

**BILL SUMMARY**  
1<sup>st</sup> Session of the 58<sup>th</sup> Legislature

<b>Bill No.:</b>	<b>HB 1058</b>
<b>Version:</b>	<b>CS</b>
<b>Request Number:</b>	<b>7428</b>
<b>Author:</b>	<b>Rep. Boles</b>
<b>Date:</b>	<b>2/22/2021</b>
<b>Impact:</b>	<b>Potential Audit Cost Savings</b>

**Tax Commission:**

**Modifies Disposition of Certain Withheld Funds  
Resulting from Non-filing of Audit Reports**

**Research Analysis**

HB 1058 raises the municipal income threshold which triggers annual audit requirements from \$25,000 to \$50,000. A municipality with income over that limit but population under 2,500 would be subject to a biennial audit requirement unless annual audits are required by another law, regulation or contract. The measure removes specific audit requirements and authorizes the State Auditor and Inspector to prescribe requirements.

The bill requires the Oklahoma Tax Commission to place monthly gasoline tax allocations which are withheld due to failure to file audit reports into a new Special Investigative Unit Auditing Revolving Fund. This fund would be used to offset expenses incurred from special investigative audit activities relating to municipal government.

The measure repeals the following section:

[11 O.S. 2011, Section 17-108 - Trusts Exempt](#)

Prepared By: Sean Webster

**Fiscal Analysis**

The measure modifies the revenue (income) threshold for which financial statement audits must be prepared. Further, it provides for a biennial financial statement audit, covering two years, for municipalities with a population of less than 2,500. While no specific data has been obtained, the provisions may result in a potential savings in audit and statement costs for certain municipalities.

The measure also provides for a change in the disposition of certain motor fuel funds withheld by the Tax Commission when audit reporting is not timely filed:

Analysis provided by the Tax Commission:

HB 1058 proposes to amend 11 O.S. §§ 17-105 & 17-107 raising the threshold amount of revenues required to trigger an audit of a governing body of a municipality and altering the time frame monthly allocations of gasoline taxes are to be withheld by the Oklahoma Tax Commission for noncompliant municipalities. Additionally, HB 1058 proposes to repeal 11 O.S. § 17-108 removing an exemption for trusts and proposes creating a new fund to be named the Special Investigative Unit Auditing Revolving Fund.

Section 2 of HB 1058 proposes to amend 11 O.S. § 17-107 altering the time frame monthly allocations of gasoline taxes are to be withheld by the Oklahoma Tax Commission (“OTC”) for noncompliant municipalities. Currently, if a municipality does not file a copy of its audit on time the State Auditor and Inspector shall notify the OTC which shall withhold from the municipality its monthly allocations of gasoline taxes until the audit report is filed. If a report is not filed within two years after the close of the fiscal year the OTC shall remit the funds to the county in which the incorporated city or town is located and deposited to the county highway fund of that county. HB 1058 proposes changing the deadline to one year after the close of the fiscal year for an annual audit or in the second fiscal year of a biennial audit period. Additionally, HB 1058 proposes requiring the OTC to remit the funds to the Special Investigative Unit Auditing Revolving Fund.

Section 3 of HB 1058 creates the Special Investigative Unit Auditing Revolving Fund.

Section 4 of HB 1058 repeals 11 O.S. § 17-108 which removes the exemptions to 11 O.S. §§ 105-108, for trusts of which a city or town is the beneficiary, the same being covered under 60 O.S. § 180.1.

#### *Administrative Issues*

This measure raises the following administrative concerns:

- What is to be done with the amounts currently held by the OTC?
- A one year holding period is too short based on the current release schedule because municipalities have six months to file their audit. Based on this measure the OTC would only hold six months’ funds. If the one year holding period is to be enforced the law will need to outline what the OTC is to do with the remaining six months of the calendar year.

Listed below are the forfeitures to the counties of gas excise tax from municipalities who did not comply with the statutory audit requirements, for the last 6 fiscal years.

Audit Year	Forfeit Year	Amount
2018	2020	\$64,048.67
2017	2019	\$38,008.61
2016	2018	\$25,204.37
2015	2017	\$47,541.77
2014	2016	\$53,536.94
2013	2015	\$44,264.07
Total		\$272,604.43

Prepared By: Mark Tygret

#### **Other Considerations**

None.

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