2 years. The audit must cover the  
 21 entity's preceding 2 fiscal years. The audit must commence  
 22 within 9 months from the close of the last fiscal year of  
 23 the audit period. The audit must be completed and submitted  
 24 to the department for review within 1 year from the close of  
 25 the last fiscal year covered by the audit.

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

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

18 ~~(4)~~(5) In addition to the audits required by this  
 19 section, the department may at any time conduct or contract  
 20 for a special audit or review of the affairs of any  
 21 governmental local government entity referred to in this  
 22 part. The special audit or review must, to the extent  
 23 practicable, build upon audits performed pursuant to this  
 24 part.

25 ~~(5)~~(6) The fee for the special audit ~~shall~~ or review

1 must be a charge based upon the costs incurred by the  
 2 department in the ~~conduct of such~~ relation to the special  
 3 audit or review. The audit fee shall must be paid by the  
 4 governmental local government entity to the state treasurer  
 5 and deposited in the enterprise fund to the credit of the  
 6 department.

7 ~~{6}{a} Except as provided in subsection {6}{c}, the~~  
 8 ~~department may not audit:~~

9 ~~{i} a fire district which has an annual budget of less~~  
 10 ~~than \$20,000 and in which fire protection is provided solely~~  
 11 ~~by a fire company composed only of volunteer firefighters~~  
 12 ~~organized under Title 7, chapter 33; or~~

13 ~~{ii} a fire department relief association organized~~  
 14 ~~under Title 19, chapter 11, which has annual receipts,~~  
 15 ~~including earnings on invested funds, of less than \$20,000,~~  
 16 ~~except for audits as provided under 19-11-206.~~

17 ~~{b} Such fire district shall annually file with the~~  
 18 ~~board of county commissioners of the county in which the~~  
 19 ~~majority of the district is located an itemized account of~~  
 20 ~~all receipts and expenditures for the year, signed under~~  
 21 ~~oath by an officer of the fire company designated by the~~  
 22 ~~fire district trustees.~~

23 ~~{c} The board of county commissioners may require an~~  
 24 ~~annual audit to be conducted by the department if it~~  
 25 ~~considers such audit to be in the public interest.~~

1 ~~{d} Such fire department relief association shall~~  
 2 ~~annually file with the municipality in which the fire~~  
 3 ~~department relief association is located an itemized account~~  
 4 ~~of all receipts and expenditures for the year, signed under~~  
 5 ~~oath by an officer designated by the fire department relief~~  
 6 ~~association trustees. The municipality may require an annual~~  
 7 ~~audit to be conducted by the department if it considers such~~  
 8 ~~audit to be in the public interest.~~

9 ~~{7}{a} Except as provided in subsection {7}{c}, the~~  
 10 ~~department may not audit an irrigation district with annual~~  
 11 ~~expenditures of less than \$30,000, excluding the payment of~~  
 12 ~~principal and interest on federal loans.~~

13 ~~{b} Such irrigation district shall annually file with~~  
 14 ~~the clerk of the district court in the county in which the~~  
 15 ~~irrigation district is located an itemized account of all~~  
 16 ~~receipts and expenditures for the year, signed under oath by~~  
 17 ~~an officer designated by the irrigation district trustees.~~

18 ~~{c} The district court may require an annual audit to~~  
 19 ~~be conducted by the department if it considers such audit to~~  
 20 ~~be in the public interest.~~

21 ~~{8}{a} Except as provided in subsection {8}{c}, the~~  
 22 ~~department may not audit a cemetery district with annual~~  
 23 ~~expenditures of less than \$25,000, excluding the payment of~~  
 24 ~~principal and interest on federal loans.~~

25 ~~{b} Such cemetery district shall annually file with the~~

1 clerk--of--the--district--court--in--the--county--in--which--the  
2 cemetery--district--is--located--an--itemized--account--of--all  
3 receipts--and--expenditures--for--the--year--signed--under--oath--by  
4 an--officer--designated--by--the--cemetery--district--trustees;

5 (c)--The--board--of--county--commissioners--may--require--an  
6 annual--audit--to--be--conducted--by--the--department--if--it  
7 considers---such---audit--to--be--in--the--public--interest.  
8 (Terminates June 30, 1991--sec. 6, Ch. 140, L. 1989.)

9 2-7-503. (Effective July 1, 1991) Audits Financial  
10 reports and audits of local governmental government  
11 entities. (1) The department shall audit the affairs of all:

12 (a)--counties;

13 (b)--incorporated--cities--and--towns--having--a--population  
14 of--more--than--300--in--the--most--recent--census--taken--under--the  
15 direction--of--congress;

16 (c)--first---and---second--class--school--districts--and  
17 third--class--school--districts--that--maintain--a--high--school;

18 (d)--school--district--extracurricular--funds--for--pupil  
19 functions;

20 (e)--irrigation---districts---except---as--provided--in  
21 subsection--(7);

22 (f)--conservancy--districts;

23 (g)--fire--districts--and--volunteer--fire--departments--in  
24 unincorporated--areas--towns--and--villages--supported--by--a  
25 mill--levy--except--as--provided--in--subsection--(6);--and

1 (h)--fire--department--relief--associations--except--as  
2 provided--in--subsection--(6);

3 (2)--Each--audit--shall--be--made--every--2--years--and--shall  
4 cover--the--immediately--preceding--2--fiscal--years--of--the  
5 governmental governing body or managing or executive officer  
6 of a local government entity, unless--annual--audits--are  
7 requested--by--the--governmental--entity other than a school  
8 district or associated cooperative, shall ensure that a  
9 financial report is made every year. A school district or  
10 associated cooperative shall comply with the provisions of  
11 20-9-213. The financial report must cover the preceding  
12 fiscal year, be in a form prescribed by the department, and  
13 be completed within 4 months of the end of the reporting  
14 period. The local government entity shall submit the  
15 financial report to the department for review.

16 (3)--Each--audit--shall--be--initiated--not--later--than--24  
17 months--from--the--close--of--the--fiscal--year--for--which--the--audit  
18 is--conducted;

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

24 (3) (a) The governing body or managing or executive  
25 officer of each local government entity receiving revenues



1 or financial assistance in the period covered by the  
 2 financial report in excess of \$100,000 or federal financial  
 3 assistance in excess of \$25,000 shall cause an audit to be  
 4 made at least every 2 years. The audit must cover the  
 5 entity's preceding 2 fiscal years. The audit must commence  
 6 within 9 months from the close of the last fiscal year of  
 7 the audit period. The audit must be completed and submitted  
 8 to the department for review within 1 year from the close of  
 9 the last fiscal year covered by the audit.

10 (b) The governing body or managing or executive officer  
 11 of a local government entity that does not meet the criteria  
 12 established in subsection (3)(a) shall at least once every 4  
 13 years, if directed by the department, cause a financial  
 14 review, as defined by department rule, to be conducted of  
 15 the financial statements of the entity for the preceding  
 16 fiscal year.

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

1 or reviews in order to avoid a duplication of effort.

2 ~~(4)(5)~~ In addition to the audits required by this  
 3 section, the department may at any time conduct or contract  
 4 for a special audit or review of the affairs of any  
 5 governmental local government entity referred to in this  
 6 part. The special audit or review must, to the extent  
 7 practicable, build upon audits performed pursuant to this  
 8 part.

9 ~~(5)(6)~~ The fee for the special audit ~~shall~~ or review  
 10 must be a charge based upon the costs incurred by the  
 11 department in the--conduct-of-such relation to the special  
 12 audit or review. The audit fee ~~shall~~ must be paid by the  
 13 governmental local government entity to the state treasurer  
 14 and deposited in the enterprise fund to the credit of the  
 15 department.

16 ~~(6)--(a) Except as provided in subsection (6)(c), the~~  
 17 ~~department may not audit:~~

18 ~~(i) a fire district which has an annual budget of less~~  
 19 ~~than \$20,000 and in which fire protection is provided solely~~  
 20 ~~by a fire company composed only of volunteer firefighters~~  
 21 ~~organized under Title 7, chapter 33, or~~

22 ~~(ii) a fire department relief association organized~~  
 23 ~~under Title 19, chapter 11, which has annual receipts,~~  
 24 ~~including earnings on invested funds, of less than \$20,000,~~  
 25 ~~except for audits as provided under 19-11-206.~~

(b) Such fire district shall annually file with the board of county commissioners of the county in which the majority of the district is located an itemized account of all receipts and expenditures for the year, signed under oath by an officer of the fire company designated by the fire district trustees.

(c) The board of county commissioners may require an annual audit to be conducted by the department if it considers such audit to be in the public interest.

(d) Such fire department relief association shall annually file with the municipality in which the fire department relief association is located an itemized account of all receipts and expenditures for the year, signed under oath by an officer designated by the fire department relief association trustees. The municipality may require an annual audit to be conducted by the department if it considers such audit to be in the public interest.

(7) (a) Except as provided in subsection (7)(c), the department may not audit an irrigation district with annual expenditures of less than \$30,000, excluding the payment of principal and interest on federal loans.

(b) Such irrigation district shall annually file with the clerk of the district court in the county in which the irrigation district is located an itemized account of all receipts and expenditures for the year, signed under oath by

an officer designated by the irrigation district trustees.

(c) The district court may require an annual audit to be conducted by the department if it considers such audit to be in the public interest.

**Section 4.** Section 2-7-504, MCA, is amended to read:

"2-7-504. Accounting methods. Unless otherwise required by law, the department shall prescribe by rule the general methods and details of accounting for the receipt and disbursement of all money belonging to governmental local government entities referred to in this part and shall establish in those offices general methods and details of accounting. All governmental local government entity officers shall conform with the accounting standards prescribed by the department."

**Section 5.** Section 2-7-505, MCA, is amended to read:

"2-7-505. Audit scope and standards. (1) Each audit shall must be a comprehensive audit of the affairs of the governmental local government entity, including comment on the balance sheet, results of operations, compliance with state statutes and regulations, recommendations for improvement, and any other comments deemed pertinent by the auditor, including his expression of opinion as to the adequacy of the financial presentations.

(2) Each such audit required shall must be made in accordance with generally accepted governmental auditing

standards and in accordance with federal regulations adopted by the department by rule.

(2) The department, with cooperation from state agencies, shall prepare a local government compliance supplement that contains state and federal regulations applicable to local government entities."

**Section 6.** Section 2-7-506, MCA, is amended to read:

**"2-7-506. Audit by independent accountant--or auditor.**

(1) In--lieu--of--the--audits--required--of--the--department--the department may,--with--the--consent--of--or--at--the--request--of the--respective--governmental--entities,--contract--out--such prepare and maintain a roster of independent auditors authorized to conduct audits with--a--public--accountant--or firm--of--public--accountants--who--are--licensed--under--the--laws of--Montana of local government entities. The roster must be available to local government entities subject to the reporting requirements of 2-7-503. The--duration--of--such--an audit--contract--must--be--set--forth--in--the--contract--and--may--not exceed--3--years--but--the--contract--may--be--extended--an additional--2--years--upon--the--request--of--the--governmental entity.

(2) The department shall establish adopt rules governing the administration--of--the--contracts--between--the department,--the--independent--accountant/auditor,--and--the governmental--entities. These rules shall include but not be

limited-to:

(a) establishment--of criteria for the selection of the independent accountant/auditor auditor;

(b) contract---form---and---content procedures and qualifications for placing applicants on the roster; and

(c) standards--of--audit--and--reporting procedures for reviewing the qualifications of independent auditors on the roster to justify their continuance on the roster; and

(d) fees payable to the department for application for placement on the roster.

(3) An audit made by an independent auditor must be pursuant to a contract entered into by the governing body or managing or executive officer of the local government. The department must be a party to the contract and the contract may not be executed until it is signed by the department. All contracts for conducting audits must be in a form prescribed or approved by the department.

(4) The department shall notify the local government entity of a required audit, the date the report is due, and the requirement that the local government entity, the independent auditor, and the department must be parties to the contract.

(5) If a local government entity fails to present a signed contract to the department for approval within 90 days of receipt of the audit notice, the department shall

1 designate an independent auditor to perform the audit. The  
 2 costs incurred by the department in arranging the audit must  
 3 be paid by the local government entity to the department in  
 4 the manner of other claims against the local government  
 5 entity."

6 **Section 7.** Section 2-7-507, MCA, is amended to read:

7 "2-7-507. Duty of officers to aid in audit. The  
 8 officers and employees of the governmental local government  
 9 entities referred to in this part shall afford provide all  
 10 reasonable facilities for the department's audit and shall  
 11 furnish all information to the ~~department-under-oath-in-a~~  
 12 ~~manner-prescribed-by-the-department~~ independent auditor  
 13 necessary for the conduct of the audit."

14 **Section 8.** Section 2-7-508, MCA, is amended to read:

15 "2-7-508. Power to examine books and papers. The  
 16 department independent auditor may examine any books,  
 17 papers, accounts, and documents in the office or possession  
 18 of any governmental local government entity ~~referred--to--in~~  
 19 ~~this--part~~ ~~and--may--send-for-persons-or-papers-and-examine~~  
 20 ~~under-oath-any-person-concerning-them."~~

21 **Section 9.** Section 2-7-511, MCA, is amended to read:

22 "2-7-511. Access to public accounts -- suspension of  
 23 officer in case of discrepancy. (1) The department  
 24 independent auditor may count the cash, verify the bank  
 25 accounts, and verify all accounts of a public officer whose

1 accounts ~~it~~ the independent auditor is examining under law.

2 (2) If an officer of any county, city, town, school, or  
 3 other ~~governmental~~ local government entity ~~referred--to--in~~  
 4 ~~this--part~~ refuses to ~~accord--the--department~~ provide the  
 5 independent auditor access during an audit of the officer's  
 6 accounts to his cash, bank accounts, or any of the papers,  
 7 vouchers, or records of his office or if the department  
 8 independent auditor finds a shortage of cash, the department  
 9 independent auditor shall immediately file a preliminary  
 10 report showing the refusal of that officer or the existence  
 11 of the shortage and the approximate amount of the shortage  
 12 with the respective county, city, or town attorney and the  
 13 governing body of the ~~governmental~~ local government entity.

14 (3) Upon filing of the statement, the officer of the  
 15 local government entity shall immediately after notice and  
 16 the opportunity for a hearing be suspended from the duties  
 17 and emoluments of his office and the governing body of ~~such~~  
 18 ~~governmental~~ the local government entity shall appoint some  
 19 qualified person to the office pending completion of the  
 20 audit.

21 (4) Upon the completion of the audit by the department  
 22 independent auditor, if a shortage of cash existed in the  
 23 accounts of the officer, the department independent auditor  
 24 shall ~~file--with~~ notify the governing body of the  
 25 ~~governmental~~ local government entity ~~a-final-report~~ of the

audit, showing the shortage. The governing body shall, within 10 days after the filing of the department's final report of the audit, set a date and time for a formal hearing to test the accuracy of the final report of the audit and give notice of the hearing to the officer.

(5) If the governing body finds that a shortage exists and that the officer suspended is, by act or omission, responsible for the shortage, the officer's right to the office is forfeited and the report of the audit shall be referred to the county attorney."

**Section 10.** Section 2-7-512, MCA, is amended to read:

"2-7-512. Exit review conference. Upon completion of the field work of each audit, the in-charge independent auditor is required to hold with the appropriate officials an exit review conference in which the audit results shall must be discussed."

**Section 11.** Section 2-7-513, MCA, is amended to read:

"2-7-513. Content of audit report and financial report.

(1) The audit reports shall ~~contain but are not limited to~~ the following:

{1} financial statements that conform with the generally accepted governmental accounting principles and which, insofar as possible, present the financial position and results of financial operations for each fund of the governmental entity;

{2} an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed; When an overall opinion cannot be expressed, the reasons therefor should be stated;

{3} a statement that previously noted deficiencies or recommendations contained in previous audit reports have been acted upon by adoption as recommended, adoption with modification, or rejection; and

{4} disclosure of any lack of compliance with state statutes or regulations, as well as any operating deficiencies or recommendations for improvement comply with the reporting requirements of government auditing standards issued by the U.S. comptroller general and federal regulations adopted by department rule.

(2) The department shall prescribe general methods and details of accounting for the financial report for local government entities other than schools. The financial report must be submitted in a form required by the department. The superintendent of public instruction shall prescribe the general methods and details of accounting for financial reports for schools."

**Section 12.** Section 2-7-514, MCA, is amended to read:

"2-7-514. (Temporary) Issuance and filing Filing of audit report and financial report. (1) Within 120 days after the completion of the field work, the department shall issue

1 Completed audit reports as follows:

2 {a}--county--audit--reports--to--county--commissioners,--the  
3 county--clerk--and--recorder,--and--the--county--attorney;

4 {b}--city--or--town--audit--reports--to--the--city--or--town  
5 governing--body,--the--city--or--town--chief--financial--officer,  
6 the--city--or--town--chief--executive,--and--the--city--or--town  
7 attorney;

8 {c}--school--district--audit--reports--to--the--trustees,--the  
9 county--superintendent--of--schools,--the must be filed with the  
10 department. Completed financial reports must be filed with  
11 the department as provided in 2-7-503(1). The state  
12 superintendent of public instruction,--the--county--attorney  
13 and--the--clerk--of--the--school--district;

14 {d}--school--district--extracurricular--fund--audit--reports  
15 to--the--trustees,--the--county--superintendent--of--schools,--the  
16 state--superintendent--of--public--instruction,--the--county  
17 attorney,--and--the--fund--administrator;

18 {e}--fire--district--or--volunteer--fire--department--audit  
19 reports--to--the--trustees,--the--county--attorney,--and--the--clerk  
20 and--recorder--of--the--county--in--which--the--fire--district--or  
21 fire--department--is--located;

22 {f}--conservancy--district--audit--reports--to--the--board--of  
23 directors,--the--department--of--natural--resources--and  
24 conservation,--the--district--court,--and--the--county  
25 attorney(s);

1 {g}--fire--department--relief--association--audit--reports--to  
2 the--trustees,--the--city--or--town--attorney,--and--the--respective  
3 city--or--town--clerk;

4 {h}--irrigation--district--audit--reports--to--the--board--of  
5 commissioners,--the--district--court,--and--the--county  
6 attorney(s); and

7 {i}--cemetery--district--audit--reports--to--the--board--of  
8 cemetery--trustees,--the--district--court,--and--the--county  
9 attorney shall file with the department a list of school  
10 districts subject to audit under 2-7-503(3). The list must  
11 be filed with the department within 6 months after the close  
12 of the fiscal year.

13 (2) At the time the financial report is filed or, in  
14 the case of a school district, when the audit report is  
15 filed with the department, the local government entity shall  
16 pay to the department a filing fee. The department shall  
17 charge a filing fee based upon the costs incurred by the  
18 department in the administration of this part. The  
19 department shall adopt the fee schedule by rule based upon  
20 the local government entities' revenue amounts.

21 {j}(3) All Copies of the completed audit and financial  
22 reports issued by must be made available by the department  
23 and the local government entity are to be maintained on file  
24 at an appropriate location and open to for public inspection  
25 during regular office hours. (Terminates June 30, 1991--sec.

1 6, Ch. 140, L. 1989.)

2 2-7-514. (Effective July 1, 1991) issuance and filing  
3 Filing of audit report and financial report. (1) Within 20  
4 days after the completion of the field work, the department  
5 shall issue Completed audit reports as follows:

6 (a) county audit reports to county commissioners, the  
7 county clerk and recorder, and the county attorney;

8 (b) city or town audit reports to the city or town  
9 governing body, the city or town chief financial officer,  
10 the city or town chief executive, and the city or town  
11 attorney;

12 (c) school district audit reports to the trustees, the  
13 county superintendent of schools, the must be filed with the  
14 department. Completed financial reports must be filed with  
15 the department as provided in 2-7-503(1). The state  
16 superintendent of public instruction, the county attorney,  
17 and the clerk of the school district;

18 (d) school district extracurricular fund audit reports  
19 to the trustees, the county superintendent of schools, the  
20 state superintendent of public instruction, the county  
21 attorney, and the fund administrator;

22 (e) fire district or volunteer fire department audit  
23 reports to the trustees, the county attorney, and the clerk  
24 and recorder of the county in which the fire district or  
25 fire department is located;

1 (f) conservancy district audit reports to the board of  
2 directors, the department of natural resources and  
3 conservation, the district court, and the county  
4 attorney(s);

5 (g) fire department relief association audit reports to  
6 the trustees, the city or town attorney, and the respective  
7 city or town clerk; and

8 (h) irrigation district audit reports to the board of  
9 commissioners, the district court, and the county  
10 attorney(s) shall file with the department a list of school  
11 districts subject to audit under 2-7-503(3). The list must  
12 be filed with the department within 6 months after the close  
13 of the fiscal year.

14 (2) At the time the financial report is filed or, in  
15 the case of a school district, when the audit report is  
16 filed with the department, the local government entity shall  
17 pay to the department a filing fee. The department shall  
18 charge a filing fee based upon the costs incurred by the  
19 department in the administration of this part. The  
20 department shall adopt the fee schedule by rule based upon  
21 the local government entities' revenue amounts.

22 (2)(3) All Copies of the completed audit and financial  
23 reports issued by must be made available by the department  
24 and the local government entity are to be maintained on file  
25 at an appropriate location and open to for public inspection

1 during regular office hours."

2 **Section 13.** Section 2-7-515, MCA, is amended to read:

3 "2-7-515. **Actions by governing bodies.** (1) Upon receipt  
4 of the audit report, the governing bodies of each audited  
5 local government entity shall review the contents and within  
6 30 days shall notify the department in writing as to what  
7 action they plan to take on any deficiencies or  
8 recommendations contained in the audit report. If no  
9 deficiencies or recommendations appear in the audit report,  
10 notification ~~shall~~ is not be required.

11 (2) Notification to the department shall include a  
12 statement by the governing bodies that noted deficiencies or  
13 recommendations for improvement have been acted upon by  
14 adoption as recommended, adoption with modification, or  
15 rejection.

16 (3) The local government entity shall adopt measures to  
17 correct the report findings and submit a copy of the  
18 corrective action plan to the department and, if the local  
19 government entity is a school district, shall also send a  
20 copy to the superintendent of public instruction. The  
21 department shall notify the entity of the acceptance of the  
22 corrective measures. If the department and the local  
23 government entity fail to agree, a conference between the  
24 parties must be held. Failure to resolve findings or  
25 implement corrective measures shall result in the

1 withholding of financial assistance in accordance with rules  
2 adopted by the department pending resolution or compliance.

3 ~~(3)~~(4) In cases where a violation of law or  
4 nonperformance of duty is found on the part of an officer,  
5 employee, or board, the officer, employee, or board must be  
6 proceeded against by the attorney general or county, city,  
7 or town attorney as provided by law. The county, city, or  
8 town attorney shall report to the department within 30 days  
9 after receiving the audit report from the department the  
10 proceedings instituted or to be instituted relating to the  
11 violations of law and nonperformance of duty. If the county,  
12 city, or town attorney fails or refuses to prosecute the  
13 case, the department may ~~employ-an~~ refer the case to the  
14 attorney general to prosecute the case at the expense of the  
15 ~~respective-governmental~~ local government entity."

16 **Section 14.** Section 2-7-516, MCA, is amended to read:

17 "2-7-516. **Audit fees.** (1) The compensation to the  
18 independent auditor for conducting an audit must be agreed  
19 upon by the governing body or managing or executive officer  
20 of the local government entity and the independent auditor  
21 and must be paid in the manner that other claims against the  
22 local government entity are paid.

23 ~~(1)~~(2) The department-shall-charge compensation for an  
24 audit fees-based-upon-the-costs-incurred conducted by the  
25 department in-the-administration-of-this-part-



1       ~~(2) All audit fees herein provided shall~~ must be paid  
2 by the ~~governmental~~ local government entity to the state  
3 treasurer and be deposited in an enterprise fund to the  
4 credit of the department.

5       ~~(3) The department may submit a bill to the~~  
6 ~~governmental entity based upon the estimated percentage of~~  
7 ~~completion of any audit. The governmental entity must make~~  
8 ~~payment within 60 days of receiving a bill."~~

9       **Section 15.** Section 2-7-517, MCA, is amended to read:

10       "2-7-517. **Penalty.** (1) When a local government entity  
11 has failed to file a report as required by 2-7-503(1) or to  
12 make the payment required by 2-7-514(2) within 60 days, the  
13 department may issue an order stopping payment of any state  
14 financial assistance to the local government entity or may  
15 charge a late payment penalty as adopted by rule. Upon  
16 receipt of the report or payment of the filing fee, all  
17 financial assistance that was withheld under this section  
18 must be released and paid to the local government entity.

19       (2) When a ~~governmental~~ local government entity has  
20 failed to make payment as required by 2-7-516(1) within 60  
21 days of receiving a bill for an audit, the department may  
22 issue an order stopping payment of any state financial aid  
23 to the ~~governmental~~ local government entity. Upon payment  
24 for the audit, all financial aid that was withheld because  
25 of failure to make payment ~~shall~~ must be released and paid

1 to the ~~governmental~~ local government entity."

2       **Section 16.** Section 2-7-518, MCA, is amended to read:

3       "2-7-518. **Deposit of audit fees.** All audit fees  
4 received from ~~governmental~~ local government entities after  
5 June 30, 1981, shall be deposited in the enterprise fund to  
6 the credit of the department of commerce for administration  
7 of Title 2, chapter 7, part 5."

8       **Section 17.** Section 2-7-521, MCA, is amended to read:

9       "2-7-521. (Temporary) Publication. (1) (a) ~~Except as~~  
10 ~~provided in subsection (3), after~~ After the expiration of  
11 the 30-day period provided for in 2-7-515(1), the ~~department~~  
12 local government entity shall send a copy of ~~the general~~  
13 ~~comments section of~~ each audit report to a newspaper of  
14 general circulation in the area of the local government  
15 entity. However, ~~the general comments section of~~ each county  
16 audit report must be sent to the official newspaper of the  
17 county.

18       (b) For an audit report of a ~~local government entity~~  
19 ~~provided for in 2-7-503(1)(a) or (1)(b)~~ county or an  
20 incorporated city or town, the department county, city, or  
21 town shall send to the appropriate newspaper a copy of a  
22 summary of significant findings regarding the audit report.  
23 The summary, which may not exceed 800 words, must be  
24 prepared by the ~~auditing agency or firm~~ independent auditor  
25 and contain a statement indicating that it is only a summary

1 and is not intended to be used as an audit report.

2 (2) For an audit report of a ~~local-government-entity~~  
3 ~~provided-for-in-2-7-503(i)(a)-or-(i)(b)~~ county or  
4 incorporated city or town, a newspaper is required to  
5 publish only:

6 (a) the summary of significant findings provided for in  
7 subsection (1)(b); and

8 (b) a statement to the effect that the audit report is  
9 on file in its entirety and open to public inspection.

10 (3) For an audit report of a local government entity  
11 ~~provided-for-in-2-7-503(i)(c)-through-(i)(i)~~ other than a  
12 county or incorporated city or town, the newspaper is  
13 required to publish only the statement provided for in  
14 subsection (2)(b) and a statement providing that the audited  
15 local government entity will send a copy of the audit report  
16 to any interested person upon request. ~~A copy of the audit~~  
17 ~~report must be sent to the newspaper publishing the~~  
18 ~~statements.~~

19 (4) Publication costs must be borne by the audited  
20 ~~governmental~~ local government entity. (Terminates June 30,  
21 1991--sec. 6, Ch. 140, L. 1989.)

22 2-7-521. (Effective July 1, 1991) Publication. (1) (a)  
23 ~~Except-as-provided-in-subsection-(3),--after~~ After  
24 expiration of the 30-day period provided for in 2-7-515(1),  
25 the ~~department~~ local government entity shall send a copy of

1 ~~the-general-comments-section-of~~ each audit report to a  
2 newspaper of general circulation in the area of the local  
3 government entity. However, ~~the-general-comments-section-of~~  
4 each county audit report must be sent to the official  
5 newspaper of the county.

6 (b) For an audit report of a ~~local-government-entity~~  
7 ~~provided-for-in-2-7-503(i)(a)-or-(i)(b)~~ county or an  
8 incorporated city or town, the department county, city, or  
9 town shall send to the appropriate newspaper a copy of a  
10 summary of significant findings regarding the audit report.  
11 The summary, which may not exceed 800 words, must be  
12 prepared by the ~~auditing-agency or-firm~~ independent auditor  
13 and contain a statement indicating that it is only a summary  
14 and is not intended to be used as an audit report.

15 (2) For an audit report of a ~~local-government-entity~~  
16 ~~provided-for-in-2-7-503(i)(a)-or-(i)(b)~~ county or  
17 incorporated city or town, a newspaper is required to  
18 publish only:

19 (a) the summary of significant findings provided for in  
20 subsection (1)(b); and

21 (b) a statement to the effect that the audit report is  
22 on file in its entirety and open to public inspection.

23 (3) For an audit report of a local government entity  
24 ~~provided-for-in-2-7-503(i)(c)-through-(i)(h)~~ other than a  
25 county or incorporated city or town, the newspaper is

1 required to publish only the statement provided for in  
 2 subsection (2)(b) and a statement providing that the audited  
 3 local government entity will send a copy of the audit report  
 4 to any interested person upon request. ~~A copy of the audit~~  
 5 ~~report--must--be--sent--to--the--newspaper--publishing--the~~  
 6 ~~statements.~~

7 (4) Publication costs must be borne by the audited  
 8 ~~governmental~~ local government entity."

9 NEW SECTION. Section 18. Report review. (1) The  
 10 department shall determine whether the provisions of this  
 11 part have been complied with by the independent auditor.

12 (2) Upon receipt of the audit report from the local  
 13 government entity the department shall review the report. If  
 14 the department determines the reporting requirements have  
 15 not been met, the department shall notify the local  
 16 government entity and the independent auditor submitting the  
 17 report. The notification must include issuance of a  
 18 statement of deficiencies by the department. The department  
 19 shall allow the independent auditor 60 days to correct the  
 20 identified deficiencies.

21 (3) If the corrections are not made within 60 days of  
 22 the department's notice, the department shall notify the  
 23 local government entity that the report has not been  
 24 received. Failure to submit a report shall result in the  
 25 withholding of payment of the audit fee pending resolution

1 of the identified deficiencies or receipt of a corrected  
 2 report.

3 (4) Upon review of the report, if the department  
 4 determines the independent auditor has issued a report that  
 5 fails to meet the auditing standards referred to in 2-7-513  
 6 or contains false or misleading information, the department  
 7 shall notify the board.

8 (5) The department shall review the audit report  
 9 findings and the response of the governing body or executive  
 10 or managing officer of the local government entity submitted  
 11 under 2-7-515. When the findings concern financial  
 12 assistance, the department shall notify the state agency  
 13 that is responsible for disbursing the state or federal  
 14 funding.

15 (6) The department must have access in its office to  
 16 the working papers of the independent auditor.

17 **Section 19.** Section 3-5-902, MCA, is amended to read:

18 "3-5-902. Fiscal administration for payment of court  
 19 expenses. The department of commerce shall:

20 (1) establish procedures for disbursement of funds for  
 21 payment of district court expenses listed in 3-5-901,  
 22 including prorating of those funds if they are insufficient  
 23 to cover all expenses listed in 3-5-901; and

24 (2) develop a uniform accounting system in accordance  
 25 with 2-7-504 for use by the counties in reporting court

1 expenses at a detailed level for budgeting and auditing  
2 purposes; and

3 ~~(3) provide for annual auditing of district court~~  
4 ~~expenses to assure normal operations and consistency in~~  
5 ~~reporting of expenditures."~~

6 **Section 20.** Section 7-6-2352, MCA, is amended to read:

7 **\*7-6-2352.** State grants to district courts -- rules.

8 (1) The department of commerce shall make grants, to the  
9 extent funds are available after expenses provided for in  
10 3-5-901 are funded, to the governing body of a county for  
11 the district courts for assistance, as provided in this  
12 section.

13 (2) The governing body of a county may apply to the  
14 department of commerce for a grant by filing a written  
15 request on forms provided by the department by July 20 for  
16 the previous fiscal year unless the department grants a time  
17 extension upon request of the county. In its request for a  
18 grant, a county must certify that:

19 (a) all expenditures from the district court fund have  
20 been lawfully made;

21 (b) no transfers from the district court fund have been  
22 or will be made to any other fund; and

23 (c) no expenditures have been made from the district  
24 court fund that are not specifically authorized by 7-6-2511  
25 and 7-6-2351.

1 (3) To the extent funds are available, the department  
2 of commerce shall award a grant if the county's district  
3 court expenditures for the previous fiscal year exceeded the  
4 sum of:

5 (a) the product of the maximum mill levy authorized by  
6 law for district court purposes, whether or not assessed,  
7 multiplied by the previous year's taxable valuation of the  
8 county; and

9 (b) all revenues, except district court grants,  
10 required by law to be deposited in the district court fund  
11 for the previous fiscal year.

12 (4) Eligible court expenditures for grant purposes  
13 include all costs of the county associated with the  
14 operation and maintenance of the district court, from  
15 whatever fund paid, except costs for building and capital  
16 items and library maintenance, replacement, and acquisition.

17 (5) The department of commerce shall notify each  
18 eligible county as soon as possible of its intention to  
19 award a grant to that county and the amount of the award.

20 (6) The grant received by the county shall be placed in  
21 the district court fund.

22 ~~(7) After all grants are awarded, the department of~~  
23 ~~commerce shall audit each approved grant request. The~~  
24 ~~department shall charge each county receiving a grant an~~  
25 ~~audit fee in the same amount as the costs incurred in~~

1 ~~conducting-the-audit-~~

2 {8} If the an audit of--a--grant--recipient conducted  
3 pursuant to 2-7-503 discloses that the recipient received a  
4 grant in excess of the amount for which it was eligible, the  
5 recipient shall repay the excess to the department of  
6 commerce. The department shall redistribute any repaid  
7 excess amounts to the other counties that received grants  
8 from the appropriation from which the overpayment was made,  
9 on the same basis as the original awards. No county is  
10 eligible for a district court grant if it owes the  
11 department a refund of a prior year's overpayment.

12 {9}{8} The department of commerce shall prescribe rules  
13 and forms necessary to effectively administer this section.  
14 The department may require a county to provide any  
15 information considered necessary for the administration of  
16 the program."

17 **Section 21.** Section 7-6-4113, MCA, is amended to read:

18 "7-6-4113. Filing of annual financial statement. (1)  
19 The city or town clerk must, within 120 days following the  
20 close of each fiscal year, transmit one copy of the  
21 statement to the department of commerce and must present the  
22 other copy to the city or town council or commission.

23 (2) If a city or town clerk fails to file a copy of the  
24 statement with the department within the time specified, the  
25 department, without delay, shall examine the books, records,

1 and accounts of the city or town. The department shall make  
2 from its examination a statement of the financial condition  
3 of the city or town for the preceding fiscal year in the  
4 manner it should have been made by the city or town clerk.  
5 The examination shall be considered a special audit under  
6 the provisions of subsections ~~(4)~~--and (5) and (6) of  
7 2-7-503, and all of the provisions of subsections ~~(4)~~--and  
8 (5) and (6) of 2-7-503 apply to it."

9 **Section 22.** Section 19-11-204, MCA, is amended to read:

10 "19-11-204. Audit Review and report by board of  
11 trustees. The board of trustees of the association shall  
12 audit review the accounts of the association at least every  
13 6 months and shall report the condition of them at the next  
14 regular meeting of the association."

15 **Section 23.** Section 19-11-205, MCA, is amended to read:

16 "19-11-205. Annual report of secretary and treasurer to  
17 association and state auditor. The secretary and treasurer  
18 of the association shall annually prepare a detailed report  
19 of its receipts and expenditures for the preceding year in  
20 accordance with 2-7-503, showing to whom and for what  
21 purposes money has been expended. They shall file the report  
22 with the association, the department of commerce, and a  
23 duplicate-of-it-with the state auditor. ~~No-money~~ Money may  
24 not be paid to the treasurer of the association until the  
25 report is filed."

1       **Section 24.** Section 20-9-203, MCA, is amended to read:  
 2       "20-9-203. Examination of district accounting records.  
 3       †1) The accounting records of all first-, ~~and second-class~~  
 4       ~~school districts~~ second-, and third-class school districts  
 5       ~~that--maintain--a--high--school--shall~~ must be audited in  
 6       accordance with 2-7-503. The trustees of the district shall  
 7       file a copy of the completed audit report with the  
 8       department of commerce, the superintendent of public  
 9       instruction, and the county superintendent.  
 10       ~~†2) Annually and at such other times as directed by the~~  
 11       ~~board of county commissioners or trustees, the county~~  
 12       ~~auditor or the county treasurer if there is no county~~  
 13       ~~auditor shall audit the accounting records of each~~  
 14       ~~third class district that does not maintain a high school.~~  
 15       ~~Such district shall deliver all accounting records to the~~  
 16       ~~auditing county official no later than July 15 for the audit~~  
 17       ~~of the financial activity of the last completed school~~  
 18       ~~fiscal year. The auditing county official shall examine the~~  
 19       ~~accounting records, prepare an audit report, and:~~  
 20       ~~(a) return the accounting records to the district no~~  
 21       ~~later than August 15;~~  
 22       ~~(b) send a copy of the audit report to the chairman of~~  
 23       ~~the trustees; and~~  
 24       ~~(c) file copies of the audit report with the~~  
 25       ~~superintendent of public instruction, the county~~

1       ~~superintendent, and the county clerk and recorder."~~  
 2       **Section 25.** Section 20-9-213, MCA, is amended to read:  
 3       "20-9-213. Duties of trustees. The trustees of each  
 4       district shall have the sole power and authority to transact  
 5       all fiscal business and execute all contracts in the name of  
 6       the district. No person other than the trustees acting as a  
 7       governing board may expend money of the district. In  
 8       conducting the fiscal business of the district, the trustees  
 9       shall:  
 10       (1) cause the keeping of an accurate, detailed  
 11       accounting of all receipts and expenditures of school money  
 12       for each fund maintained by the district in accordance with  
 13       generally accepted accounting principles and the rules  
 14       prescribed by the superintendent of public instruction. The  
 15       record of the accounting must be open to public inspection  
 16       at any meeting of the trustees.  
 17       (2) authorize all expenditures of district money and  
 18       cause warrants to be issued for the payment of lawful  
 19       obligations;  
 20       (3) issue warrants on any budgeted fund in anticipation  
 21       of budgeted revenues, except that the expenditures may not  
 22       exceed the amount budgeted for the fund;  
 23       (4) invest any money of the district, whenever in the  
 24       judgment of the trustees the investment would be  
 25       advantageous to the district, by directing the county

1 treasurer to invest any money of the district in direct  
 2 obligations of the United States government; in savings or  
 3 time deposits in a state or national bank, building or loan  
 4 association, savings and loan association, or credit union  
 5 insured by the FDIC, FSLIC, or NCUA located in the state; or  
 6 in a repurchase agreement as authorized in 7-6-213. All  
 7 interest collected on the deposits or investments must be  
 8 credited to the fund from which the money was withdrawn,  
 9 except that interest earned on account of the investment of  
 10 money realized from the sale of bonds must be credited to  
 11 the debt service fund or the building fund, at the  
 12 discretion of the board of trustees. The placement of the  
 13 investment by the county treasurer is not subject to ratable  
 14 distribution laws and must be done in accordance with the  
 15 directive from the board of trustees. A district may invest  
 16 money under the state unified investment program established  
 17 in Title 17, chapter 6.

18 (5) cause the district to record every transaction in  
 19 the appropriate account before the accounts are closed at  
 20 the end of the fiscal year in order to properly report the  
 21 receipt, use, and disposition of all money and property for  
 22 which the district is accountable;

23 (6) report annually to the county superintendent, not  
 24 later than August 1, the financial activities of each fund  
 25 maintained by the district during the last completed school

1 fiscal year, on the forms prescribed and furnished by the  
 2 superintendent of public instruction. Annual fiscal reports  
 3 for joint school districts must be submitted to the county  
 4 superintendent of each county in which part of the joint  
 5 district is situated.

6 (7) whenever requested, report any other fiscal  
 7 activities to the county superintendent, superintendent of  
 8 public instruction, or board of public education;

9 (8) cause the accounting records of the district to be  
 10 audited biennially as required by 2-7-503; and

11 (9) perform, in the manner permitted by law, other  
 12 fiscal duties that are in the best interests of the  
 13 district."

14 **Section 26.** Section 20-10-202, MCA, is amended to read:

15 "20-10-202. Records, reports, and reviews, ~~and~~ audits.

16 (1) The superintendent of public instruction shall prescribe  
 17 regulations for keeping the financial and commodity records  
 18 and making reports on school food services operated by a  
 19 district. The financial records ~~shall~~ must be  
 20 available for inspection and audit by federal and state  
 21 officials authorized by law or contract to perform audits  
 22 and ~~shall~~ be preserved for such the period of time, not to  
 23 exceed 5 years, ~~as~~ the superintendent of public instruction  
 24 may prescribe.

25 (2) The superintendent of public instruction shall

1 conduct or cause to be conducted the audits, inspections,  
2 and administrative reviews of the financial records and the  
3 operation of school food services."

4 NEW SECTION. Section 27. Codification instruction.  
5 [Section 18] is intended to be codified as an integral part  
6 of Title 2, chapter 7, part 5, and the provisions of Title  
7 2, chapter 7, part 5, apply to [section 18].

8 NEW SECTION. Section 28. Effective date --  
9 applicability. (1) Except as provided in (2), [this act] is  
10 effective July 1, 1992, and applies to the fiscal year  
11 ending June 30, 1992.

12 (2) The department of commerce may adopt rules to  
13 implement [this act] to become effective July 1, 1992.

-End-



STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0328, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act adopting the state single audit act; generally revising and clarifying the law relating to audits of local government entities; requiring compliance with government auditing standards; authorizing the charging of fees commensurate with cost for state services; and providing a delayed effective date and an applicability date.

ASSUMPTIONS:

1. Approximately 700 governmental units would be required to submit annual reports to the Department of Commerce beginning with FY92. Approximately 450 audits will be required; 350 on an annual basis.
2. Administrative rules, financial reporting procedures and audit requirements will be developed, published and distributed to local governments and certified public accountants by the end of FY92.
3. Revised annual financial report forms will be developed, printed and distributed to local governments.
4. Additional computer equipment and software will be necessary for the required database to administer the program.
5. In FY92 the department will need an additional 3.00 FTE with 1.00 FTE at grade 17, 1.00 FTE at grade 12, 0.25 FTE at grade 15 and 0.75 FTE at grade 11. State-owned office space will be available.
6. In FY93 the department will need an additional 2.00 FTE, 1.75 FTE for auditors at grade 15 and 0.25 FTE for a systems technician at grade 12.
7. Initial start-up costs to implement the program will be paid through an interfund loan from the general fund in FY92. Program costs in FY93 and subsequent years will be paid with audit report filing fees.
8. The interfund loan will be repaid over a five-year period with retained earnings from audit report filing fees. The repayment of interfund loans is an off-budget transaction performed at the end of each fiscal year.
9. Current review fees charged local governments will increase approximately \$270,545 in FY93.

FISCAL IMPACT:

see next page

  
\_\_\_\_\_  
ROD SUNDSTED, BUDGET DIRECTOR                      DATE  
Office of Budget and Program Planning                      1-30-91

\_\_\_\_\_  
JOHN COBB, PRIMARY SPONSOR                      DATE

Fiscal Note for HB0328, as introduced.                      **HB 328**

FISCAL IMPACT:

Dept. of Commerce:

	FY 92			FY 93		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
<u>Expenditures:</u>						
FTE	0.00	3.00	3.00	0.00	5.00	5.00
Personal Services	0	95,570	95,570	0	155,595	155,595
Operating Costs	0	52,330	52,330	0	69,950	69,950
Equipment	<u>0</u>	<u>41,982</u>	<u>41,982</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	189,882	189,882	0	225,545	225,545
<u>Funding:</u>						
General Fund	0	189,882	189,882	0	0	0
Proprietary Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>225,545</u>	<u>225,545</u>
Total	0	189,882	189,882	0	225,545	225,545
<u>Revenues:</u>						
Audit Review Fees (02)	0	0	0	0	263,521	263,521

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Audit review fees will increase approximately \$270,545 in FY93.

TECHNICAL NOTE:

Because of the general fund loan, the bill should be amended in the fee schedule [Section 3(6)] to provide for payback of the initial loan over five years.

**HB 328**

STATE OF MONTANA - FISCAL NOTE  
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0328, as introduced, revised.

DESCRIPTION OF PROPOSED LEGISLATION:


An act adopting the state single audit act; generally revising and clarifying the law relating to audits of local government entities; requiring compliance with government auditing standards; authorizing the charging of fees commensurate with cost for state services; and providing a delayed effective date and an applicability date.

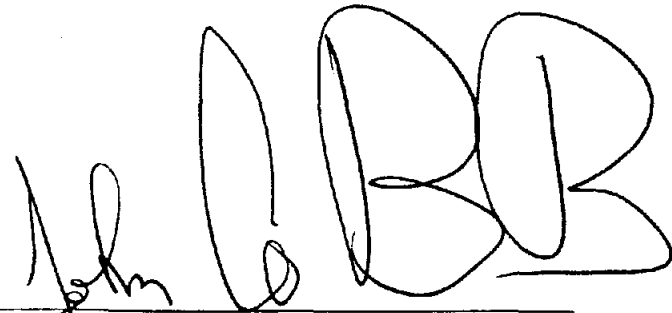
ASSUMPTIONS:

1. Approximately 700 governmental units would be required to submit annual reports to the Department of Commerce beginning with FY92. Approximately 450 audits will be required; 350 on an annual basis.
2. Administrative rules, financial reporting procedures and audit requirements will be developed, published and distributed to local governments and certified public accountants by the end of FY92.
3. Revised annual financial report forms will be developed, printed and distributed to local governments.
4. Additional computer equipment and software will be necessary for the required database to administer the program.
5. In FY92 the department will need an additional 2.00 FTE. State-owned office space will be available.
6. In FY93 the department will need an additional 1.00 FTE.
7. Initial start-up costs to implement the program will be paid through an interfund loan from the general fund in FY92. Program costs in FY93 and subsequent years will be paid with audit report filing fees.
8. The interfund loan will be repaid over a five-year period with retained earnings from audit report filing fees. The repayment of interfund loans is an off-budget transaction performed at the end of each fiscal year.
9. Audit review fees charged local governments will be approximately \$263,521 in FY93.
10. Current Law FTE's expenditures and funding are for current Department of commerce audit staff. Funding is now provided by audit fees. One FTE position (Grade 14) would be transferred to staff the program and be upgraded (Grade 17) in FY92. One additional FTE position (Grade 12) would be transferred to the program and be upgraded (Grade 15) in FY93. Funding for these positions would be provided by audit review fees.

FISCAL IMPACT:

see next page

  
\_\_\_\_\_  
ROD SUNDESTED, BUDGET DIRECTOR      DATE  
Office of Budget and Program Planning      2-11-91

  
\_\_\_\_\_  
JOHN COBB, PRIMARY SPONSOR      DATE  
Fiscal Note for HB0328, as introduced, revised      2-12-91  
HB 328 Rev.

Fiscal Note Request, HB0328, as introduced, revised

Form BD-15

Page 2

FISCAL IMPACT:

Dept. of Commerce:

	<u>FY 92</u>			<u>FY 93</u>		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
<u>Expenditures:</u>						
FTE	28.20	30.20	2.00	28.20	31.20	3.00
Personal Services	843,301	911,456	68,155	843,301	948,016	104,715
Operating Costs	256,228	305,953	49,725	256,228	321,344	65,116
Equipment	<u>16,828</u>	<u>58,810</u>	<u>41,982</u>	<u>16,828</u>	<u>16,828</u>	<u>0</u>
Total	1,116,357	1,276,219	159,862	1,116,357	1,286,188	169,831
<u>Funding:</u>						
General Fund	56,440	56,440	0	56,440	56,440	2,000,000
Proprietary Fund:						
Audit Fees	1,059,917	1,029,897	(30,020)	1,059,917	1,004,203	(55,714)
Audit Review Fees	<u>0</u>	<u>189,882</u>	<u>189,882</u>	<u>0</u>	<u>225,545</u>	<u>225,545</u>
Total	1,116,357	1,276,219	159,862	1,116,357	1,286,188	169,831
<u>Revenues:</u>						
Audit Fees	1,059,917	1,029,897	(30,020)	1,059,917	1,004,203	(55,714)
Audit Review Fees	<u>0</u>	<u>189,882</u>	<u>189,882</u>	<u>0</u>	<u>263,545</u>	<u>263,545</u>
Total	1,059,917	1,219,779	159,862	1,059,917	1,267,748	207,831

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

see next page

HB 328 Rev.

IV. EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:  
 Assume all audits currently required under law are conducted.

<u>Type of Local Government</u>	<u>Number</u>	<u>Audit Req. Current</u>	<u>Audit Req. Proposed</u>	<u>Audit Cost Increases</u>	<u>Audit Cost (Decreases)</u>	<u>Audit Review Fee</u>	<u>Other Savings<sup>2</sup></u>
<b>Counties &amp; Consolidated City/County Government</b>							
Revenue > \$5 million	16	16	16	\$ 0	\$ 0	\$ 12,560	\$ (80,000)
Revenue < \$5 million	40	40	40	\$ 0	\$ 0	\$ 23,800	\$ (40,000)
<b>Incorporated Cities/Towns</b>	127	100	94	\$ 0	\$(15,200)	\$ 46,560	\$ ( 5,000)
<b>Other Entities Subject to Audit</b>							
Current Law <sup>1</sup>	331	115	27	\$ 0	\$(78,150)	\$ 27,185	\$ 0
New Under Proposed Law	194	0	18	\$ 30,600	\$ 0	\$ 17,065	\$ 0
<b>School Districts</b>							
Revenues > \$1 million	113	113	113	\$ 0	\$ 0	\$ 74,920	\$ (56,500)
Revenues > \$100,000 & < \$1 million	139	75	139	\$128,000	\$ 0	\$ 56,060	\$ (27,800)
Revenues < \$100,000	139	0	0	\$ 0	\$ 0	\$ 0	\$ 0
<b>TOTALS</b>	<u>1,107</u>	<u>459</u>	<u>447</u>	<u>\$158,600</u>	<u>\$(93,350)</u>	<u>\$ 263,545</u>	<u>\$(209,300)</u>

<sup>1</sup> Cemetery Districts, Irrigation Districts, Rural Fire Districts

<sup>2</sup> Other Savings realized by reduced audit duplication, personal time, fewer audit requirements (ie. district courts and school food services), and the efficient centralization of local government financial information.

TECHNICAL NOTE:

Because of the general fund loan, the bill should be amended in the fee schedule [Section 3(6)] to provide for payback of the initial loan over five years.

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0328, second reading.

DESCRIPTION OF PROPOSED LEGISLATION:


An act adopting the state single audit act; generally revising and clarifying the law relating to audits of local government entities; requiring compliance with government auditing standards; authorizing the charging of fees commensurate with cost for state services; authorizing an interfund loan from the general fund; and providing a delayed effective date, an applicability date, and a termination date.

ASSUMPTIONS:

1. Approximately 738 governmental units would be required to submit annual reports to the Department of Commerce beginning with FY92. Approximately 384 audits will be required; approximately 250 on an annual basis.
2. Administrative rules, financial reporting procedures and audit requirements will be developed, published and distributed to local governments and certified public accountants by the end of FY92.
3. Revised annual financial report forms will be developed, printed and distributed to local governments.
4. Additional computer equipment and software will be necessary for the required database to administer the program.
5. In FY92 the department will need an additional 1.50 FTE. State-owned office space will be available.
6. In FY93 the department will need an additional 1.00 FTE.
7. Initial start-up costs to implement the program will be paid through an interfund loan from the general fund in FY92. Program costs in FY93 and subsequent years will be paid with audit report filing fees.
8. The interfund loan will be repaid over a five-year period from the revenues from the filing fees provided for in the act. The loan repayment is an off-budget transaction performed at the end of each fiscal year.
9. Audit review fees charged local governments will be approximately \$240,934 in FY93. Of this, \$142,859 would be paid by OSPI.
10. According to OSPI, 222 school districts will receive revenues in excess of \$200,000 or federal financial assistance in excess of \$25,000 and qualify for audit under Section 3. The Superintendent will request a review of 10% of the other 170 districts (an additional 17 districts) that receive less than the qualifying amounts. The fee for the 222 districts will be \$137,874, including the 17.3% surcharge of \$20,304, and the fee for the 17 districts will be \$4,985, including the surcharge of \$735.
11. Current law FTE expenditures and funding are for current Department of Commerce audit staff. Funding is now provided by audit fees. One FTE position (Grade 14) would be transferred to staff the program and be upgraded (Grade 17) in FY92. One additional FTE position (Grade 12) would be transferred to the program and be upgraded (Grade 15) in FY93. Funding for these positions would be provided by audit review fees.

FISCAL IMPACT:

see next page

  
ROD SUNDSTED, BUDGET DIRECTOR  
Office of Budget and Program Planning

2-26-91  
DATE

  
JOHN COBB, PRIMARY SPONSOR

2/27/91  
DATE

Fiscal Note for HB0328, second reading.

HB 328  
2nd Reading

FISCAL IMPACT:

Dept. of Commerce:

	FY 92			FY 93		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
<u>Expenditures:</u>						
FTE	28.20	29.70	1.50	28.20	30.70	2.50
Personal Services	843,301	899,359	56,058	843,301	932,490	89,189
Operating Costs	256,228	304,804	48,576	256,228	314,359	58,131
Equipment	<u>16,828</u>	<u>56,745</u>	<u>39,917</u>	<u>16,828</u>	<u>16,828</u>	<u>0</u>
Total	1,116,357	1,260,908	144,551	1,116,357	1,263,677	147,320
<u>Funding:</u>						
General Fund	56,440	56,440	0	56,440	56,440	0
Audit Fees (06)	1,059,917	1,029,897	(30,020)	1,059,917	1,004,203	(55,714)
Filing Fees (06)	0	172,571	172,571	0	201,034	201,034
Other Fees (06)	<u>0</u>	<u>2,000</u>	<u>2,000</u>	<u>0</u>	<u>2,000</u>	<u>2,000</u>
Total	1,116,357	1,260,908	144,551	1,116,357	1,263,677	147,320
<u>Revenues:</u>						
Audit Fees	1,059,917	1,029,897	(30,020)	1,059,917	1,004,203	(55,714)
Filing Fees	0	172,571	172,571	0	240,934	240,934
Other Fees	<u>0</u>	<u>2,000</u>	<u>2,000</u>	<u>0</u>	<u>2,000</u>	<u>2,000</u>
Total (06)	1,059,917	1,204,468	144,551	1,059,917	1,247,137	187,220

(continued on next page)

HB 328

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

Assume all audits currently required under law are conducted. School district audit review fees will be paid by the Superintendent of Public Instruction.

Type of Local Government	Audit Req Number	Audit Req Current	Audit Cost Proposed	Audit Cost Increases	Audit 1 Decreases	Other 2 Review Fee	Savings	Net Impact
Counties & Consolidated								
City/County Government	56	56	56	0	0	41,619	(128,000)	(86,381)
Incorporated Cities/Towns	126	100	71	0	(72,500)	(44,954)	(6,000)	(33,546)
Other Entities Subject To Audit	556	115	26	9,200	(91,750)	11,502	0	(71,048)
School Districts	<u>391</u>	<u>188</u>	<u>222</u>	<u>68,000</u>	<u>0</u>	<u>0</u>	<u>(84,300)</u>	<u>(16,300)</u>
Totals	1,129	459	384	77,200	(164,250)	98,075	(218,300)	(207,275)

1. Audit Review Fees will be subject to a fee schedule adopted through Administrative Rule.
2. Other Savings realized by reduced audit duplication, personal time, fewer audit requirements (e.g., district courts and school food services), and the efficient centralization of local government financial information.

TECHNICAL NOTES:

1. Should the dollar amounts on page 7, lines 21 and 22, be consistent with those on page 13, lines 7 and 8?
2. Page 27, lines 9 through 12 "must be paid". . ."from the equalization aid account." Could be amended to add "or other federal special revenue available for this purpose."

HBO328



APPROVED BY COMM.  
ON LOCAL GOVERNMENT

1 HOUSE BILL NO. 328  
 2 INTRODUCED BY COBB, JERGESON, GRINDE, KEATING, KADAS,  
 3 PAVLOVICH, SVRCEK  
 4 BY REQUEST OF THE LEGISLATIVE AUDIT COMMITTEE  
 5  
 6 A BILL FOR AN ACT ENTITLED: "AN ACT ADOPTING THE STATE  
 7 SINGLE AUDIT ACT; GENERALLY REVISING AND CLARIFYING THE LAW  
 8 RELATING TO AUDITS OF LOCAL GOVERNMENT ENTITIES; REQUIRING  
 9 COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS; AUTHORIZING  
 10 THE CHARGING OF FEES COMMENSURATE WITH COSTS FOR STATE AUDIT  
 11 SERVICES; AUTHORIZING AN INTERFUND LOAN FROM THE GENERAL  
 12 FUND; AMENDING SECTIONS 2-7-501, 2-7-502, 2-7-503, 2-7-504,  
 13 2-7-505, 2-7-506, 2-7-507, 2-7-508, 2-7-511, 2-7-512,  
 14 2-7-513, 2-7-514, 2-7-515, 2-7-516, 2-7-517, 2-7-518,  
 15 2-7-521, 3-5-902, 7-6-2352, 7-6-4113, 19-11-204, 19-11-205,  
 16 20-9-203, 20-9-213, AND 20-10-202, MCA; AND PROVIDING A  
 17 DELAYED EFFECTIVE DATE AND, AN APPLICABILITY DATE, AND A  
 18 TERMINATION DATE."

19  
20 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

21 **Section 1.** Section 2-7-501, MCA, is amended to read:

22 "2-7-501. Definition. Unless the context requires  
23 otherwise, in this part, the following definitions apply:

24 (1) "Audit" means a financial audit and includes  
25 financial statement and financial-related audits as defined

1 by government auditing standards as established by the U.S.  
2 comptroller general.

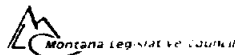
3 (2) "Board" means the Montana board of public  
4 accountants provided for in 2-15-1866.

5 (3) "department" "Department" means the department of  
6 commerce.

7 (4) (a) "Financial assistance" means assistance  
8 provided by a federal, state, or local government entity to  
9 a recipient LOCAL GOVERNMENT ENTITY or subrecipient to carry  
10 out a program. Financial assistance may be in the form of  
11 grants, contracts, cooperative agreements, loans, loan  
12 guarantees, property, interest subsidies, insurance, direct  
13 appropriations, or other noncash assistance. Financial  
14 assistance includes awards received directly from federal  
15 and state agencies or indirectly when subrecipients receive  
16 funds identified as federal or state funds by recipients.  
17 The granting agency is responsible for identifying the  
18 source of funds awarded to recipients. The recipient is  
19 responsible for identifying the source of funds awarded to  
20 subrecipients.

21 (b) Financial assistance does not include direct  
22 federal, state, or local government cash assistance to  
23 individuals.

24 (5) "Financial report" means a presentation of  
25 schedules that reflect a current financial position and the



1 operating results for the 1-year reporting period.  
 2 (6) "Independent auditor" means:  
 3 (a) a federal, state, or local government auditor who  
 4 meets the standards specified in the government auditing  
 5 standards; or  
 6 (b) a public LICENSED accountant who meets the  
 7 standards in subsection (6)(a).  
 8 (7) (a) "Local government entity" means a county, city,  
 9 district, or public corporation that:  
 10 (i) has the power to raise revenue for the purpose of  
 11 servicing the general public;  
 12 (ii) is governed by a board, commission, or individual  
 13 elected or appointed by the public or representatives of the  
 14 public; and  
 15 (iii) receives local, state, or federal financial  
 16 assistance.  
 17 (b) Local government entities include but are not  
 18 limited to:  
 19 (i) airport authority districts;  
 20 (ii) cemetery districts;  
 21 (iii) counties;  
 22 (iv) county housing authorities;  
 23 (v) county road improvement districts;  
 24 (vi) county sewer districts;  
 25 (vii) county water districts;

1 (viii) county weed control districts;  
 2 (ix) drainage districts;  
 3 (x) fire department relief associations;  
 4 (xi) fire districts;  
 5 (xii) hospital districts;  
 6 (xiii) incorporated cities or towns;  
 7 (xiv) irrigation districts;  
 8 (xv) mosquito districts;  
 9 (xvi) municipal housing authority districts;  
 10 (xvii) port authorities;  
 11 (xviii) refuse disposal districts;  
 12 (xix) rural improvement districts;  
 13 (xx) school districts including a district's  
 14 extracurricular funds;  
 15 (xxi) soil conservation districts;  
 16 (xxii) special education or other cooperatives;  
 17 (xxiii) television districts;  
 18 (xxiv) urban transportation districts;  
 19 (xxv) volunteer fire departments; and  
 20 (xxvi) water conservancy districts; AND  
 21 (XXVII) GRAZING DISTRICTS.  
 22 (8) "Revenues" means all receipts of a local government  
 23 entity from any source excluding the proceeds from bond  
 24 issuances."

25 **Section 2.** Section 2-7-502, MCA, is amended to read:

1        "2-7-502. Audit Short title -- purpose. (1) This part  
 2 may be cited as the "State of Montana Single Audit Act".  
 3        (2) The purpose purposes of the-audit-of-the-affairs-of  
 4 the-governmental-entities-as-set-forth-in this part shall-be  
 5 are to:  
 6        (a) improve the financial management of local  
 7 government entities with respect to federal, state, and  
 8 local financial assistance;  
 9        (b) establish uniform requirements for financial  
 10 reports and audits of local government entities;  
 11        (c) insure ensure constituent interests by determining  
 12 that compliance with all appropriate statutes and  
 13 regulations is accomplished;  
 14        (d) ensure that the financial condition and operations  
 15 of the local government entities are reasonably conducted  
 16 and reported;  
 17        (e) ensure that the stewardship of such local  
 18 government entities is conducted in such a manner as to  
 19 preserve and protect the public trust; and-to  
 20        (f) ensure that local government entities accomplish,  
 21 with economy and efficiency, the duties and responsibilities  
 22 of the entities in accordance with the legal requirements  
 23 imposed and the desires of the public; and  
 24        (g) promote the efficient and effective use of audit  
 25 resources."

1        **Section 3.** Section 2-7-503, MCA, is amended to read:  
 2        "2-7-503. (Temporary) Audits Financial reports and  
 3 audits of local governmental government entities. (1) The  
 4 department-shall-audit-the-affairs-of-all:  
 5        (a)--counties;  
 6        (b)--incorporated--cities--and--towns--having--a--population  
 7 of--more--than--300--in--the--most--recent--census--taken--under--the  
 8 direction--of--congress;  
 9        (c)--first---and---second--class--school--districts--and  
 10 third--class--school--districts--that--maintain--a--high--school;  
 11        (d)--school--district--extracurricular--funds--for--pupil  
 12 functions;  
 13        (e)--irrigation---districts;---except---as---provided---in  
 14 subsection-(7);  
 15        (f)--conservancy--districts;  
 16        (g)--fire--districts--and--volunteer--fire--departments--in  
 17 unincorporated--areas;--towns;--and--villages--supported--by--a  
 18 mill--levy;--except--as--provided--in--subsection-(6);  
 19        (h)--fire--department--relief--associations;--except--as  
 20 provided--in--subsection-(6);--and  
 21        (i)--cemetery--districts;  
 22        (2)--Each--audit--shall--be--made--every--2--years--and--shall  
 23 cover--the--immediately--preceding--2--fiscal--years--of--the  
 24 governmental governing body or managing or executive officer  
 25 of a local government entity, unless--annual--audits--are

1 ~~requested--by--the--governmental--entity~~ other than a school  
 2 ~~district or associated cooperative, shall ensure that a~~  
 3 ~~financial report is made every year. A school district or~~  
 4 ~~associated cooperative shall comply with the provisions of~~  
 5 ~~20-9-213. The financial report must cover the preceding~~  
 6 ~~fiscal year, be in a form prescribed by the department, and~~  
 7 ~~be completed within 4 months of the end of the reporting~~  
 8 ~~period. The local government entity shall submit the~~  
 9 ~~financial report to the department for review.~~

10 ~~{3}--Each--audit--shall--be--initiated--not--later--than--24~~  
 11 ~~months--from--the--close--of--the--fiscal--year--for--which--the--audit~~  
 12 ~~is--conducted.~~

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

18 ~~(3) (a) The governing body or managing or executive~~  
 19 ~~officer of each local government entity receiving revenues~~  
 20 ~~or financial assistance in the period covered by the~~  
 21 ~~financial report in excess of ~~9100,000~~ \$200,000 or federal~~  
 22 ~~financial assistance in excess of \$25,000 shall cause an~~  
 23 ~~audit to be made at least every 2 years. The audit must~~  
 24 ~~cover the entity's preceding 2 fiscal years. The audit must~~  
 25 ~~commence within 9 months from the close of the last fiscal~~

1 ~~year of the audit period. The audit must be completed and~~  
 2 ~~submitted to the department for review within 1 year from~~  
 3 ~~the close of the last fiscal year covered by the audit.~~

4 ~~(b) The governing body or managing or executive officer~~  
 5 ~~of a local government entity that does not meet the criteria~~  
 6 ~~established in subsection (3)(a) shall at least once every 4~~  
 7 ~~years, if directed by the department, OR, IN THE CASE OF A~~  
 8 ~~SCHOOL DISTRICT, IF DIRECTED BY THE DEPARTMENT AT THE~~  
 9 ~~REQUEST OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION, cause a~~  
 10 ~~financial review, as defined by department rule, to be~~  
 11 ~~conducted of the financial statements of the entity for the~~  
 12 ~~preceding fiscal year.~~

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

23 ~~{4}{5} In addition to the audits required by this~~  
 24 ~~section, the department may at any time conduct or contract~~  
 25 ~~for a special audit or review of the affairs of any~~

1 ~~governmental~~ local government entity referred to in this  
2 part. The special audit or review must, to the extent  
3 practicable, build upon audits performed pursuant to this  
4 part.

5 {5}{6} The fee for the special audit ~~shall~~ or review  
6 must be a charge based upon the costs incurred by the  
7 department in ~~the conduct of such~~ relation to the special  
8 audit or review. The audit fee ~~shall~~ must be paid by the  
9 ~~governmental~~ local government entity to the state treasurer  
10 and deposited in the enterprise fund to the credit of the  
11 department.

12 {6}--(a) ~~Except as provided in subsection (6)(c), the~~  
13 ~~department may not audit:~~

14 {i}--a--fire district which has an annual budget of less  
15 than \$20,000 and in which fire protection is provided solely  
16 by a fire company composed only of volunteer firefighters  
17 organized under Title 7, chapter 33, or

18 {ii}--a--fire department relief association organized  
19 under Title 19, chapter 11, which has annual receipts,  
20 including earnings on invested funds, of less than \$20,000,  
21 except for audits as provided under 19-11-206.

22 {b}--Such fire district shall annually file with the  
23 board of county commissioners of the county in which the  
24 majority of the district is located an itemized account of  
25 all receipts and expenditures for the year, signed under

1 oath by an officer of the fire company designated by the  
2 fire district trustees.

3 {c}--The board of county commissioners may require an  
4 annual audit to be conducted by the department if it  
5 considers such audit to be in the public interest.

6 {d}--Such fire department relief association shall  
7 annually file with the municipality in which the fire  
8 department relief association is located an itemized account  
9 of all receipts and expenditures for the year, signed under  
10 oath by an officer designated by the fire department relief  
11 association trustees. The municipality may require an annual  
12 audit to be conducted by the department if it considers such  
13 audit to be in the public interest.

14 {7}--(a) ~~Except as provided in subsection (7)(c), the~~  
15 ~~department may not audit an irrigation district with annual~~  
16 ~~expenditures of less than \$30,000, excluding the payment of~~  
17 ~~principal and interest on federal loans:~~

18 {b}--Such irrigation district shall annually file with  
19 the clerk of the district court in the county in which the  
20 irrigation district is located an itemized account of all  
21 receipts and expenditures for the year, signed under oath by  
22 an officer designated by the irrigation district trustees.

23 {c}--The district court may require an annual audit to  
24 be conducted by the department if it considers such audit to  
25 be in the public interest.

1       ~~{8}{a} Except as provided in subsection {8}{c}, the~~  
2       ~~department may not audit a cemetery district with annual~~  
3       ~~expenditures of less than \$25,000, excluding the payment of~~  
4       ~~principal and interest on federal loans.~~

5       ~~{b} Such cemetery district shall annually file with the~~  
6       ~~clerk of the district court in the county in which the~~  
7       ~~cemetery district is located an itemized account of all~~  
8       ~~receipts and expenditures for the year, signed under oath by~~  
9       ~~an officer designated by the cemetery district trustees.~~

10       ~~{c} The board of county commissioners may require an~~  
11       ~~annual audit to be conducted by the department if it~~  
12       ~~considers such audit to be in the public interest.~~  
13       ~~(Terminates June 30, 1991--sec. 6, Ch. 140, L. 1989.)~~

14       2-7-503. (Effective July 1, 1991) Audits Financial  
15       reports and audits of local governmental government  
16       entities. (1) The department shall audit the affairs of all:

17       ~~{a} counties;~~

18       ~~{b} incorporated cities and towns having a population~~  
19       ~~of more than 300 in the most recent census taken under the~~  
20       ~~direction of congress;~~

21       ~~{c} first and second class school districts and~~  
22       ~~third class school districts that maintain a high school;~~

23       ~~{d} school district extracurricular funds for pupil~~  
24       ~~functions;~~

25       ~~{e} irrigation districts, except as provided in~~

1       ~~subsection {7};~~

2       ~~{f} conservancy districts;~~

3       ~~{g} fire districts and volunteer fire departments in~~  
4       ~~unincorporated areas, towns, and villages supported by a~~  
5       ~~mill levy, except as provided in subsection {6}; and~~

6       ~~{h} fire department relief associations, except as~~  
7       ~~provided in subsection {6};~~

8       ~~{2} Each audit shall be made every 2 years and shall~~  
9       ~~cover the immediately preceding 2 fiscal years of the~~  
10       ~~governmental governing body or managing or executive officer~~  
11       ~~of a local government entity, unless annual audits are~~  
12       ~~requested by the governmental entity other than a school~~  
13       ~~district or associated cooperative, shall ensure that a~~  
14       ~~financial report is made every year. A school district or~~  
15       ~~associated cooperative shall comply with the provisions of~~  
16       ~~20-9-213. The financial report must cover the preceding~~  
17       ~~fiscal year, be in a form prescribed by the department, and~~  
18       ~~be completed within 4 months of the end of the reporting~~  
19       ~~period. The local government entity shall submit the~~  
20       ~~financial report to the department for review.~~

21       ~~{3} Each audit shall be initiated not later than 24~~  
22       ~~months from the close of the fiscal year for which the audit~~  
23       ~~is conducted.~~

24       ~~{2} The department shall prescribe a uniform reporting~~  
25       ~~system for all local government entities subject to~~

1 financial reporting requirements, other than school  
 2 districts. The superintendent of public instruction shall  
 3 prescribe the reporting requirements for school districts.

4 (3) (a) The governing body or managing or executive  
 5 officer of each local government entity receiving revenues  
 6 or financial assistance in the period covered by the  
 7 financial report in excess of \$100,000 or federal financial  
 8 assistance in excess of \$25,000 shall cause an audit to be  
 9 made at least every 2 years. The audit must cover the  
 10 entity's preceding 2 fiscal years. The audit must commence  
 11 within 9 months from the close of the last fiscal year of  
 12 the audit period. The audit must be completed and submitted  
 13 to the department for review within 1 year from the close of  
 14 the last fiscal year covered by the audit.

15 (b) The governing body or managing or executive officer  
 16 of a local government entity that does not meet the criteria  
 17 established in subsection (3)(a) shall at least once every 4  
 18 years, if directed by the department, OR, IN THE CASE OF A  
 19 SCHOOL DISTRICT, IF DIRECTED BY THE DEPARTMENT AT THE  
 20 REQUEST OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION, cause a  
 21 financial review, as defined by department rule, to be  
 22 conducted of the financial statements of the entity for the  
 23 preceding fiscal year.

24 (4) An audit conducted in accordance with this part is  
 25 in lieu of any financial or financial and compliance audit

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

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

16 (6) The fee for the special audit ~~shall~~ or review  
 17 must be a charge based upon the costs incurred by the  
 18 department in ~~the--conduct-of-such~~ relation to the special  
 19 audit or review. The audit fee ~~shall~~ must be paid by the  
 20 governmental local government entity to the state treasurer  
 21 and deposited in the enterprise fund to the credit of the  
 22 department.

23 (a) Except as provided in subsection (6)(c), the  
 24 department may not audit:

25 (i) a fire district which has an annual budget of less

1 than \$20,000 and in which fire protection is provided solely  
 2 by a fire company composed only of volunteer firefighters  
 3 organized under Title 7, chapter 33, or  
 4 (i) a fire department relief association organized  
 5 under Title 19, chapter 11, which has annual receipts,  
 6 including earnings on invested funds, of less than \$20,000,  
 7 except for audits as provided under 19-11-206.  
 8 (b) Such fire district shall annually file with the  
 9 board of county commissioners of the county in which the  
 10 majority of the district is located an itemized account of  
 11 all receipts and expenditures for the year, signed under  
 12 oath by an officer of the fire company designated by the  
 13 fire district trustees.  
 14 (c) The board of county commissioners may require an  
 15 annual audit to be conducted by the department if it  
 16 considers such audit to be in the public interest.  
 17 (d) Such fire department relief association shall  
 18 annually file with the municipality in which the fire  
 19 department relief association is located an itemized account  
 20 of all receipts and expenditures for the year, signed under  
 21 oath by an officer designated by the fire department relief  
 22 association trustees. The municipality may require an annual  
 23 audit to be conducted by the department if it considers such  
 24 audit to be in the public interest.  
 25 (7) (a) Except as provided in subsection (7)(c), the

1 department may not audit an irrigation district with annual  
 2 expenditures of less than \$30,000, excluding the payment of  
 3 principal and interest on federal loans.  
 4 (b) Such irrigation district shall annually file with  
 5 the clerk of the district court in the county in which the  
 6 irrigation district is located an itemized account of all  
 7 receipts and expenditures for the year, signed under oath by  
 8 an officer designated by the irrigation district trustees.  
 9 (c) The district court may require an annual audit to  
 10 be conducted by the department if it considers such audit to  
 11 be in the public interest."  
 12 **Section 4.** Section 2-7-504, MCA, is amended to read:  
 13 "2-7-504. **Accounting methods.** Unless otherwise required  
 14 by law, the department shall prescribe by rule the general  
 15 methods and details of accounting for the receipt and  
 16 disbursement of all money belonging to governmental local  
 17 government entities referred to in this part and shall  
 18 establish in those offices general methods and details of  
 19 accounting. All governmental local government entity  
 20 officers shall conform with the accounting standards  
 21 prescribed by the department."  
 22 **Section 5.** Section 2-7-505, MCA, is amended to read:  
 23 "2-7-505. **Audit scope and standards.** (1) Each audit  
 24 shall must be a comprehensive audit of the affairs of the  
 25 governmental local government entity, including comment on



1 the balance sheet, results of operations, compliance with  
2 state statutes and regulations, recommendations for  
3 improvement, and any other comments deemed pertinent by the  
4 auditor, including his expression of opinion as to the  
5 adequacy of the financial presentations.

6 (2) Each such audit required shall must be made in  
7 accordance with generally accepted governmental auditing  
8 standards and in accordance with federal regulations adopted  
9 by the department by rule.

10 (2) The department, with cooperation from state  
11 agencies, shall prepare a local government compliance  
12 supplement that contains state and federal regulations  
13 applicable to local government entities."

14 **Section 6.** Section 2-7-506, MCA, is amended to read:

15 "2-7-506. Audit by independent accountant or auditor.

16 (1) In lieu of the audits required of the department, the  
17 department may, with the consent of or at the request of  
18 the respective governmental entities, contract out such  
19 prepare and maintain a roster of independent auditors  
20 authorized to conduct audits with a public accountant or  
21 firm of public accountants who are licensed under the laws  
22 of Montana of local government entities. The roster must be  
23 available to local government entities subject to the  
24 reporting requirements of 2-7-503. The duration of such an  
25 audit contract must be set forth in the contract and may not

1 exceed 3 years but the contract may be extended an  
2 additional 2 years upon the request of the governmental  
3 entity.

4 (2) The department, IN CONSULTATION WITH THE BOARD,  
5 shall establish adopt rules governing the administration of  
6 the contracts between the department, the independent  
7 accountant/auditor, and the governmental entities. These  
8 rules shall include but not be limited to:

9 (a) establishment of criteria for the selection of the  
10 independent accountant/auditor auditor;

11 (b) contract form and content procedures and  
12 qualifications for placing applicants on the roster; and

13 (c) standards of audit and reporting procedures for  
14 reviewing the qualifications of independent auditors on the  
15 roster to justify their continuance on the roster; and

16 (d) fees payable to the department for application for  
17 placement on the roster.

18 (3) An audit made by an independent auditor must be  
19 pursuant to a contract entered into by the governing body or  
20 managing or executive officer of the local government. The  
21 department must be a party to the contract and the contract  
22 may not be executed until it is signed by the department.  
23 All contracts for conducting audits must be in a form  
24 prescribed or approved by the department.

25 (4) The department shall notify the local government

1 entity of a required audit, the date the report is due, and  
 2 the requirement that the local government entity, the  
 3 independent auditor, and the department must be parties to  
 4 the contract.

5 (5) If a local government entity fails to present a  
 6 signed contract to the department for approval within 90  
 7 days of receipt of the audit notice, the department shall  
 8 designate an independent auditor to perform the audit. The  
 9 costs incurred by the department in arranging the audit must  
 10 be paid by the local government entity to the department in  
 11 the manner of other claims against the local government  
 12 entity."

13 **Section 7.** Section 2-7-507, MCA, is amended to read:

14 **"2-7-507. Duty of officers to aid in audit.** The  
 15 officers and employees of the governmental local government  
 16 entities referred to in this part shall ~~afford~~ provide all  
 17 reasonable facilities for the department's audit and shall  
 18 furnish all information to the department ~~under oath in a~~  
 19 ~~manner prescribed by the department~~ independent auditor  
 20 necessary for the conduct of the audit."

21 **Section 8.** Section 2-7-508, MCA, is amended to read:

22 **"2-7-508. Power to examine books and papers.** The  
 23 department independent auditor may examine any books,  
 24 papers, accounts, and documents in the office or possession  
 25 of any governmental local government entity ~~referred to in~~

1 ~~this part and may send for persons or papers and examine~~  
 2 ~~under oath any person concerning them."~~

3 **Section 9.** Section 2-7-511, MCA, is amended to read:

4 **"2-7-511. Access to public accounts -- suspension of**  
 5 **officer in case of discrepancy.** (1) The department  
 6 independent auditor may count the cash, verify the bank  
 7 accounts, and verify all accounts of a public officer whose  
 8 accounts ~~it~~ the independent auditor is examining under law.

9 (2) If an officer of any county, city, town, school, or  
 10 other governmental local government entity ~~referred to in~~  
 11 ~~this part~~ refuses to ~~accord the department~~ provide the  
 12 independent auditor access during an audit of the officer's  
 13 accounts to his cash, bank accounts, or any of the papers,  
 14 vouchers, or records of his office or if the department  
 15 independent auditor finds a shortage of cash, the department  
 16 independent auditor shall immediately file a preliminary  
 17 report showing the refusal of that officer or the existence  
 18 of the shortage and the approximate amount of the shortage  
 19 with the respective county, city, or town attorney and the  
 20 governing body of the governmental local government entity.

21 (3) Upon filing of the statement, the officer of the  
 22 local government entity shall ~~immediately~~ after notice and  
 23 the opportunity for a hearing be suspended from the duties  
 24 and emoluments of his office and the governing body of ~~such~~  
 25 governmental the local government entity shall appoint some

1 qualified person to the office pending completion of the  
2 audit.

3 (4) Upon the completion of the audit by the department  
4 independent auditor, if a shortage of cash existed in the  
5 accounts of the officer, the department independent auditor  
6 shall ~~file~~ with notify the governing body of the  
7 ~~governmental local government~~ entity a final report of the  
8 ~~audit, showing the~~ shortage. ~~The governing body shall,~~  
9 ~~within 10 days after the filing of the department's final~~  
10 ~~report of the audit, set a date and time for a formal~~  
11 ~~hearing to test the accuracy of the final report of the~~  
12 ~~audit and give notice of the hearing to the officer.~~

13 (5) If the governing body finds that a shortage exists  
14 and that the officer suspended is, by act or omission,  
15 responsible for the shortage, the officer's right to the  
16 office is forfeited and the report of the audit shall be  
17 referred to the county attorney."

18 **Section 10.** Section 2-7-512, MCA, is amended to read:

19 "2-7-512. **Exit review conference.** Upon completion of  
20 ~~the field work of~~ each audit, the ~~in-charge~~ independent  
21 auditor is required to hold with the appropriate officials  
22 an exit review conference in which the audit results ~~shall~~  
23 must be discussed."

24 **Section 11.** Section 2-7-513, MCA, is amended to read:

25 "2-7-513. **Content of audit report and financial report.**

1 (1) The audit reports shall ~~contain but are not limited to~~  
2 ~~the following:~~

3 (1) ~~financial statements that conform with the~~  
4 ~~generally accepted governmental accounting principles and~~  
5 ~~which, insofar as possible, present the financial position~~  
6 ~~and results of financial operations for each fund of the~~  
7 ~~governmental entity;~~

8 (2) ~~an expression of opinion regarding the financial~~  
9 ~~statements, taken as a whole, or an assertion to the effect~~  
10 ~~that an opinion cannot be expressed. When an overall opinion~~  
11 ~~cannot be expressed, the reasons therefor should be stated;~~

12 (3) ~~a statement that previously noted deficiencies or~~  
13 ~~recommendations contained in previous audit reports have~~  
14 ~~been acted upon by adoption as recommended, adoption with~~  
15 ~~modification, or rejection; and~~

16 (4) ~~disclosure of any lack of compliance with state~~  
17 ~~statutes or regulations, as well as any operating~~  
18 ~~deficiencies or recommendations for improvement~~ comply with  
19 the reporting requirements of government auditing standards  
20 issued by the U.S. comptroller general and federal  
21 regulations adopted by department rule.

22 (2) The department shall prescribe general methods and  
23 details of accounting for the financial report for local  
24 government entities other than schools. The financial report  
25 must be submitted in a form required by the department. The

1 superintendent of public instruction shall prescribe the  
 2 general methods and details of accounting for financial  
 3 reports for schools."

4 **Section 12.** Section 2-7-514, MCA, is amended to read:

5 "2-7-514. (Temporary) Issuance and filing of Filing of  
 6 audit report and financial report. (1) Within 120 days after  
 7 the completion of the field work, the department shall issue  
 8 Completed audit reports as follows:

9 (a) county audit reports to county commissioners, the  
 10 county clerk and recorder, and the county attorney;

11 (b) city or town audit reports to the city or town  
 12 governing body, the city or town chief financial officer,  
 13 the city or town chief executive, and the city or town  
 14 attorney;

15 (c) school district audit reports to the trustees, the  
 16 county superintendent of schools, the must be filed with the  
 17 department. Completed financial reports must be filed with  
 18 the department as provided in 2-7-503(1). The state  
 19 superintendent of public instruction, the county attorney,  
 20 and the clerk of the school district;

21 (d) school district extracurricular fund audit reports  
 22 to the trustees, the county superintendent of schools, the  
 23 state superintendent of public instruction, the county  
 24 attorney, and the fund administrator;

25 (e) fire district or volunteer fire department audit

1 reports to the trustees, the county attorney, and the clerk  
 2 and recorder of the county in which the fire district or  
 3 fire department is located;

4 (f) conservancy district audit reports to the board of  
 5 directors, the department of natural resources and  
 6 conservation, the district court, and the county  
 7 attorney(s);

8 (g) fire department relief association audit reports to  
 9 the trustees, the city or town attorney, and the respective  
 10 city or town clerk;

11 (h) irrigation district audit reports to the board of  
 12 commissioners, the district court, and the county  
 13 attorney(s); and

14 (i) cemetery district audit reports to the board of  
 15 cemetery trustees, the district court, and the county  
 16 attorney shall file with the department a list of school  
 17 districts subject to audit under 2-7-503(3). The list must  
 18 be filed with the department within 6 months after the close  
 19 of the fiscal year.

20 (2) At the time the financial report is filed or, in  
 21 the case of a school district, when the audit report is  
 22 filed with the department, the local government entity shall  
 23 pay to the department a filing fee. The department shall  
 24 charge a filing fee TO ANY LOCAL GOVERNMENT ENTITY REQUIRED  
 25 TO HAVE AN AUDIT UNDER [SECTION 3], WHICH FEE MUST BE based

1 upon the costs incurred by the department in the  
 2 administration of this part. THE FILING FEES FOR SCHOOL  
 3 DISTRICTS REQUIRED BY THIS SECTION MUST BE PAID BY THE  
 4 SUPERINTENDENT OF PUBLIC INSTRUCTION FROM THE FUNDS  
 5 APPROPRIATED FOR STATE EQUALIZATION AID AS DEFINED IN  
 6 20-9-343. The department shall adopt the fee schedule by  
 7 rule based upon the local government entities' revenue  
 8 amounts.

9 ~~{2}~~{3} All Copies of the completed audit and financial  
 10 reports issued--by must be made available by the department  
 11 and the local government entity are-to-be-maintained-on-file  
 12 at-an-appropriate-location-and-open-to for public inspection  
 13 during regular office hours. (Terminates June 30, 1991--sec.  
 14 6, Ch. 140, L. 1989.)

15 2-7-514. (Effective July 1, 1991) issuance--and--filing  
 16 Filing of audit report and financial report. (1) Within--120  
 17 days-after-the-completion-of-the-field-work,--the--department  
 18 shall-issue Completed audit reports as-follows:

19 (a)--county--audit--reports-to-county-commissioners,--the  
 20 county-clerk-and-recorder,--and-the-county-attorney;

21 (b)--city-or-town-audit-reports--to--the--city--or--town  
 22 governing--body,--the--city-or-town-chief-financial-officer,--  
 23 the-city-or-town-chief--executive,--and--the--city--or--town  
 24 attorney;

25 (c)--school--district-audit-reports-to-the-trustees,--the

1 county-superintendent-of-schools,--the must be filed with the  
 2 department. Completed financial reports must be filed with  
 3 the department as provided in 2-7-503(1). The state  
 4 superintendent of public instruction,--the--county--attorney,  
 5 and--the--clerk--of--the--school--district;

6 (d)--school--district-extracurricular-fund-audit-reports  
 7 to--the--trustees,--the-county-superintendent-of--schools,--the  
 8 state--superintendent--of--public--instruction,--the--county  
 9 attorney,--and--the--fund-administrator;

10 (e)--fire--district--or--volunteer-fire-department-audit  
 11 reports--to--the--trustees,--the-county-attorney,--and--the--clerk  
 12 and--recorder--of--the--county--in--which--the--fire--district--or  
 13 fire-department-is-located;

14 (f)--conservancy-district-audit-reports-to-the-board--of  
 15 directors,--the--department--of--natural--resources--and  
 16 conservation,--the--district--court,--and--the--county  
 17 attorney(s);

18 (g)--fire-department-relief-association-audit-reports-to  
 19 the-trustees,--the-city-or-town-attorney,--and--the--respective  
 20 city-or-town-clerk,--and

21 (h)--irrigation--district--audit-reports-to-the-board-of  
 22 commissioners,--the--district--court,--and--the--county  
 23 attorney(s) shall file with the department a list of school  
 24 districts subject to audit under 2-7-503(3). The list must  
 25 be filed with the department within 6 months after the close

1 of the fiscal year.

2 (2) At the time the financial report is filed or, in  
3 the case of a school district, when the audit report is  
4 filed with the department, the local government entity shall  
5 pay to the department a filing fee. The department shall  
6 charge a filing fee TO ANY LOCAL GOVERNMENT ENTITY REQUIRED  
7 TO HAVE AN AUDIT UNDER [SECTION 3], WHICH FEE MUST BE based  
8 upon the costs incurred by the department in the  
9 administration of this part. NOTWITHSTANDING THE PROVISIONS  
10 OF 20-9-343, THE FILING FEES FOR SCHOOL DISTRICTS REQUIRED  
11 BY THIS SECTION MUST BE PAID BY THE SUPERINTENDENT OF PUBLIC  
12 INSTRUCTION FROM THE STATE EQUALIZATION AID ACCOUNT. The  
13 department shall adopt the fee schedule by rule based upon  
14 the local government entities' revenue amounts.

15 ~~(2)~~(3) At Copies of the completed audit and financial  
16 reports issued by must be made available by the department  
17 and the local government entity are to be maintained on file  
18 at an appropriate location and open to for public inspection  
19 during regular office hours.

20 (4) THE DEPARTMENT IS AUTHORIZED UNDER THIS PART TO  
21 CHARGE A SURCHARGE ON THE FILING FEE TO GENERATE THE  
22 NECESSARY REVENUE TO REPAY THE GENERAL FUND LOAN OVER A  
23 5-YEAR PERIOD."

24 **Section 13.** Section 2-7-515, MCA, is amended to read:

25 "2-7-515. Actions by governing bodies. (1) Upon receipt

1 of the audit report, the governing bodies of each audited  
2 local government entity shall review the contents and within  
3 30 days shall notify the department in writing as to what  
4 action they plan to take on any deficiencies or  
5 recommendations contained in the audit report. If no  
6 deficiencies or recommendations appear in the audit report,  
7 notification ~~shall~~ is not be required.

8 (2) Notification to the department shall include a  
9 statement by the governing bodies that noted deficiencies or  
10 recommendations for improvement have been acted upon by  
11 adoption as recommended, adoption with modification, or  
12 rejection.

13 (3) The local government entity shall adopt measures to  
14 correct the report findings and submit a copy of the  
15 corrective action plan to the department and, if the local  
16 government entity is a school district, shall also send a  
17 copy to the superintendent of public instruction. The  
18 department shall notify the entity of the acceptance of the  
19 corrective measures. If the department and the local  
20 government entity fail to agree, a conference between the  
21 parties must be held. Failure to resolve findings or  
22 implement corrective measures shall result in the  
23 withholding of financial assistance in accordance with rules  
24 adopted by the department pending resolution or compliance.

25 ~~(3)~~(4) In cases where a violation of law or

1 nonperformance of duty is found on the part of an officer,  
 2 employee, or board, the officer, employee, or board must be  
 3 proceeded against by the attorney general or county, city,  
 4 or town attorney as provided by law. The county, city, or  
 5 town attorney shall report to the department within 30 days  
 6 after receiving the audit report from the department the  
 7 proceedings instituted or to be instituted relating to the  
 8 violations of law and nonperformance of duty. If the county,  
 9 city, or town attorney fails or refuses to prosecute the  
 10 case, the department may ~~employ-an~~ refer the case to the  
 11 attorney general to prosecute the case at the expense of the  
 12 ~~respective-governmental~~ local government entity."

13 **Section 14.** Section 2-7-516, MCA, is amended to read:

14 "2-7-516. Audit fees. (1) The compensation to the  
 15 independent auditor for conducting an audit must be agreed  
 16 upon by the governing body or managing or executive officer  
 17 of the local government entity and the independent auditor  
 18 and must be paid in the manner that other claims against the  
 19 local government entity are paid.

20 ~~{1}~~(2) The department shall charge compensation for an  
 21 audit fees--based--upon-the-costs-incurred conducted by the  
 22 department ~~in-the-administration-of-this-part-~~

23 ~~{2}~~--All-audit-fees-herein-provided-shall must be paid  
 24 by the ~~governmental~~ local government entity to the state  
 25 treasurer and be deposited in an enterprise fund to the

1 credit of the department.

2 ~~{3}~~--The---department---may---submit---a---bill---to---the  
 3 governmental-entity-based-upon-the-estimated--percentage--of  
 4 completion--of--any-audit--The-governmental-entity-must-make  
 5 payment-within-60-days-of-receiving-a-bill--"

6 **Section 15.** Section 2-7-517, MCA, is amended to read:

7 "2-7-517. Penalty. (1) When a local government entity  
 8 has failed to file a report as required by 2-7-503(1),  
 9 UNLESS AN EXTENSION HAS BEEN GRANTED BY THE DEPARTMENT FOR  
 10 GOOD CAUSE SHOWN, or to make the payment required by  
 11 2-7-514(2) within 60 days, the department may issue an order  
 12 stopping payment of any state financial assistance to the  
 13 local government entity or may charge a late payment penalty  
 14 as adopted by rule. Upon receipt of the report or payment of  
 15 the filing fee, all financial assistance that was withheld  
 16 under this section must be released and paid to the local  
 17 government entity.

18 (2) When a governmental local government entity has  
 19 failed to make payment as required by 2-7-516(1) within 60  
 20 days of receiving a bill for an audit, the department may  
 21 issue an order stopping payment of any state financial aid  
 22 to the governmental local government entity. Upon payment  
 23 for the audit, all financial aid that was withheld because  
 24 of failure to make payment shall must be released and paid  
 25 to the governmental local government entity."

1       **Section 16.** Section 2-7-518, MCA, is amended to read:  
 2       "2-7-518. **Deposit of audit fees.** All audit fees  
 3 received from ~~governmental~~ local government entities after  
 4 June 30, 1981, shall be deposited in the enterprise fund to  
 5 the credit of the department of commerce for administration  
 6 of Title 2, chapter 7, part 5."  
 7       **Section 17.** Section 2-7-521, MCA, is amended to read:  
 8       "2-7-521. **(Temporary) Publication.** (1) (a) ~~Except--as~~  
 9 ~~provided--in--subsection--(3)--after~~ After the expiration of  
 10 the 30-day period provided for in 2-7-515(1), the department  
 11 local government entity shall send a copy of the ~~general~~  
 12 ~~comments--section--of~~ each audit report to a newspaper of  
 13 general circulation in the area of the local government  
 14 entity. However, ~~the-general-comments-section-of~~ each county  
 15 audit report must be sent to the official newspaper of the  
 16 county.  
 17       (b) For an audit report of a ~~local--government--entity~~  
 18 ~~provided--for--in--2-7-503(1)(a)--or--(1)(b)~~ county or an  
 19 incorporated city or town, the department county, city, or  
 20 town shall send to the appropriate newspaper a copy of a  
 21 summary of significant findings regarding the audit report.  
 22 The summary, which may not exceed 800 words, must be  
 23 prepared by the ~~auditing-agency or firm~~ independent auditor  
 24 and contain a statement indicating that it is only a summary  
 25 and is not intended to be used as an audit report.

1       (2) For an audit report of a ~~local--government--entity~~  
 2 ~~provided--for--in--2-7-503(1)(a)--or--(1)(b)~~ county or  
 3 incorporated city or town, a newspaper is required to  
 4 publish only:  
 5       (a) the summary of significant findings provided for in  
 6 subsection (1)(b); and  
 7       (b) a statement to the effect that the audit report is  
 8 on file in its entirety and open to public inspection.  
 9       (3) For an audit report of a local government entity  
 10 ~~provided--for--in--2-7-503(1)(c)--through--(1)(i)~~ other than a  
 11 county or incorporated city or town, the newspaper is  
 12 required to publish only the statement provided for in  
 13 subsection (2)(b) and a statement providing that the audited  
 14 local government entity will send a copy of the audit report  
 15 to any interested person upon request. ~~A-copy-of--the--audit~~  
 16 ~~report--must--be--sent--to--the--newspaper--publishing--the~~  
 17 ~~statements.~~  
 18       (4) Publication costs must be borne by the audited  
 19 ~~governmental~~ local government entity. (Terminates June 30,  
 20 1991--sec. 6, Ch. 140, L. 1989.)  
 21       2-7-521. **(Effective July 1, 1991) Publication.** (1) (a)  
 22 ~~Except--as--provided--in--subsection--(3)--after~~ After the  
 23 expiration of the 30-day period provided for in 2-7-515(1),  
 24 the department local government entity shall send a copy of  
 25 ~~the--general--comments--section--of~~ each audit report to a



1 newspaper of general circulation in the area of the local  
 2 government entity. However, ~~the general comments section of~~  
 3 each county audit report must be sent to the official  
 4 newspaper of the county.

5 (b) For an audit report of a ~~local government entity~~  
 6 ~~provided for in 2-7-503(i)(a) or (i)(b)~~ county or an  
 7 incorporated city or town, the department county, city, or  
 8 town shall send to the appropriate newspaper a copy of a  
 9 summary of significant findings regarding the audit report.  
 10 The summary, which may not exceed 800 words, must be  
 11 prepared by the ~~auditing agency or firm~~ independent auditor  
 12 and contain a statement indicating that it is only a summary  
 13 and is not intended to be used as an audit report.

14 (2) For an audit report of a ~~local government entity~~  
 15 ~~provided for in 2-7-503(i)(a) or (i)(b)~~ county or  
 16 incorporated city or town, a newspaper is required to  
 17 publish only:

18 (a) the summary of significant findings provided for in  
 19 subsection (1)(b); and

20 (b) a statement to the effect that the audit report is  
 21 on file in its entirety and open to public inspection.

22 (3) For an audit report of a local government entity  
 23 ~~provided for in 2-7-503(i)(e) through (i)(h)~~ other than a  
 24 county or incorporated city or town, the newspaper is  
 25 required to publish only the statement provided for in

1 subsection (2)(b) and a statement providing that the audited  
 2 local government entity will send a copy of the audit report  
 3 to any interested person upon request. ~~A copy of the audit~~  
 4 ~~report must be sent to the newspaper publishing the~~  
 5 ~~statements.~~

6 (4) Publication costs must be borne by the audited  
 7 ~~governmental~~ local government entity."

8 NEW SECTION. Section 18. Report review. (1) The  
 9 department shall determine whether the provisions of this  
 10 part have been complied with by the independent auditor.

11 (2) Upon receipt of the audit report from the local  
 12 government entity the department shall review the report. If  
 13 the department determines the reporting requirements have  
 14 not been met, the department shall notify the local  
 15 government entity and the independent auditor submitting the  
 16 report OF THE SIGNIFICANT ISSUES OF NONCOMPLIANCE. The  
 17 notification must include issuance of a statement of  
 18 deficiencies by the department. The department shall allow  
 19 the independent auditor 60 days to correct the identified  
 20 deficiencies.

21 (3) If the corrections are not made within 60 days of  
 22 the department's notice, the department shall notify the  
 23 local government entity that the report has not been  
 24 received. Failure to submit a report shall result in the  
 25 withholding of payment of the audit fee pending resolution

1 of the identified deficiencies or receipt of a corrected  
2 report.

3 (4) Upon review of the report, if the department  
4 determines the independent auditor has issued a report that  
5 fails to meet the auditing standards referred to in 2-7-513  
6 or contains false or misleading information, the department  
7 shall notify the board.

8 (5) The department shall review the audit report  
9 findings and the response of the governing body or executive  
10 or managing officer of the local government entity submitted  
11 under 2-7-515. When the findings concern financial  
12 assistance, the department shall notify the state agency  
13 that is responsible for disbursing the state or federal  
14 funding.

15 (6) The department must have access in its office to  
16 the working papers of the independent auditor.

17 **Section 19.** Section 3-5-902, MCA, is amended to read:

18 **"3-5-902. Fiscal administration for payment of court**  
19 **expenses.** The department of commerce shall:

20 (1) establish procedures for disbursement of funds for  
21 payment of district court expenses listed in 3-5-901,  
22 including prorating of those funds if they are insufficient  
23 to cover all expenses listed in 3-5-901; and

24 (2) develop a uniform accounting system in accordance  
25 with 2-7-504 for use by the counties in reporting court

1 expenses at a detailed level for budgeting and auditing  
2 purposes; ~~and~~

3 ~~(3) provide for annual auditing of district court~~  
4 ~~expenses to assure normal operations and consistency in~~  
5 ~~reporting of expenditures."~~

6 **Section 20.** Section 7-6-2352, MCA, is amended to read:

7 **"7-6-2352. State grants to district courts -- rules.**

8 (1) The department of commerce shall make grants, to the  
9 extent funds are available after expenses provided for in  
10 3-5-901 are funded, to the governing body of a county for  
11 the district courts for assistance, as provided in this  
12 section.

13 (2) The governing body of a county may apply to the  
14 department of commerce for a grant by filing a written  
15 request on forms provided by the department by July 20 for  
16 the previous fiscal year unless the department grants a time  
17 extension upon request of the county. In its request for a  
18 grant, a county must certify that:

19 (a) all expenditures from the district court fund have  
20 been lawfully made;

21 (b) no transfers from the district court fund have been  
22 or will be made to any other fund; and

23 (c) no expenditures have been made from the district  
24 court fund that are not specifically authorized by 7-6-2511  
25 and 7-6-2351.

1 (3) To the extent funds are available, the department  
 2 of commerce shall award a grant if the county's district  
 3 court expenditures for the previous fiscal year exceeded the  
 4 sum of:

5 (a) the product of the maximum mill levy authorized by  
 6 law for district court purposes, whether or not assessed,  
 7 multiplied by the previous year's taxable valuation of the  
 8 county; and

9 (b) all revenues, except district court grants,  
 10 required by law to be deposited in the district court fund  
 11 for the previous fiscal year.

12 (4) Eligible court expenditures for grant purposes  
 13 include all costs of the county associated with the  
 14 operation and maintenance of the district court, from  
 15 whatever fund paid, except costs for building and capital  
 16 items and library maintenance, replacement, and acquisition.

17 (5) The department of commerce shall notify each  
 18 eligible county as soon as possible of its intention to  
 19 award a grant to that county and the amount of the award.

20 (6) The grant received by the county shall be placed in  
 21 the district court fund.

22 (7) ~~After all grants are awarded, the department of~~  
 23 ~~commerce shall audit each approved grant request. The~~  
 24 ~~department shall charge each county receiving a grant an~~  
 25 ~~audit fee in the same amount as the costs incurred in~~

1 ~~conducting the audit.~~

2 ~~(8) If the an audit of a grant recipient conducted~~  
 3 ~~pursuant to 2-7-503 discloses that the recipient received a~~  
 4 ~~grant in excess of the amount for which it was eligible, the~~  
 5 ~~recipient shall repay the excess to the department of~~  
 6 ~~commerce. The department shall redistribute any repaid~~  
 7 ~~excess amounts to the other counties that received grants~~  
 8 ~~from the appropriation from which the overpayment was made,~~  
 9 ~~on the same basis as the original awards. No county is~~  
 10 ~~eligible for a district court grant if it owes the~~  
 11 ~~department a refund of a prior year's overpayment.~~

12 ~~(9)(8) The department of commerce shall prescribe rules~~  
 13 ~~and forms necessary to effectively administer this section.~~  
 14 ~~The department may require a county to provide any~~  
 15 ~~information considered necessary for the administration of~~  
 16 ~~the program."~~

17 **Section 21.** Section 7-6-4113, MCA, is amended to read:

18 "7-6-4113. Filing of annual financial statement. (1)  
 19 The city or town clerk must, within 120 days following the  
 20 close of each fiscal year, transmit one copy of the  
 21 statement to the department of commerce and must present the  
 22 other copy to the city or town council or commission.

23 (2) If a city or town clerk fails to file a copy of the  
 24 statement with the department within the time specified, the  
 25 department, without delay, shall examine the books, records,

1 and accounts of the city or town. The department shall make  
 2 from its examination a statement of the financial condition  
 3 of the city or town for the preceding fiscal year in the  
 4 manner it should have been made by the city or town clerk.  
 5 The examination shall be considered a special audit under  
 6 the provisions of subsections ~~(4)~~ and (5) and (6) of  
 7 2-7-503, and all of the provisions of subsections ~~(4)~~ and  
 8 (5) and (6) of 2-7-503 apply to it."

9 **Section 22.** Section 19-11-204, MCA, is amended to read:

10 "19-11-204. Audit Review and report by board of  
 11 trustees. The board of trustees of the association shall  
 12 audit review the accounts of the association at least every  
 13 6 months and shall report the condition of them at the next  
 14 regular meeting of the association."

15 **Section 23.** Section 19-11-205, MCA, is amended to read:

16 "19-11-205. Annual report of secretary and treasurer to  
 17 association and state auditor. The secretary and treasurer  
 18 of the association shall annually prepare a detailed report  
 19 of its receipts and expenditures for the preceding year in  
 20 accordance with 2-7-503, showing to whom and for what  
 21 purposes money has been expended. They shall file the report  
 22 with the association, the department of commerce, and a  
 23 duplicate--of--it-with the state auditor. No-money Money may  
 24 not be paid to the treasurer of the association until the  
 25 report is filed."

1 **Section 24.** Section 20-9-203, MCA, is amended to read:

2 "20-9-203. Examination of district accounting records.  
 3 ~~(1)~~ The accounting records of all first-, ~~and--second-class~~  
 4 ~~school--districts~~ second-, and third-class school districts  
 5 ~~that-maintain--a--high--school--shall~~ must be audited in  
 6 accordance with 2-7-503. The trustees of the district shall  
 7 file a copy of the completed audit report with the  
 8 department of commerce, the superintendent of public  
 9 instruction, and the county superintendent.

10 ~~(2)--Annually-and-at-such-other-times-as-directed-by-the~~  
 11 ~~board--of--county--commissioners--or--trustees,--the--county~~  
 12 ~~auditor-or-the--county--treasurer--if--there--is--no--county~~  
 13 ~~auditor--shall--audit--the--accounting--records--of--each~~  
 14 ~~third-class-district-that-does-not-maintain-a--high--school;~~  
 15 ~~Such--district--shall--deliver--all--accounting--records--to--the~~  
 16 ~~auditing-county-official-no-later-than-July-15-for-the-audit~~  
 17 ~~of-the-financial--activity--of--the--last--completed--school~~  
 18 ~~fiscal-year--The-auditing-county-official--shall--examine--the~~  
 19 ~~accounting-records,--prepare--an--audit-report,--and:~~

20 ~~(a)--return--the--accounting--records--to--the--district--no~~  
 21 ~~later-than-August-15;~~

22 ~~(b)--send--a--copy--of--the--audit--report--to--the--chairman--of~~  
 23 ~~the--trustees,--and~~

24 ~~(c)--file--copies--of--the--audit--report--with--the~~  
 25 ~~superintendent--of--public--instruction,--the--county~~

1 ~~superintendent, and the county clerk and recorder."~~

2 **Section 25.** Section 20-9-213, MCA, is amended to read:

3 "20-9-213. Duties of trustees. The trustees of each  
4 district shall have the sole power and authority to transact  
5 all fiscal business and execute all contracts in the name of  
6 the district. No person other than the trustees acting as a  
7 governing board may expend money of the district. In  
8 conducting the fiscal business of the district, the trustees  
9 shall:

10 (1) cause the keeping of an accurate, detailed  
11 accounting of all receipts and expenditures of school money  
12 for each fund maintained by the district in accordance with  
13 generally accepted accounting principles and the rules  
14 prescribed by the superintendent of public instruction. The  
15 record of the accounting must be open to public inspection  
16 at any meeting of the trustees.

17 (2) authorize all expenditures of district money and  
18 cause warrants to be issued for the payment of lawful  
19 obligations;

20 (3) issue warrants on any budgeted fund in anticipation  
21 of budgeted revenues, except that the expenditures may not  
22 exceed the amount budgeted for the fund;

23 (4) invest any money of the district, whenever in the  
24 judgment of the trustees the investment would be  
25 advantageous to the district, by directing the county

1 treasurer to invest any money of the district in direct  
2 obligations of the United States government; in savings or  
3 time deposits in a state or national bank, building or loan  
4 association, savings and loan association, or credit union  
5 insured by the FDIC, FSLIC, or NCUA located in the state; or  
6 in a repurchase agreement as authorized in 7-6-213. All  
7 interest collected on the deposits or investments must be  
8 credited to the fund from which the money was withdrawn,  
9 except that interest earned on account of the investment of  
10 money realized from the sale of bonds must be credited to  
11 the debt service fund or the building fund, at the  
12 discretion of the board of trustees. The placement of the  
13 investment by the county treasurer is not subject to ratable  
14 distribution laws and must be done in accordance with the  
15 directive from the board of trustees. A district may invest  
16 money under the state unified investment program established  
17 in Title 17, chapter 6.

18 (5) cause the district to record every transaction in  
19 the appropriate account before the accounts are closed at  
20 the end of the fiscal year in order to properly report the  
21 receipt, use, and disposition of all money and property for  
22 which the district is accountable;

23 (6) report annually to the county superintendent, not  
24 later than August 1, the financial activities of each fund  
25 maintained by the district during the last completed school

fiscal year, on the forms prescribed and furnished by the superintendent of public instruction. Annual fiscal reports for joint school districts must be submitted to the county superintendent of each county in which part of the joint district is situated.

(7) whenever requested, report any other fiscal activities to the county superintendent, superintendent of public instruction, or board of public education;

(8) cause the accounting records of the district to be audited biennially as required by 2-7-503; and

(9) perform, in the manner permitted by law, other fiscal duties that are in the best interests of the district."

**Section 26.** Section 20-10-202, MCA, is amended to read:

**"20-10-202. Records, reports, and reviews, and audits.**

(1) The superintendent of public instruction shall prescribe regulations for keeping the financial and commodity records and making reports on school food services operated by a district. The financial records ~~shall--always~~ must be available for inspection and audit by federal and state officials authorized by law or contract to perform audits and ~~shall~~ be preserved for ~~such~~ the period of time, not to exceed 5 years, as the superintendent of public instruction may prescribe.

(2) The superintendent of public instruction shall

conduct or cause to be conducted the ~~audits,~~ inspections, and administrative reviews of the financial records and the operation of school food services."

NEW SECTION. SECTION 27. ESTIMATE OF COST SAVINGS. THE GOVERNOR SHALL INCLUDE IN HIS PROPOSED BUDGET SUBMITTED TO THE 53RD LEGISLATURE AN ESTIMATE OF COST SAVINGS TO STATE AGENCIES RESULTING FROM THE IMPLEMENTATION OF [THIS ACT].

NEW SECTION. SECTION 28. INTERFUND LOAN FROM THE GENERAL FUND. COSTS INCURRED BY THE DEPARTMENT OF COMMERCE DURING FISCAL YEAR ENDING JUNE 30, 1992, IN ADOPTING RULES TO IMPLEMENT [THIS ACT] AND IN PREPARING FOR THE IMPLEMENTATION OF [THIS ACT], UP TO THE APPROVED APPROPRIATION FOR THIS PURPOSE, ARE TO BE FUNDED BY AN INTERFUND LOAN FROM THE GENERAL FUND THAT MUST BE REPAID OVER A 5-YEAR PERIOD FROM THE REVENUES FROM THE FILING FEES PROVIDED FOR IN [THIS ACT].

NEW SECTION. Section 29. Codification instruction. [Section 18] is intended to be codified as an integral part of Title 2, chapter 7, part 5, and the provisions of Title 2, chapter 7, part 5, apply to [section 18].

NEW SECTION. Section 30. Effective date -- applicability. (1) Except as provided in (2), [this act] is effective July 1, 1992, and applies to the fiscal year ending June 30, 1992,

(2) The department of commerce may adopt rules to

1 implement [this act] to become effective July 1, 1992.

2 NEW SECTION. SECTION 31. TERMINATION DATE. SECTION

3 2-7-514(4), AS ADDED IN [SECTION 12], TERMINATES JUNE 30,

4 1997.

-End-

## 1 HOUSE BILL NO. 328

2 INTRODUCED BY COBB, JERGSON, GRINDE, KEATING, KADAS,

3 PAVLOVICH, SVRCEK

4 BY REQUEST OF THE LEGISLATIVE AUDIT COMMITTEE

5

6 A BILL FOR AN ACT ENTITLED: "AN ACT ADOPTING THE STATE  
7 SINGLE AUDIT ACT; GENERALLY REVISING AND CLARIFYING THE LAW  
8 RELATING TO AUDITS OF LOCAL GOVERNMENT ENTITIES; REQUIRING  
9 COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS; AUTHORIZING  
10 THE CHARGING OF FEES COMMENSURATE WITH COSTS FOR STATE AUDIT  
11 SERVICES; AUTHORIZING AN INTERFUND LOAN FROM THE GENERAL  
12 FUND; AMENDING SECTIONS 2-7-501, 2-7-502, 2-7-503, 2-7-504,  
13 2-7-505, 2-7-506, 2-7-507, 2-7-508, 2-7-511, 2-7-512,  
14 2-7-513, 2-7-514, 2-7-515, 2-7-516, 2-7-517, 2-7-518,  
15 2-7-521, 3-5-902, 7-6-2352, 7-6-4113, 19-11-204, 19-11-205,  
16 20-9-203, 20-9-213, AND 20-10-202, MCA; AND PROVIDING A  
17 DELAYED EFFECTIVE DATE AND, AN APPLICABILITY DATE, AND A  
18 TERMINATION DATE."

19

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

21 Section 1. Section 2-7-501, MCA, is amended to read:

22 "2-7-501. Definition. Unless the context requires  
23 otherwise, in this part, the following definitions apply:24 (1) "Audit" means a financial audit and includes  
25 financial statement and financial-related audits as defined

There are no changes in this bill,  
and will not be reprinted. Please  
refer to yellow copy for complete  
text.



SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
March 19, 1991

MR. PRESIDENT:

We, your committee on Finance and Claims having had under consideration House Bill No. 328 (third reading copy -- blue), respectfully report that House Bill No. 328 be amended and as so amended be concurred in:

1. Page 4, line 19.

Following: ";"

Insert: "and "

2. Page 4, lines 20 and 21.

Following: "districts" on line 20

Strike: remainder of line 20 through "DISTRICTS" on line 21

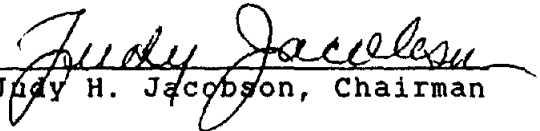
3. Page 13, line 7.

Following: "excess of"

Strike: "\$100,000"

Insert: "\$200,000"

Signed:

  
Judy H. Jacobson, Chairman

LB 3-20-91  
Amd. Coord.

SB 3-20 1:45  
Sec. of Senate

SENATE  
HB 328

## 1 HOUSE BILL NO. 328

2 INTRODUCED BY COBB, JERGSON, GRINDE, KEATING, KADAS,

3 PAVLOVICH, SVRCEK

4 BY REQUEST OF THE LEGISLATIVE AUDIT COMMITTEE

5  
6 A BILL FOR AN ACT ENTITLED: "AN ACT ADOPTING THE STATE  
7 SINGLE AUDIT ACT; GENERALLY REVISING AND CLARIFYING THE LAW  
8 RELATING TO AUDITS OF LOCAL GOVERNMENT ENTITIES; REQUIRING  
9 COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS; AUTHORIZING  
10 THE CHARGING OF FEES COMMENSURATE WITH COSTS FOR STATE AUDIT  
11 SERVICES; AUTHORIZING AN INTERFUND LOAN FROM THE GENERAL  
12 FUND; AMENDING SECTIONS 2-7-501, 2-7-502, 2-7-503, 2-7-504,  
13 2-7-505, 2-7-506, 2-7-507, 2-7-508, 2-7-511, 2-7-512,  
14 2-7-513, 2-7-514, 2-7-515, 2-7-516, 2-7-517, 2-7-518,  
15 2-7-521, 3-5-902, 7-6-2352, 7-6-4113, 19-11-204, 19-11-205,  
16 20-9-203, 20-9-213, AND 20-10-202, MCA; AND PROVIDING A  
17 DELAYED EFFECTIVE DATE AND, AN APPLICABILITY DATE, AND A  
18 TERMINATION DATE."

19  
20 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:21 **Section 1.** Section 2-7-501, MCA, is amended to read:22 "2-7-501. Definition. Unless the context requires  
23 otherwise, in this part, the following definitions apply:24 (1) "Audit" means a financial audit and includes  
25 financial statement and financial-related audits as defined1 by government auditing standards as established by the U.S.  
2 comptroller general.3 (2) "Board" means the Montana board of public  
4 accountants provided for in 2-15-1866.5 (3) "department" "Department" means the department of  
6 commerce.7 (4) (a) "Financial assistance" means assistance  
8 provided by a federal, state, or local government entity to  
9 a recipient LOCAL GOVERNMENT ENTITY or subrecipient to carry  
10 out a program. Financial assistance may be in the form of  
11 grants, contracts, cooperative agreements, loans, loan  
12 guarantees, property, interest subsidies, insurance, direct  
13 appropriations, or other noncash assistance. Financial  
14 assistance includes awards received directly from federal  
15 and state agencies or indirectly when subrecipients receive  
16 funds identified as federal or state funds by recipients.  
17 The granting agency is responsible for identifying the  
18 source of funds awarded to recipients. The recipient is  
19 responsible for identifying the source of funds awarded to  
20 subrecipients.21 (b) Financial assistance does not include direct  
22 federal, state, or local government cash assistance to  
23 individuals.24 (5) "Financial report" means a presentation of  
25 schedules that reflect a current financial position and the

1 operating results for the 1-year reporting period.  
 2 (6) "Independent auditor" means:  
 3 (a) a federal, state, or local government auditor who  
 4 meets the standards specified in the government auditing  
 5 standards; or  
 6 (b) a public LICENSED accountant who meets the  
 7 standards in subsection (6)(a).  
 8 (7) (a) "Local government entity" means a county, city,  
 9 district, or public corporation that:  
 10 (i) has the power to raise revenue for the purpose of  
 11 servicing the general public;  
 12 (ii) is governed by a board, commission, or individual  
 13 elected or appointed by the public or representatives of the  
 14 public; and  
 15 (iii) receives local, state, or federal financial  
 16 assistance.  
 17 (b) Local government entities include but are not  
 18 limited to:  
 19 (i) airport authority districts;  
 20 (ii) cemetery districts;  
 21 (iii) counties;  
 22 (iv) county housing authorities;  
 23 (v) county road improvement districts;  
 24 (vi) county sewer districts;  
 25 (vii) county water districts;

1 (viii) county weed control districts;  
 2 (ix) drainage districts;  
 3 (x) fire department relief associations;  
 4 (xi) fire districts;  
 5 (xii) hospital districts;  
 6 (xiii) incorporated cities or towns;  
 7 (xiv) irrigation districts;  
 8 (xv) mosquito districts;  
 9 (xvi) municipal housing authority districts;  
 10 (xvii) port authorities;  
 11 (xviii) refuse disposal districts;  
 12 (xix) rural improvement districts;  
 13 (xx) school districts including a district's  
 14 extracurricular funds;  
 15 (xxi) soil conservation districts;  
 16 (xxii) special education or other cooperatives;  
 17 (xxiii) television districts;  
 18 (xxiv) urban transportation districts;  
 19 (xxv) volunteer fire departments; and AND  
 20 (xxvi) water conservancy districts; -AND  
 21 ~~(xxvii) -GRADING-DISTRICTS.~~  
 22 (8) "Revenues" means all receipts of a local government  
 23 entity from any source excluding the proceeds from bond  
 24 issuances."  
 25 **Section 2.** Section 2-7-502, MCA, is amended to read:

1        "2-7-502. Audit Short title -- purpose. (1) This part  
 2 may be cited as the "State of Montana Single Audit Act".  
 3        (2) The purpose purposes of the-audit-of-the-affairs-of  
 4 the-governmental-entities-as-set-forth-in this part shall-be  
 5 are to:  
 6        (a) improve the financial management of local  
 7 government entities with respect to federal, state, and  
 8 local financial assistance;  
 9        (b) establish uniform requirements for financial  
 10 reports and audits of local government entities;  
 11        (c) insure ensure constituent interests by determining  
 12 that compliance with all appropriate statutes and  
 13 regulations is accomplished;  
 14        (d) ensure that the financial condition and operations  
 15 of the local government entities are reasonably conducted  
 16 and reported;  
 17        (e) ensure that the stewardship of such local  
 18 government entities is conducted in such a manner as to  
 19 preserve and protect the public trust; and-to  
 20        (f) ensure that local government entities accomplish,  
 21 with economy and efficiency, the duties and responsibilities  
 22 of the entities in accordance with the legal requirements  
 23 imposed and the desires of the public; and  
 24        (g) promote the efficient and effective use of audit  
 25 resources."

1        **Section 3.** Section 2-7-503, MCA, is amended to read:  
 2        "2-7-503. (Temporary) Audits Financial reports and  
 3 audits of local governmental government entities. (1) The  
 4 ~~department shall audit the affairs of all:~~  
 5        ~~(a) counties;~~  
 6        ~~(b) incorporated cities and towns having a population~~  
 7 ~~of more than 300 in the most recent census taken under the~~  
 8 ~~direction of congress;~~  
 9        ~~(c) first and second class school districts and~~  
 10 ~~third class school districts that maintain a high school;~~  
 11        ~~(d) school district extracurricular funds for pupil~~  
 12 ~~functions;~~  
 13        ~~(e) irrigation districts, except as provided in~~  
 14 ~~subsection (7);~~  
 15        ~~(f) conservancy districts;~~  
 16        ~~(g) fire districts and volunteer fire departments in~~  
 17 ~~unincorporated areas, towns, and villages supported by a~~  
 18 ~~mill levy, except as provided in subsection (6);~~  
 19        ~~(h) fire department relief associations, except as~~  
 20 ~~provided in subsection (6); and~~  
 21        ~~(i) cemetery districts;~~  
 22        ~~(2) Each audit shall be made every 2 years and shall~~  
 23 ~~cover the immediately preceding 2 fiscal years of the~~  
 24 ~~governmental governing body or managing or executive officer~~  
 25 ~~of a local government entity, unless annual audits are~~

1 requested--by--the--governmental--entity other than a school  
 2 district or associated cooperative, shall ensure that a  
 3 financial report is made every year. A school district or  
 4 associated cooperative shall comply with the provisions of  
 5 20-9-213. The financial report must cover the preceding  
 6 fiscal year, be in a form prescribed by the department, and  
 7 be completed within 4 months of the end of the reporting  
 8 period. The local government entity shall submit the  
 9 financial report to the department for review.

10 ~~(3)--Each--audit--shall--be--initiated--not--later--than--24~~  
 11 ~~months--from--the--close--of--the--fiscal--year--for--which--the--audit~~  
 12 ~~is--conducted.~~

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

18 (3) (a) The governing body or managing or executive  
 19 officer of each local government entity receiving revenues  
 20 or financial assistance in the period covered by the  
 21 financial report in excess of \$100,000 \$200,000 or federal  
 22 financial assistance in excess of \$25,000 shall cause an  
 23 audit to be made at least every 2 years. The audit must  
 24 cover the entity's preceding 2 fiscal years. The audit must  
 25 commence within 9 months from the close of the last fiscal

1 year of the audit period. The audit must be completed and  
 2 submitted to the department for review within 1 year from  
 3 the close of the last fiscal year covered by the audit.

4 (b) The governing body or managing or executive officer  
 5 of a local government entity that does not meet the criteria  
 6 established in subsection (3)(a) shall at least once every 4  
 7 years, if directed by the department, OR, IN THE CASE OF A  
 8 SCHOOL DISTRICT, IF DIRECTED BY THE DEPARTMENT AT THE  
 9 REQUEST OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION, cause a  
 10 financial review, as defined by department rule, to be  
 11 conducted of the financial statements of the entity for the  
 12 preceding fiscal year.

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

23 (4)(5) In addition to the audits required by this  
 24 section, the department may at any time conduct or contract  
 25 for a special audit or review of the affairs of any

1 ~~governmental~~ local government entity referred to in this  
2 part. The special audit or review must, to the extent  
3 practicable, build upon audits performed pursuant to this  
4 part.

5 (5)(6) The fee for the special audit ~~shall~~ or review  
6 must be a charge based upon the costs incurred by the  
7 department ~~in the conduct of such~~ relation to the special  
8 audit or review. The audit fee ~~shall~~ must be paid by the  
9 ~~governmental~~ local government entity to the state treasurer  
10 and deposited in the enterprise fund to the credit of the  
11 department.

12 (6)--(a) ~~Except as provided in subsection (6)(c), the~~  
13 ~~department may not audit:~~

14 (i) ~~a fire district which has an annual budget of less~~  
15 ~~than \$20,000 and in which fire protection is provided solely~~  
16 ~~by a fire company composed only of volunteer firefighters~~  
17 ~~organized under Title 7, chapter 33; or~~

18 (ii) ~~a fire department relief association organized~~  
19 ~~under Title 19, chapter 11, which has annual receipts,~~  
20 ~~including earnings on invested funds, of less than \$20,000,~~  
21 ~~except for audits as provided under 19-11-206.~~

22 (b) ~~Such fire district shall annually file with the~~  
23 ~~board of county commissioners of the county in which the~~  
24 ~~majority of the district is located an itemized account of~~  
25 ~~all receipts and expenditures for the year, signed under~~

1 ~~oath by an officer of the fire company designated by the~~  
2 ~~fire district trustees.~~

3 (c) ~~The board of county commissioners may require an~~  
4 ~~annual audit to be conducted by the department if it~~  
5 ~~considers such audit to be in the public interest.~~

6 (d) ~~Such fire department relief association shall~~  
7 ~~annually file with the municipality in which the fire~~  
8 ~~department relief association is located an itemized account~~  
9 ~~of all receipts and expenditures for the year, signed under~~  
10 ~~oath by an officer designated by the fire department relief~~  
11 ~~association trustees. The municipality may require an annual~~  
12 ~~audit to be conducted by the department if it considers such~~  
13 ~~audit to be in the public interest.~~

14 (7)--(a) ~~Except as provided in subsection (7)(c), the~~  
15 ~~department may not audit an irrigation district with annual~~  
16 ~~expenditures of less than \$30,000, excluding the payment of~~  
17 ~~principal and interest on federal loans.~~

18 (b) ~~Such irrigation district shall annually file with~~  
19 ~~the clerk of the district court in the county in which the~~  
20 ~~irrigation district is located an itemized account of all~~  
21 ~~receipts and expenditures for the year, signed under oath by~~  
22 ~~an officer designated by the irrigation district trustees.~~

23 (c) ~~The district court may require an annual audit to~~  
24 ~~be conducted by the department if it considers such audit to~~  
25 ~~be in the public interest.~~

1        ~~{8}--(a)--Except--as--provided--in--subsection--(8)(c)--the~~  
2        ~~department--may--not--audit--a--cemetery--district--with--annual~~  
3        ~~expenditures--of--less--than--\$25,000,--excluding--the--payment--of~~  
4        ~~principal--and--interest--on--federal--loans;~~

5        ~~{b}--Such--cemetery--district--shall--annually--file--with--the~~  
6        ~~clerk--of--the--district--court--in--the--county--in--which--the~~  
7        ~~cemetery--district--is--located--an--itemized--account--of--all~~  
8        ~~receipts--and--expenditures--for--the--year,--signed--under--oath--by~~  
9        ~~an--officer--designated--by--the--cemetery--district--trustees;~~

10       ~~{c}--The--board--of--county--commissioners--may--require--an~~  
11       ~~annual--audit--to--be--conducted--by--the--department--if--it~~  
12       ~~considers--such--audit--to--be--in--the--public--interest.~~  
13       ~~(Terminates June 30, 1991--sec. 6, Ch. 140, L. 1989.)~~

14        2-7-503. (Effective July 1, 1991) Audits Financial  
15        reports and audits of local governmental government  
16        entities. (1) The department shall audit the affairs of all:

17        ~~{a}--counties;~~

18        ~~{b}--incorporated--cities--and--towns--having--a--population~~  
19        ~~of--more--than--300--in--the--most--recent--census--taken--under--the~~  
20        ~~direction--of--congress;~~

21        ~~{c}--first--and--second--class--school--districts--and~~  
22        ~~third--class--school--districts--that--maintain--a--high--school;~~

23        ~~{d}--school--district--extracurricular--funds--for--pupil~~  
24        ~~functions;~~

25        ~~{e}--irrigation--districts,--except--as--provided--in~~

1        ~~subsection--(7);~~

2        ~~{f}--conservancy--districts;~~

3        ~~{g}--fire--districts--and--volunteer--fire--departments--in~~  
4        ~~unincorporated--areas,--towns,--and--villages--supported--by--a~~  
5        ~~mill--levy,--except--as--provided--in--subsection--(6);--and~~

6        ~~{h}--fire--department--relief--associations,--except--as~~  
7        ~~provided--in--subsection--(6);~~

8        ~~{2}--Each--audit--shall--be--made--every--2--years--and--shall~~  
9        ~~cover--the--immediately--preceding--2--fiscal--years--of--the~~  
10        ~~governmental governing body or managing or executive officer~~  
11        ~~of a local government entity, unless--annual--audits--are~~  
12        ~~requested--by--the--governmental--entity other than a school~~  
13        ~~district or associated cooperative, shall ensure that a~~  
14        ~~financial report is made every year. A school district or~~  
15        ~~associated cooperative shall comply with the provisions of~~  
16        ~~20-9-213. The financial report must cover the preceding~~  
17        ~~fiscal year, be in a form prescribed by the department, and~~  
18        ~~be completed within 4 months of the end of the reporting~~  
19        ~~period. The local government entity shall submit the~~  
20        ~~financial report to the department for review.~~

21        ~~{3}--Each--audit--shall--be--initiated--not--later--than--24~~  
22        ~~months--from--the--close--of--the--fiscal--year--for--which--the--audit~~  
23        ~~is--conducted.~~

24        ~~{2} The department shall prescribe a uniform reporting~~  
25        ~~system for all local government entities subject to~~

1 financial reporting requirements, other than school  
2 districts. The superintendent of public instruction shall  
3 prescribe the reporting requirements for school districts.

4 (3) (a) The governing body or managing or executive  
5 officer of each local government entity receiving revenues  
6 or financial assistance in the period covered by the  
7 financial report in excess of \$100,000 \$200,000 or federal  
8 financial assistance in excess of \$25,000 shall cause an  
9 audit to be made at least every 2 years. The audit must  
10 cover the entity's preceding 2 fiscal years. The audit must  
11 commence within 9 months from the close of the last fiscal  
12 year of the audit period. The audit must be completed and  
13 submitted to the department for review within 1 year from  
14 the close of the last fiscal year covered by the audit.

15 (b) The governing body or managing or executive officer  
16 of a local government entity that does not meet the criteria  
17 established in subsection (3)(a) shall at least once every 4  
18 years, if directed by the department, OR, IN THE CASE OF A  
19 SCHOOL DISTRICT, IF DIRECTED BY THE DEPARTMENT AT THE  
20 REQUEST OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION, cause a  
21 financial review, as defined by department rule, to be  
22 conducted of the financial statements of the entity for the  
23 preceding fiscal year.

24 (4) An audit conducted in accordance with this part is  
25 in lieu of any financial or financial and compliance audit

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

9 (4)(5) In addition to the audits required by this  
10 section, the department may at any time conduct or contract  
11 for a special audit or review of the affairs of any  
12 governmental local government entity referred to in this  
13 part. The special audit or review must, to the extent  
14 practicable, build upon audits performed pursuant to this  
15 part.

16 (5)(6) The fee for the special audit shall or review  
17 must be a charge based upon the costs incurred by the  
18 department in the-conduct-of-such relation to the special  
19 audit or review. The audit fee shall must be paid by the  
20 governmental local government entity to the state treasurer  
21 and deposited in the enterprise fund to the credit of the  
22 department.

23 (6)--(a)-~~Except as provided in subsection (6)(c), the~~  
24 ~~department may not audit:~~

25 (i)--a--~~fire district which has an annual budget of less~~



1 than \$20,000 and in which fire protection is provided solely  
 2 by a fire company composed only of volunteer firefighters  
 3 organized under Title 7, chapter 33, or

4 (ii) a fire department relief association organized  
 5 under Title 19, chapter 11, which has annual receipts,  
 6 including earnings on invested funds, of less than \$20,000,  
 7 except for audits as provided under 19-11-206;

8 (b) Such fire district shall annually file with the  
 9 board of county commissioners of the county in which the  
 10 majority of the district is located an itemized account of  
 11 all receipts and expenditures for the year, signed under  
 12 oath by an officer of the fire company designated by the  
 13 fire district trustees;

14 (c) The board of county commissioners may require an  
 15 annual audit to be conducted by the department if it  
 16 considers such audit to be in the public interest;

17 (d) Such fire department relief association shall  
 18 annually file with the municipality in which the fire  
 19 department relief association is located an itemized account  
 20 of all receipts and expenditures for the year, signed under  
 21 oath by an officer designated by the fire department relief  
 22 association trustees. The municipality may require an annual  
 23 audit to be conducted by the department if it considers such  
 24 audit to be in the public interest;

25 (7) (a) Except as provided in subsection (7)(c), the

1 department may not audit an irrigation district with annual  
 2 expenditures of less than \$30,000, excluding the payment of  
 3 principal and interest on federal loans;

4 (b) Such irrigation district shall annually file with  
 5 the clerk of the district court in the county in which the  
 6 irrigation district is located an itemized account of all  
 7 receipts and expenditures for the year, signed under oath by  
 8 an officer designated by the irrigation district trustees;

9 (c) The district court may require an annual audit to  
 10 be conducted by the department if it considers such audit to  
 11 be in the public interest."

12 **Section 4.** Section 2-7-504, MCA, is amended to read:

13 "2-7-504. Accounting methods. Unless otherwise required  
 14 by law, the department shall prescribe by rule the general  
 15 methods and details of accounting for the receipt and  
 16 disbursement of all money belonging to governmental local  
 17 government entities referred to in this part and shall  
 18 establish in those offices general methods and details of  
 19 accounting. All governmental local government entity  
 20 officers shall conform with the accounting standards  
 21 prescribed by the department."

22 **Section 5.** Section 2-7-505, MCA, is amended to read:

23 "2-7-505. Audit scope and standards. (1) Each audit  
 24 shall must be a comprehensive audit of the affairs of the  
 25 governmental local government entity, including comment on

1 the--balance--sheet,--results-of-operations,--compliance-with  
 2 state--statutes---and---regulations,---recommendations---for  
 3 improvement, and any other comments deemed pertinent by the  
 4 auditor, including his expression of opinion as to the  
 5 adequacy of the financial presentations.

6 (2) Each such audit required shall must be made in  
 7 accordance with generally accepted governmental auditing  
 8 standards and in accordance with federal regulations adopted  
 9 by the department by rule.

10 (2) The department, with cooperation from state  
 11 agencies, shall prepare a local government compliance  
 12 supplement that contains state and federal regulations  
 13 applicable to local government entities."

14 **Section 6.** Section 2-7-506, MCA, is amended to read:

15 "2-7-506. Audit by independent accountant or auditor.

16 (1) ~~In lieu of the audits required of the department, the~~  
 17 ~~The department may, with the consent of or at the request of~~  
 18 ~~the respective governmental entities, contract out such~~  
 19 ~~prepare and maintain a roster of independent auditors~~  
 20 ~~authorized to conduct audits with a public accountant or~~  
 21 ~~firm of public accountants who are licensed under the laws~~  
 22 ~~of Montana of local government entities. The roster must be~~  
 23 ~~available to local government entities subject to the~~  
 24 ~~reporting requirements of 2-7-503. The duration of such an~~  
 25 ~~audit contract must be set forth in the contract and may not~~

1 exceed 3 years but the contract may be extended an  
 2 additional 2 years upon the request of the governmental  
 3 entity.

4 (2) The department, IN CONSULTATION WITH THE BOARD,  
 5 shall establish adopt rules governing the administration of  
 6 the contracts between the department, the independent  
 7 accountant/auditor, and the governmental entities. These  
 8 rules shall include but not be limited to:

9 (a) establishment of criteria for the selection of the  
 10 independent accountant/auditor auditor;

11 (b) contract form and content procedures and  
 12 qualifications for placing applicants on the roster; and

13 (c) standards of audit and reporting procedures for  
 14 reviewing the qualifications of independent auditors on the  
 15 roster to justify their continuance on the roster; and

16 (d) fees payable to the department for application for  
 17 placement on the roster.

18 (3) An audit made by an independent auditor must be  
 19 pursuant to a contract entered into by the governing body or  
 20 managing or executive officer of the local government. The  
 21 department must be a party to the contract and the contract  
 22 may not be executed until it is signed by the department.  
 23 All contracts for conducting audits must be in a form  
 24 prescribed or approved by the department.

25 (4) The department shall notify the local government

1 entity of a required audit, the date the report is due, and  
2 the requirement that the local government entity, the  
3 independent auditor, and the department must be parties to  
4 the contract.

5 (5) If a local government entity fails to present a  
6 signed contract to the department for approval within 90  
7 days of receipt of the audit notice, the department shall  
8 designate an independent auditor to perform the audit. The  
9 costs incurred by the department in arranging the audit must  
10 be paid by the local government entity to the department in  
11 the manner of other claims against the local government  
12 entity."

13 **Section 7.** Section 2-7-507, MCA, is amended to read:

14 **"2-7-507. Duty of officers to aid in audit.** The  
15 officers and employees of the governmental local government  
16 entities referred to in this part shall afford provide all  
17 reasonable facilities for the department's audit and shall  
18 furnish all information to the department-under-oath-in-a  
19 manner-prescribed--by--the--department independent auditor  
20 necessary for the conduct of the audit."

21 **Section 8.** Section 2-7-508, MCA, is amended to read:

22 **"2-7-508. Power to examine books and papers.** The  
23 department independent auditor may examine any books,  
24 papers, accounts, and documents in the office or possession  
25 of any governmental local government entity referred--to--in

1 this--part and--may--send-for-persons-or-papers-and-examine  
2 under-oath-any-person-concerning-them."

3 **Section 9.** Section 2-7-511, MCA, is amended to read:

4 **"2-7-511. Access to public accounts -- suspension of**  
5 **officer in case of discrepancy.** (1) The department  
6 independent auditor may count the cash, verify the bank  
7 accounts, and verify all accounts of a public officer whose  
8 accounts it the independent auditor is examining under law.

9 (2) If an officer of any county, city, town, school, or  
10 other governmental local government entity referred--to--in  
11 this--part refuses to accord--the--department provide the  
12 independent auditor access during an audit of the officer's  
13 accounts to his cash, bank accounts, or any of the papers,  
14 vouchers, or records of his office or if the department  
15 independent auditor finds a shortage of cash, the department  
16 independent auditor shall immediately file a preliminary  
17 report showing the refusal of that officer or the existence  
18 of the shortage and the approximate amount of the shortage  
19 with the respective county, city, or town attorney and the  
20 governing body of the governmental local government entity.

21 (3) Upon filing of the statement, the officer of the  
22 local government entity shall immediately after notice and  
23 the opportunity for a hearing be suspended from the duties  
24 and emoluments of his office and the governing body of such  
25 governmental the local government entity shall appoint some

1 qualified person to the office pending completion of the  
2 audit.

3 (4) Upon the completion of the audit by the department  
4 independent auditor, if a shortage of cash existed in the  
5 accounts of the officer, the department independent auditor  
6 shall ~~file~~ notify the governing body of the  
7 governmental local government entity ~~a final report~~ of the  
8 ~~audit, showing~~ the shortage. ~~The governing body shall,~~  
9 ~~within 10 days after the filing of the department's final~~  
10 ~~report of the audit, set a date and time for a formal~~  
11 ~~hearing to test the accuracy of the final report of the~~  
12 ~~audit and give notice of the hearing to the officer.~~

13 (5) If the governing body finds that a shortage exists  
14 and that the officer suspended is, by act or omission,  
15 responsible for the shortage, the officer's right to the  
16 office is forfeited and the report of the audit shall be  
17 referred to the county attorney."

18 **Section 10.** Section 2-7-512, MCA, is amended to read:

19 "2-7-512. **Exit review conference.** Upon completion of  
20 ~~the field work of~~ each audit, the in-charge independent  
21 auditor is required to hold with the appropriate officials  
22 an exit review conference in which the audit results ~~shall~~  
23 must be discussed."

24 **Section 11.** Section 2-7-513, MCA, is amended to read:

25 "2-7-513. **Content of audit report and financial report.**

1 (1) The audit reports shall ~~contain but are not limited to~~  
2 ~~the following:~~

3 (i) ~~financial statements that conform with the~~  
4 ~~generally accepted governmental accounting principles and~~  
5 ~~which, insofar as possible, present the financial position~~  
6 ~~and results of financial operations for each fund of the~~  
7 ~~governmental entity;~~

8 (ii) ~~an expression of opinion regarding the financial~~  
9 ~~statements, taken as a whole, or an assertion to the effect~~  
10 ~~that an opinion cannot be expressed. When an overall opinion~~  
11 ~~cannot be expressed, the reasons therefor should be stated;~~

12 (iii) ~~a statement that previously noted deficiencies or~~  
13 ~~recommendations contained in previous audit reports have~~  
14 ~~been acted upon by adoption as recommended, adoption with~~  
15 ~~modification, or rejection; and~~

16 (iv) ~~disclosure of any lack of compliance with state~~  
17 ~~statutes or regulations, as well as any operating~~  
18 ~~deficiencies or recommendations for improvement~~ comply with  
19 the reporting requirements of government auditing standards  
20 issued by the U.S. comptroller general and federal  
21 regulations adopted by department rule.

22 (2) The department shall prescribe general methods and  
23 details of accounting for the financial report for local  
24 government entities other than schools. The financial report  
25 must be submitted in a form required by the department. The

1 superintendent of public instruction shall prescribe the  
2 general methods and details of accounting for financial  
3 reports for schools."

4 **Section 12.** Section 2-7-514, MCA, is amended to read:

5 "2-7-514. (Temporary) Issuance--and--filing Filing of  
6 audit report and financial report. (1) Within 120 days after  
7 the completion of the field work, the department shall issue  
8 Completed audit reports as follows:

9 (a) county--audit--reports to county commissioners, the  
10 county clerk and recorder, and the county attorney;

11 (b) city or town audit reports to the city or town  
12 governing body, the city or town chief financial officer,  
13 the city or town chief executive, and the city or town  
14 attorney;

15 (c) school--district audit reports to the trustees, the  
16 county superintendent of schools, the must be filed with the  
17 department. Completed financial reports must be filed with  
18 the department as provided in 2-7-503(1). The state  
19 superintendent of public instruction, the--county--attorney,  
20 and the clerk of the school district;

21 (d) school--district extracurricular fund audit reports  
22 to the trustees, the county superintendent of schools, the  
23 state--superintendent--of--public--instruction, the--county  
24 attorney, and the fund administrator;

25 (e) fire--district--or--volunteer fire department audit

1 reports to the trustees, the county attorney, and the--clerk  
2 and--recorder--of--the--county in which the fire district or  
3 fire department is located;

4 (f) conservancy district audit reports to the board--of  
5 directors, the--department--of--natural--resources--and  
6 conservation, the--district--court, and--the--county  
7 attorney(s);

8 (g) fire department relief association audit reports to  
9 the trustees, the city or town attorney, and the--respective  
10 city or town clerk;

11 (h) irrigation--district--audit reports to the board of  
12 commissioners, the--district--court, and--the--county  
13 attorney(s); and

14 (i) cemetery--district--audit--reports to the board of  
15 cemetery--trustees, the--district--court, and--the--county  
16 attorney shall file with the department a list of school  
17 districts subject to audit under 2-7-503(3). The list must  
18 be filed with the department within 6 months after the close  
19 of the fiscal year.

20 (2) At the time the financial report is filed or, in  
21 the case of a school district, when the audit report is  
22 filed with the department, the local government entity shall  
23 pay to the department a filing fee. The department shall  
24 charge a filing fee TO ANY LOCAL GOVERNMENT ENTITY REQUIRED  
25 TO HAVE AN AUDIT UNDER [SECTION 3], WHICH FEE MUST BE based

1 upon the costs incurred by the department in the  
 2 administration of this part. THE FILING FEES FOR SCHOOL  
 3 DISTRICTS REQUIRED BY THIS SECTION MUST BE PAID BY THE  
 4 SUPERINTENDENT OF PUBLIC INSTRUCTION FROM THE FUNDS  
 5 APPROPRIATED FOR STATE EQUALIZATION AID AS DEFINED IN  
 6 20-9-343. The department shall adopt the fee schedule by  
 7 rule based upon the local government entities' revenue  
 8 amounts.

9 ~~(2)(3)~~ All copies of the completed audit and financial  
 10 reports issued by must be made available by the department  
 11 and the local government entity are to be maintained on file  
 12 at an appropriate location and open to for public inspection  
 13 during regular office hours. (Terminates June 30, 1991--sec.  
 14 6, Ch. 140, L. 1989.)

15 2-7-514. (Effective July 1, 1991) ~~issuance and filing~~  
 16 Filing of audit report and financial report. (1) Within 120  
 17 days after the completion of the field work, the department  
 18 shall issue Completed audit reports as follows:

19 (a) ~~county audit reports to county commissioners, the~~  
 20 ~~county clerk and recorder, and the county attorney;~~

21 (b) ~~city or town audit reports to the city or town~~  
 22 ~~governing body, the city or town chief financial officer,~~  
 23 ~~the city or town chief executive, and the city or town~~  
 24 ~~attorney;~~

25 (c) ~~school district audit reports to the trustees, the~~

1 ~~county superintendent of schools, the~~ must be filed with the  
 2 department. Completed financial reports must be filed with  
 3 the department as provided in 2-7-503(1). The state  
 4 superintendent of public instruction, the county attorney,  
 5 and the clerk of the school district;

6 (d) ~~school district extracurricular fund audit reports~~  
 7 ~~to the trustees, the county superintendent of schools, the~~  
 8 ~~state superintendent of public instruction, the county~~  
 9 ~~attorney, and the fund administrator;~~

10 (e) ~~fire district or volunteer fire department audit~~  
 11 ~~reports to the trustees, the county attorney, and the clerk~~  
 12 ~~and recorder of the county in which the fire district or~~  
 13 ~~fire department is located;~~

14 (f) ~~conservancy district audit reports to the board of~~  
 15 ~~directors, the department of natural resources and~~  
 16 ~~conservation, the district court, and the county~~  
 17 ~~attorney(s);~~

18 (g) ~~fire department relief association audit reports to~~  
 19 ~~the trustees, the city or town attorney, and the respective~~  
 20 ~~city or town clerk; and~~

21 (h) ~~irrigation district audit reports to the board of~~  
 22 ~~commissioners, the district court, and the county~~  
 23 ~~attorney(s) shall file with the department a list of school~~  
 24 ~~districts subject to audit under 2-7-503(3). The list must~~  
 25 ~~be filed with the department within 6 months after the close~~

1 of the fiscal year.  
 2 (2) At the time the financial report is filed or, in  
 3 the case of a school district, when the audit report is  
 4 filed with the department, the local government entity shall  
 5 pay to the department a filing fee. The department shall  
 6 charge a filing fee TO ANY LOCAL GOVERNMENT ENTITY REQUIRED  
 7 TO HAVE AN AUDIT UNDER [SECTION 3], WHICH FEE MUST BE based  
 8 upon the costs incurred by the department in the  
 9 administration of this part. NOTWITHSTANDING THE PROVISIONS  
 10 OF 20-9-343, THE FILING FEES FOR SCHOOL DISTRICTS REQUIRED  
 11 BY THIS SECTION MUST BE PAID BY THE SUPERINTENDENT OF PUBLIC  
 12 INSTRUCTION FROM THE STATE EQUALIZATION AID ACCOUNT. The  
 13 department shall adopt the fee schedule by rule based upon  
 14 the local government entities' revenue amounts.  
 15 ~~†2†~~(3) All Copies of the completed audit and financial  
 16 reports issued--by must be made available by the department  
 17 and the local government entity are-to-be-maintained-on-file  
 18 at-an-appropriate-location-and-open-to for public inspection  
 19 during regular office hours.  
 20 (4) THE DEPARTMENT IS AUTHORIZED UNDER THIS PART TO  
 21 CHARGE A SURCHARGE ON THE FILING FEE TO GENERATE THE  
 22 NECESSARY REVENUE TO REPAY THE GENERAL FUND LOAN OVER A  
 23 5-YEAR PERIOD."  
 24 **Section 13.** Section 2-7-515, MCA, is amended to read:  
 25 "2-7-515. Actions by governing bodies. (1) Upon receipt

1 of the audit report, the governing bodies of each audited  
 2 local government entity shall review the contents and within  
 3 30 days shall notify the department in writing as to what  
 4 action they plan to take on any deficiencies or  
 5 recommendations contained in the audit report. If no  
 6 deficiencies or recommendations appear in the audit report,  
 7 notification ~~shall~~ is not be required.  
 8 (2) Notification to the department shall include a  
 9 statement by the governing bodies that noted deficiencies or  
 10 recommendations for improvement have been acted upon by  
 11 adoption as recommended, adoption with modification, or  
 12 rejection.  
 13 (3) The local government entity shall adopt measures to  
 14 correct the report findings and submit a copy of the  
 15 corrective action plan to the department and, if the local  
 16 government entity is a school district, shall also send a  
 17 copy to the superintendent of public instruction. The  
 18 department shall notify the entity of the acceptance of the  
 19 corrective measures. If the department and the local  
 20 government entity fail to agree, a conference between the  
 21 parties must be held. Failure to resolve findings or  
 22 implement corrective measures shall result in the  
 23 withholding of financial assistance in accordance with rules  
 24 adopted by the department pending resolution or compliance.  
 25 ~~†3†~~(4) In cases where a violation of law or

1 nonperformance of duty is found on the part of an officer,  
 2 employee, or board, the officer, employee, or board must be  
 3 proceeded against by the attorney general or county, city,  
 4 or town attorney as provided by law. The county, city, or  
 5 town attorney shall report to the department within 30 days  
 6 after receiving the audit report from the department the  
 7 proceedings instituted or to be instituted relating to the  
 8 violations of law and nonperformance of duty. If the county,  
 9 city, or town attorney fails or refuses to prosecute the  
 10 case, the department may ~~employ-an~~ refer the case to the  
 11 attorney general to prosecute the case at the expense of the  
 12 ~~respective-governmental~~ local government entity."

13 **Section 14.** Section 2-7-516, MCA, is amended to read:

14 "2-7-516. Audit fees. (1) The compensation to the  
 15 independent auditor for conducting an audit must be agreed  
 16 upon by the governing body or managing or executive officer  
 17 of the local government entity and the independent auditor  
 18 and must be paid in the manner that other claims against the  
 19 local government entity are paid.

20 ~~(1)(2) The department shall charge compensation for an~~  
 21 ~~audit fees-based-upon-the-costs-incurred conducted~~ by the  
 22 department ~~in-the-administration-of-this-part.~~

23 ~~(2)--All--audit--fees--herein--provided--shall~~ must be paid  
 24 by the ~~governmental~~ local government entity to the state  
 25 treasurer and be deposited in an enterprise fund to the

1 credit of the department.

2 ~~(3)--The--department--may--submit--a--bill--to--the~~  
 3 ~~governmental--entity--based-upon-the-estimated-percentage-of~~  
 4 ~~completion-of-any-audit--The-governmental-entity--must--make~~  
 5 ~~payment-within-60-days-of-receiving-a-bill--"~~

6 **Section 15.** Section 2-7-517, MCA, is amended to read:

7 "2-7-517. Penalty. (1) When a local government entity  
 8 has failed to file a report as required by 2-7-503(1),  
 9 UNLESS AN EXTENSION HAS BEEN GRANTED BY THE DEPARTMENT FOR  
 10 GOOD CAUSE SHOWN, or to make the payment required by  
 11 2-7-514(2) within 60 days, the department may issue an order  
 12 stopping payment of any state financial assistance to the  
 13 local government entity or may charge a late payment penalty  
 14 as adopted by rule. Upon receipt of the report or payment of  
 15 the filing fee, all financial assistance that was withheld  
 16 under this section must be released and paid to the local  
 17 government entity.

18 (2) When a ~~governmental~~ local government entity has  
 19 failed to make payment as required by 2-7-516(1) within 60  
 20 days of receiving a bill for an audit, the department may  
 21 issue an order stopping payment of any state financial aid  
 22 to the ~~governmental~~ local government entity. Upon payment  
 23 for the audit, all financial aid that was withheld because  
 24 of failure to make payment ~~shall~~ must be released and paid  
 25 to the ~~governmental~~ local government entity."



**Section 16.** Section 2-7-518, MCA, is amended to read:

"2-7-518. Deposit of audit fees. All audit fees received from ~~governmental~~ local government entities after June 30, 1981, shall be deposited in the enterprise fund to the credit of the department of commerce for administration of Title 2, chapter 7, part 5."

**Section 17.** Section 2-7-521, MCA, is amended to read:

"2-7-521. (Temporary) Publication. (1) (a) ~~Except as provided in subsection (3), after~~ After the expiration of the 30-day period provided for in 2-7-515(1), the ~~department~~ local government entity shall send a copy of ~~the general comments section of~~ each audit report to a newspaper of general circulation in the area of the local government entity. However, ~~the general comments section of~~ each county audit report must be sent to the official newspaper of the county.

(b) For an audit report of a ~~local government entity provided for in 2-7-503(1)(a) or (1)(b)~~ county or an incorporated city or town, the ~~department~~ county, city, or town shall send to the appropriate newspaper a copy of a summary of significant findings regarding the audit report. The summary, which may not exceed 800 words, must be prepared by the ~~auditing agency or firm~~ independent auditor and contain a statement indicating that it is only a summary and is not intended to be used as an audit report.

(2) For an audit report of a ~~local government entity provided for in 2-7-503(1)(a) or (1)(b)~~ county or incorporated city or town, a newspaper is required to publish only:

(a) the summary of significant findings provided for in subsection (1)(b); and

(b) a statement to the effect that the audit report is on file in its entirety and open to public inspection.

(3) For an audit report of a local government entity ~~provided for in 2-7-503(1)(c) through (1)(i)~~ other than a county or incorporated city or town, the newspaper is required to publish only the statement provided for in subsection (2)(b) and a statement providing that the audited local government entity will send a copy of the audit report to any interested person upon request. ~~A copy of the audit report must be sent to the newspaper publishing the statements.~~

(4) Publication costs must be borne by the audited ~~governmental~~ local government entity. (Terminates June 30, 1991--sec. 6, Ch. 140, L. 1989.)

2-7-521. (Effective July 1, 1991) Publication. (1) (a) ~~Except as provided in subsection (3), after~~ After the expiration of the 30-day period provided for in 2-7-515(1), the ~~department~~ local government entity shall send a copy of ~~the general comments section of~~ each audit report to a

1 newspaper of general circulation in the area of the local  
 2 government entity. However, ~~the general comments section of~~  
 3 each county audit report must be sent to the official  
 4 newspaper of the county.

5 (b) For an audit report of a ~~local government entity~~  
 6 ~~provided for in 2-7-503(i)(a) or (i)(b)~~ county or an  
 7 incorporated city or town, the ~~department~~ county, city, or  
 8 town shall send to the appropriate newspaper a copy of a  
 9 summary of significant findings regarding the audit report.  
 10 The summary, which may not exceed 800 words, must be  
 11 prepared by the ~~auditing agency or firm~~ independent auditor  
 12 and contain a statement indicating that it is only a summary  
 13 and is not intended to be used as an audit report.

14 (2) For an audit report of a ~~local government entity~~  
 15 ~~provided for in 2-7-503(i)(a) or (i)(b)~~ county or  
 16 incorporated city or town, a newspaper is required to  
 17 publish only:

18 (a) the summary of significant findings provided for in  
 19 subsection (1)(b); and

20 (b) a statement to the effect that the audit report is  
 21 on file in its entirety and open to public inspection.

22 (3) For an audit report of a local government entity  
 23 ~~provided for in 2-7-503(i)(c) through (i)(h)~~ other than a  
 24 county or incorporated city or town, the newspaper is  
 25 required to publish only the statement provided for in

1 subsection (2)(b) and a statement providing that the audited  
 2 local government entity will send a copy of the audit report  
 3 to any interested person upon request. ~~A copy of the audit~~  
 4 ~~report must be sent to the newspaper publishing the~~  
 5 ~~statements.~~

6 (4) Publication costs must be borne by the audited  
 7 ~~governmental~~ local government entity."

8 NEW SECTION. Section 18. Report review. (1) The  
 9 department shall determine whether the provisions of this  
 10 part have been complied with by the independent auditor.

11 (2) Upon receipt of the audit report from the local  
 12 government entity the department shall review the report. If  
 13 the department determines the reporting requirements have  
 14 not been met, the department shall notify the local  
 15 government entity and the independent auditor submitting the  
 16 report OF THE SIGNIFICANT ISSUES OF NONCOMPLIANCE. The  
 17 notification must include issuance of a statement of  
 18 deficiencies by the department. The department shall allow  
 19 the independent auditor 60 days to correct the identified  
 20 deficiencies.

21 (3) If the corrections are not made within 60 days of  
 22 the department's notice, the department shall notify the  
 23 local government entity that the report has not been  
 24 received. Failure to submit a report shall result in the  
 25 withholding of payment of the audit fee pending resolution

1 of the identified deficiencies or receipt of a corrected  
2 report.

3 (4) Upon review of the report, if the department  
4 determines the independent auditor has issued a report that  
5 fails to meet the auditing standards referred to in 2-7-513  
6 or contains false or misleading information, the department  
7 shall notify the board.

8 (5) The department shall review the audit report  
9 findings and the response of the governing body or executive  
10 or managing officer of the local government entity submitted  
11 under 2-7-515. When the findings concern financial  
12 assistance, the department shall notify the state agency  
13 that is responsible for disbursing the state or federal  
14 funding.

15 (6) The department must have access in its office to  
16 the working papers of the independent auditor.

17 **Section 19.** Section 3-5-902, MCA, is amended to read:

18 **"3-5-902. Fiscal administration for payment of court**  
19 **expenses.** The department of commerce shall:

20 (1) establish procedures for disbursement of funds for  
21 payment of district court expenses listed in 3-5-901,  
22 including prorating of those funds if they are insufficient  
23 to cover all expenses listed in 3-5-901; and

24 (2) develop a uniform accounting system in accordance  
25 with 2-7-504 for use by the counties in reporting court

1 expenses at a detailed level for budgeting and auditing  
2 purposes; and

3 ~~(3) provide for annual auditing of district court~~  
4 ~~expenses to assure normal operations and consistency in~~  
5 ~~reporting of expenditures."~~

6 **Section 20.** Section 7-6-2352, MCA, is amended to read:

7 **"7-6-2352. State grants to district courts -- rules.**

8 (1) The department of commerce shall make grants, to the  
9 extent funds are available after expenses provided for in  
10 3-5-901 are funded, to the governing body of a county for  
11 the district courts for assistance, as provided in this  
12 section.

13 (2) The governing body of a county may apply to the  
14 department of commerce for a grant by filing a written  
15 request on forms provided by the department by July 20 for  
16 the previous fiscal year unless the department grants a time  
17 extension upon request of the county. In its request for a  
18 grant, a county must certify that:

19 (a) all expenditures from the district court fund have  
20 been lawfully made;

21 (b) no transfers from the district court fund have been  
22 or will be made to any other fund; and

23 (c) no expenditures have been made from the district  
24 court fund that are not specifically authorized by 7-6-2511  
25 and 7-6-2351.

1 (3) To the extent funds are available, the department  
 2 of commerce shall award a grant if the county's district  
 3 court expenditures for the previous fiscal year exceeded the  
 4 sum of:

5 (a) the product of the maximum mill levy authorized by  
 6 law for district court purposes, whether or not assessed,  
 7 multiplied by the previous year's taxable valuation of the  
 8 county; and

9 (b) all revenues, except district court grants,  
 10 required by law to be deposited in the district court fund  
 11 for the previous fiscal year.

12 (4) Eligible court expenditures for grant purposes  
 13 include all costs of the county associated with the  
 14 operation and maintenance of the district court, from  
 15 whatever fund paid, except costs for building and capital  
 16 items and library maintenance, replacement, and acquisition.

17 (5) The department of commerce shall notify each  
 18 eligible county as soon as possible of its intention to  
 19 award a grant to that county and the amount of the award.

20 (6) The grant received by the county shall be placed in  
 21 the district court fund.

22 (7) ~~After all grants are awarded, the department of~~  
 23 ~~commerce shall audit each approved grant request. The~~  
 24 ~~department shall charge each county receiving a grant an~~  
 25 ~~audit fee in the same amount as the costs incurred in~~

1 ~~conducting the audit.~~

2 †8‡ If the an audit of ~~a~~ grant recipient conducted  
 3 pursuant to 2-7-503 discloses that the recipient received a  
 4 grant in excess of the amount for which it was eligible, the  
 5 recipient shall repay the excess to the department of  
 6 commerce. The department shall redistribute any repaid  
 7 excess amounts to the other counties that received grants  
 8 from the appropriation from which the overpayment was made,  
 9 on the same basis as the original awards. No county is  
 10 eligible for a district court grant if it owes the  
 11 department a refund of a prior year's overpayment.

12 †9‡(8) The department of commerce shall prescribe rules  
 13 and forms necessary to effectively administer this section.  
 14 The department may require a county to provide any  
 15 information considered necessary for the administration of  
 16 the program."

17 **Section 21.** Section 7-6-4113, MCA, is amended to read:

18 **"7-6-4113. Filing of annual financial statement.** (1)  
 19 The city or town clerk must, within 120 days following the  
 20 close of each fiscal year, transmit one copy of the  
 21 statement to the department of commerce and must present the  
 22 other copy to the city or town council or commission.

23 (2) If a city or town clerk fails to file a copy of the  
 24 statement with the department within the time specified, the  
 25 department, without delay, shall examine the books, records,

1 and accounts of the city or town. The department shall make  
 2 from its examination a statement of the financial condition  
 3 of the city or town for the preceding fiscal year in the  
 4 manner it should have been made by the city or town clerk.  
 5 The examination shall be considered a special audit under  
 6 the provisions of subsections ~~(4)~~ and (5) and (6) of  
 7 2-7-503, and all of the provisions of subsections ~~(4)~~ and  
 8 (5) and (6) of 2-7-503 apply to it."

9 **Section 22.** Section 19-11-204, MCA, is amended to read:  
 10 "19-11-204. Audit Review and report by board of  
 11 trustees. The board of trustees of the association shall  
 12 audit review the accounts of the association at least every  
 13 6 months and shall report the condition of them at the next  
 14 regular meeting of the association."

15 **Section 23.** Section 19-11-205, MCA, is amended to read:  
 16 "19-11-205. Annual report of secretary and treasurer to  
 17 association and state auditor. The secretary and treasurer  
 18 of the association shall annually prepare a detailed report  
 19 of its receipts and expenditures for the preceding year in  
 20 accordance with 2-7-503, showing to whom and for what  
 21 purposes money has been expended. They shall file the report  
 22 with the association, the department of commerce, and a  
 23 duplicate of it with the state auditor. No money Money may  
 24 not be paid to the treasurer of the association until the  
 25 report is filed."

1 **Section 24.** Section 20-9-203, MCA, is amended to read:  
 2 "20-9-203. **Examination of district accounting records.**  
 3 ~~(1)~~ The accounting records of all first-, ~~and second-class~~  
 4 ~~school districts second-~~, and third-class school districts  
 5 ~~that--maintain--a--high--school--shall~~ must be audited in  
 6 accordance with 2-7-503. The trustees of the district shall  
 7 file a copy of the completed audit report with the  
 8 department of commerce, the superintendent of public  
 9 instruction, and the county superintendent.  
 10 ~~(2)~~ Annually and at such other times as directed by the  
 11 board of county commissioners or trustees, the county  
 12 auditor or the county treasurer if there is no county  
 13 auditor shall audit the accounting records of each  
 14 third-class district that does not maintain a high school.  
 15 Such district shall deliver all accounting records to the  
 16 auditing county official no later than July 15 for the audit  
 17 of the financial activity of the last completed school  
 18 fiscal year. The auditing county official shall examine the  
 19 accounting records, prepare an audit report, and:  
 20 (a) return the accounting records to the district no  
 21 later than August 15;  
 22 (b) send a copy of the audit report to the chairman of  
 23 the trustees; and  
 24 (c) file copies of the audit report with the  
 25 superintendent of public instruction, the county

1 ~~superintendent, and the county clerk and recorder."~~

2 **Section 25.** Section 20-9-213, MCA, is amended to read:

3 "20-9-213. Duties of trustees. The trustees of each  
4 district shall have the sole power and authority to transact  
5 all fiscal business and execute all contracts in the name of  
6 the district. No person other than the trustees acting as a  
7 governing board may expend money of the district. In  
8 conducting the fiscal business of the district, the trustees  
9 shall:

10 (1) cause the keeping of an accurate, detailed  
11 accounting of all receipts and expenditures of school money  
12 for each fund maintained by the district in accordance with  
13 generally accepted accounting principles and the rules  
14 prescribed by the superintendent of public instruction. The  
15 record of the accounting must be open to public inspection  
16 at any meeting of the trustees.

17 (2) authorize all expenditures of district money and  
18 cause warrants to be issued for the payment of lawful  
19 obligations;

20 (3) issue warrants on any budgeted fund in anticipation  
21 of budgeted revenues, except that the expenditures may not  
22 exceed the amount budgeted for the fund;

23 (4) invest any money of the district, whenever in the  
24 judgment of the trustees the investment would be  
25 advantageous to the district, by directing the county

1 treasurer to invest any money of the district in direct  
2 obligations of the United States government; in savings or  
3 time deposits in a state or national bank, building or loan  
4 association, savings and loan association, or credit union  
5 insured by the FDIC, FSLIC, or NCUA located in the state; or  
6 in a repurchase agreement as authorized in 7-6-213. All  
7 interest collected on the deposits or investments must be  
8 credited to the fund from which the money was withdrawn,  
9 except that interest earned on account of the investment of  
10 money realized from the sale of bonds must be credited to  
11 the debt service fund or the building fund, at the  
12 discretion of the board of trustees. The placement of the  
13 investment by the county treasurer is not subject to ratable  
14 distribution laws and must be done in accordance with the  
15 directive from the board of trustees. A district may invest  
16 money under the state unified investment program established  
17 in Title 17, chapter 6.

18 (5) cause the district to record every transaction in  
19 the appropriate account before the accounts are closed at  
20 the end of the fiscal year in order to properly report the  
21 receipt, use, and disposition of all money and property for  
22 which the district is accountable;

23 (6) report annually to the county superintendent, not  
24 later than August 1, the financial activities of each fund  
25 maintained by the district during the last completed school

1 fiscal year, on the forms prescribed and furnished by the  
 2 superintendent of public instruction. Annual fiscal reports  
 3 for joint school districts must be submitted to the county  
 4 superintendent of each county in which part of the joint  
 5 district is situated.

6 (7) whenever requested, report any other fiscal  
 7 activities to the county superintendent, superintendent of  
 8 public instruction, or board of public education;

9 (8) cause the accounting records of the district to be  
 10 audited ~~biennially~~ as required by 2-7-503; and

11 (9) perform, in the manner permitted by law, other  
 12 fiscal duties that are in the best interests of the  
 13 district."

14 **Section 26.** Section 20-10-202, MCA, is amended to read:

15 **"20-10-202. Records, reports, and reviews,~~and audits~~.**

16 (1) The superintendent of public instruction shall prescribe  
 17 regulations for keeping the financial and commodity records  
 18 and making reports on school food services operated by a  
 19 district. The financial records ~~shall~~~~---always~~ must be  
 20 available for inspection and audit by federal and state  
 21 officials authorized by law or contract to perform audits  
 22 and ~~shall~~ be preserved for ~~such~~ the period of time, not to  
 23 exceed 5 years, as the superintendent of public instruction  
 24 may prescribe.

25 (2) The superintendent of public instruction shall

1 conduct or cause to be conducted the ~~audits~~, inspections,  
 2 and administrative reviews of the financial records and the  
 3 operation of school food services."

4 NEW SECTION. SECTION 27. ESTIMATE OF COST SAVINGS. THE  
 5 GOVERNOR SHALL INCLUDE IN HIS PROPOSED BUDGET SUBMITTED TO  
 6 THE 53RD LEGISLATURE AN ESTIMATE OF COST SAVINGS TO STATE  
 7 AGENCIES RESULTING FROM THE IMPLEMENTATION OF [THIS ACT].

8 NEW SECTION. SECTION 28. INTERFUND LOAN FROM THE  
 9 GENERAL FUND. COSTS INCURRED BY THE DEPARTMENT OF COMMERCE  
 10 DURING FISCAL YEAR ENDING JUNE 30, 1992, IN ADOPTING RULES  
 11 TO IMPLEMENT [THIS ACT] AND IN PREPARING FOR THE  
 12 IMPLEMENTATION OF [THIS ACT], UP TO THE APPROVED  
 13 APPROPRIATION FOR THIS PURPOSE, ARE TO BE FUNDED BY AN  
 14 INTERFUND LOAN FROM THE GENERAL FUND THAT MUST BE REPAYED  
 15 OVER A 5-YEAR PERIOD FROM THE REVENUES FROM THE FILING FEES  
 16 PROVIDED FOR IN [THIS ACT].

17 NEW SECTION. Section 29. Codification instruction.  
 18 [Section 18] is intended to be codified as an integral part  
 19 of Title 2, chapter 7, part 5, and the provisions of Title  
 20 2, chapter 7, part 5, apply to [section 18].

21 NEW SECTION. Section 30. Effective date --  
 22 applicability. (1) Except as provided in (2), [this act] is  
 23 effective July 1, 1992, and applies to the fiscal year  
 24 ending June 30, 1992.

25 (2) The department of commerce may adopt rules to

1 implement [this act] to become effective July 1, 1992.

2 NEW SECTION. SECTION 31. TERMINATION DATE. SECTION

3 2-7-514(4), AS ADDED IN [SECTION 12], TERMINATES JUNE 30,

4 1997.

-End-