

STATE OF MICHIGAN
RICK SNYDER, Governor
DEPARTMENT OF TREASURY

Andy Dillon
State Treasurer



AUDIT MANUAL
FOR LOCAL UNITS
OF GOVERNMENT
IN MICHIGAN

AUDIT MANUAL FOR LOCAL UNITS OF GOVERNMENT IN MICHIGAN

TABLE OF CONTENTS

	<u>Pages</u>
Introduction	1
Auditing Standards.....	2
Reporting Requirements	
PA 2 of 1968, as Amended, the Uniform Budgeting and Accounting Act	2
Report on Financial Statements	3
Report on Internal Control and Report to Those Charged With Governance	3
Auditing Procedures Report	4
Reports on Findings of Suspected Fraud and/or Embezzlement	4
District Courts of the Third Class	4
Electronic Filing of Audit Reporting Package	5
Federal Single Audit Act and Amendments of 1996	
Audit Requirements and Guidance (OMB Circular A-133, Section 300)	5
Where to File the Single Audit Reporting Package	5
Filing Dates for the Single Audit Reporting Package	6
Federal Requirements	6
Michigan Department of Treasury Requirements	6
Auditing Procedures References	6
Miscellaneous	
Responsibility for Audit Fees	8
Confirmation of State Payments Made to Local Units of Government	9
Filing Requirements--PA 2 of 1968	9
Requests for Extensions	9
Noncompliance with Provisions of this Audit Manual	10
Appendix A--Auditing Procedures Report - Form 496	10
Appendix B--Reporting Guidelines for Noncompliance With the Glenn Steil State Revenue Sharing Act of 1971 (PA 140 of 1971, as Amended), the Uniform Budgeting and Accounting Act, (PA 2 of 1968, as Amended), the Revised Municipal Finance Act (PA 34 of 2001), the Emergency Municipal Loan Act (PA 243 of 1980, as Amended) and the General Property Tax Act (PA 206 of 1893, as Amended)	11
Appendix C--State Departments to Contact for Confirmation of Payments Made to Local Units of Government	14
Appendix D--The Uniform Budgeting and Accounting Act, Public Act 2 of 1968, as Amended (MCL 141.421 - 141.440a)	17
Appendix E--Section 21 of the Glenn Steil State Revenue Sharing Act of 1971, Public Act 140 of 1971 (MCL 141.921)	17
Appendix F--Generally Accepted Accounting Principles	18

Appendix G--Governmental Accounting Standards Board (GASB) 20
Appendix H--Planning the Compliance Portion of an Audit 21
Acknowledgments.....
44

INTRODUCTION

The Local Audit and Finance Division of the Department of Treasury has the responsibility of implementing the requirements of PA 2 of 1968, as amended (MCL 141.421 et seq.). The requirements of this act are:

First, the state treasurer is required to prescribe uniform accounting and reporting standards for all local units within the State of Michigan. A local unit, under the act, is defined as a county, city, village, township, or any authority, board or commission thereof (MCL 141.421 through MCL 141.424).

Second, the law provides that the local unit has the option of selecting an independent certified public accountant. If an independent certified public accountant is not selected by the local unit, the state treasurer must perform the audit or select an independent certified public accountant. In all cases, the entire cost of the audit is to be paid by the local unit.

Third, the act prescribes uniform budgeting procedures and requirements for local units (MCL 141.434 through 141.440).

The purpose of this manual is to establish standards and suggest procedures to assist the independent certified public accountant in the conduct of audits. The manual is not intended to set forth minimum procedures. Neither does it guarantee that the use of all the suggested procedures will result in a satisfactory audit.

If the local unit has a population of 4,000 or more, an audit is required every year. An annual audit is required for charter townships, regardless of population. Local units with a population less than 4,000 are required to have an audit every other year. **This does not mean that the smaller units cannot have an audit every year; the Department of Treasury strongly recommends an audit every year.**

The primary purpose of the auditing and reporting requirements of PA 2 of 1968 is to maintain the confidence of all interested parties in the integrity of the record keeping and financial reporting of local units of government. Interested parties include, but are not limited to, the following: citizens of the community, state and federal government, creditors, and local officials.

The audit will help to assure compliance with the law, that systems are in effect to adequately safeguard assets, compliance with the provisions of the state uniform chart of accounts, and that financial statements are fairly stated in accordance with generally accepted accounting principles. The independent CPA should provide the local units with constructive recommendations to improve efficiency, safeguard assets, make budgets more useful as "tools to management," and insure that financial reports are fairly presented.

Periodic audits coupled with an adequate system of internal control, will assist in detecting or preventing financial statement misstatements.

NOTE: This bulletin uses the term "independent certified public accountant(s)," and it is understood that the term "employees of the Michigan Department of Treasury" may be substituted.

AUDITING STANDARDS

MCL 141.427(1) states:

"The state treasurer shall prescribe minimum auditing procedures and standards and these shall conform as nearly as practicable to generally accepted auditing standards established by the American Institute of Certified Public Accountants."

The audit must be performed by an independent certified public accountant registered with the Michigan State Board of Accountancy to practice in Michigan or by an employee of the Department of Treasury.

The examination of the financial records, accounts and procedures of local units of government shall be made in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants in its **Statements on Auditing Standards**.

Department of Treasury Audit Procedure Requirements

Statutory compliance procedures are required when auditing local governments in Michigan as indicated in Section 8 of Public Act 2 (pages 2, 3 and Appendices B, D and H of this Manual). Appendix H also discusses the professional and statutory requirements for compliance procedures.

Local unit compliance with Department of Treasury manuals and the requirements in these manuals is to be included in the procedures of the auditor.

Single Audit Standards

If the local unit of government is required to have a single audit, the financial records must be audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards (GAGAS).

REPORTING REQUIREMENTS

PA 2 of 1968, as amended, The Uniform Budgeting and Accounting Act

MCL 141.427(2) reads in part:

"A report of the auditing procedures applied in each audit shall be prepared on a form provided for this purpose by the state treasurer. The state treasurer may require that the audit report, or the report of auditing procedures, or both, that are required by this subsection to be filed with the state treasurer be filed in an electronic format prescribed by the state treasurer."

You may file the Audit Procedures Report online at the following web site:

<https://treas-secure.state.mi.us/LAFDeform/TL41W71.aspx>

REPORTING REQUIREMENTS

MCL 141.428 reads:

"Every audit report shall do all of the following:

- (a) State that the audit has been conducted in accordance with generally accepted auditing standards and with the standards prescribed by the state treasurer.
- (b) State that financial statements in such reports have been prepared in accordance with generally accepted accounting principles and with applicable rules and regulations of any state department or agency. Any deviations from such principles, rules or regulations shall be described.
- (c) Disclose any material deviations by the local unit from generally accepted accounting practices or from applicable rules and regulations of any state department or agency.
- (d) Disclose any fiscal irregularities, including but not limited to any deviations from the requirements of section 4; defalcations; misfeasance; nonfeasance; or malfeasance that came to the auditor's attention."

MCL 141.431 reads in part:

"If any audit or investigation conducted under this act discloses statutory violations on the part of any officer, employee or board of any local unit, a copy of such report shall be filed with the attorney general who shall review the report and cause to be instituted such proceeding against such officer, employee or board as he deems necessary . . ."

Reports by the independent CPA on each fund, agency and/or operation in order to comply with the above provisions of the law are as follows and would constitute the Audit Reporting Package required by the Michigan Department of Treasury:

1. **Report on Financial Statements**--The independent CPA shall report on the financial statements of the local unit of government as required under Section 4 of PA 2 of 1968, as amended, (See Appendix D). This report shall conform with one of the standard forms recommended by the American Institute of Certified Public Accountants.
2. **Report on Internal Control and Report to Those Charged With Governance**--The reports shall include a description of improper, illegal or other actions disclosed by the independent CPA's tests and reviews. Examples of the actions that should be considered in the preparation of the reports are:

- a. Previous reports by the independent CPA;
- b. Unaudited funds, agencies and/or operations;
- c. Expenditures not made in accordance with legislative appropriations and other state fiscal requirements and restrictions. The independent CPA should be guided by PA 2 of 1968, as amended, and appropriate reporting guidelines issued by the state treasurer;
- d. Improperly accounted for revenues;
- e. Inadequate or ineffective internal controls or procedures. Material weaknesses in internal control are to be reported on in writing in accordance with AICPA, Professional Standards, Vol. 1, AU section 325;
- f. Records and reports which could not be reconciled to those of the state fiscal offices;

REPORTING REQUIREMENTS

- g. Noncompliance with state statutes, laws, rules and regulations as outlined in the "Auditing Procedures References" section of this manual (or any other state statutes, laws, rules and regulations known to the independent CPA) under which the funds, agencies and/or operations of the local unit of government were created and are functioning. Please note Appendix H in planning the compliance portion of the audit;
 - h. Indication of possible fraud or dishonesty;
 - i. Indication of a need for review of financial operations and/or financial management;
 - j. Indication of a lack of current review by government officials of insurance coverage and bonding requirements;
 - k. Noncompliance with the state and federal financial assistance regulations;
 - l. Noncompliance with the Michigan Department of Treasury Uniform Chart of Accounts for Local Units of Government; and
 - m. Departures from accounting principles generally accepted in the United States of America.
 - n. Over-captured taxes that are not necessary to complete the projects identified in a Tax Increment Financing Plan (i.e., excess fund balance) should be disclosed and recommended that the excess be refunded. (Note: Taxes may only be refunded proportionately to the original capture. All unused monies may not be refunded to the General Fund.)
3. **Auditing Procedures Report**--A report shall be made to the state treasurer, with a copy to the local unit of government, documenting that the requirements outlined in this manual have been met and shall include other information the state treasurer requires. The prescribed form can be filed online at the following website: <https://treas-secure.state.mi.us/LAFDeform/TL41W71.aspx>
4. **Reports on Findings of Suspected Fraud and/or Embezzlement**--If the possibility of **any fiscal irregularities, defalcation, misfeasance, nonfeasance or malfeasance comes to the auditor's attention; an "oral report" should be immediately made to the Local Audit and Finance Division of the Michigan Department of Treasury.** The oral report should be **promptly** followed by a written report to the Local Audit and Finance Division of the Michigan Department of Treasury.

5. Single Audit (if applicable)

To avoid any possible conflict with the professional ethics of the independent CPA pertaining to the client relationship, the local unit of government should give written permission to the independent CPA to make the disclosures required by these reports, prior to commencing the audit.

Reporting on Financial Statements of District Courts of the Third Class

Certain local units of government have been assigned the record keeping and accounting functions for district courts of the third class. The independent CPA for such local units of government shall include an audit of the District Court Control Unit. The independent CPA has a responsibility to determine if the local unit has the record keeping and accounting function during the entrance conference with the local unit.

REPORTING REQUIREMENTS

The audit engagement contract for the applicable local unit of government shall provide for a separate audit and report on such District Court Control Unit. A copy of the audit report should be provided to each participating local unit of government. To facilitate the pro-ration of the district court audit expense, the independent CPA shall render a separate invoice for the control unit audit.

Electronic Filing of Audit Reporting Package

The Department of Treasury (Treasury) requires that all audits be in accordance with Public Act 2 of 1968 and Public Act 71 of 1919. The audit reporting package must be submitted to our office via Treasury's Local Unit Audit Report Upload website at:

http://www.michigan.gov/treasury/0%2C4679%2C7-121-1751_31038---%2C00.html

Michigan Compiled Laws Section 141.427 states: "(1) The state treasurer shall prescribe minimum auditing procedures and standards and these shall conform as nearly as practicable to generally accepted auditing standards established by the American Institute of Certified Public Accountants. (2) A report of the auditing procedures applied in each audit shall be prepared on a form provided for this purpose by the state treasurer. **The state treasurer may require that the audit report, or the report of auditing procedures, or both, that are required by this subsection to be filed with the state treasurer be filed in an electronic format prescribed by the state treasurer.**" (Emphasis added)

FEDERAL SINGLE AUDIT ACT AND AMENDMENTS of 1996

Local units and authorities in Michigan that are required to have a single audit of federal financial assistance under Circular A-133 are required to submit a copy of the single audit reporting package to the Federal Audit Clearinghouse. The reporting package includes the entity's financial statements and Schedule of Expenditures of Federal Awards (SEFA), the auditor's reports, including a schedule of findings and questioned costs, and, if applicable, the entity's corrective action plan and a summary schedule of prior audit findings. The Federal Audit Clearinghouse distributes the reporting package to Federal agencies and maintains an archival copy.

For specific single audit guidance, see OMB Circular A-133, Section 300.

A. Where to File the Single Audit Reporting Package

1. One copy of the audit reporting package and Data Collection Form (form SF-SAC) is to be submitted electronically to the Federal Audit Clearinghouse.
2. One copy of the audit reporting package must be submitted electronically to the Michigan Department of Treasury, Local Audit and Finance Division.
3. Subrecipients of federal financial assistance shall submit copies to recipients that provided them federal funds.
4. One copy should go to each state department that provides funds to the local unit.

FEDERAL SINGLE AUDIT ACT AND AMENDMENTS of 1996

B. Filing Dates for Single Audit Reporting Package

1. Federal Requirements

Copies of single audit reports are to be filed with the appropriate federal agency(s) within 30 days after completion of the audit, but no later than 9 months after the end of the audit.

Subrecipients shall submit copies of their single audits in accordance with the same time requirements as illustrated above.

2. Michigan Department of Treasury Requirements

The single audit should be filed with the audit reporting package and is acceptable for PA 2 of 1968. The filing dates for state requirements are 6 months after the fiscal year end. A request for extension must come from the chief administrative officer of the municipality. The written request must be made before the audit is delinquent (within 6 months of the end of the fiscal year). Audited financial statements and communications with those charged with governance must be filed within the same time. If issued separately, the Single Audit reports are due to the State in accordance with Federal Requirements.

AUDITING PROCEDURES REFERENCES

The independent CPA must be familiar with the provisions of the following in developing procedures for the audit of local government units.

1. The Uniform Budgeting and Accounting Act - Public Act 2 of 1968, as amended, MCL 141.421 - 141.440a. See Appendix D of this manual.
2. The Glenn Steil State Revenue Sharing Act - Public Act 140 of 1971, specifically section 21. A copy of this section is included as Appendix E in this manual.
3. Codification of Governmental Accounting and Financial Reporting Standards. This publication may be ordered from Governmental Accounting Standards Board, 401 Merritt 7, P. O. Box 5116, Norwalk, CT 06856-5116, telephone number 203-847-0700. Website:

www.gasb.org

4. The publication, Governmental Accounting, Auditing and Financial Reporting, by the Government Finance Officers Association of the United States and Canada, 203 North LaSalle Street, Suite 2700, Chicago, Illinois 60601-1210, telephone number 312-977-9700. Website: www.gfoa.org
5. Government Auditing Standards (GAS), by the Comptroller General of the United States. This publication is available at: www.gao.gov/govaud/ybk01.html, telephone number 202512-9535 or 1-866-512-1800 toll free.
6. AICPA Audit and Accounting Guide, Audits of State and Local Governmental Units. This publication may be obtained from the American Institute of Certified Public Accountants, Inc., telephone number 1-888-777-7077. Website: www.aicpa.org
7. Appendix H of this manual. **Please note that the use of Appendix H, Planning the Compliance Portion of an Audit, is required.**

AUDITING PROCEDURES REFERENCES

8. **Manuals, Bulletins, Statements and Numbered Letters Issued by the Michigan Department of Treasury.** This information may be obtained from the Michigan Department of Treasury website under Local Government Services/Accounting Information. http://www.michigan.gov/treasury/0,1607,7-121-1751_2194---,00.html
 - a. Audit Manual for Local Units of Government in Michigan (This manual)
 - b. Uniform Chart of Accounts for Counties and Local Units of Government in Michigan
 - c. Uniform Budget Manual
 - d. Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan
 - e. Accounting Procedures Manual for Local Units of Government in Michigan
 - f. Michigan Committee on Governmental Accounting and Auditing Statements
 - g. Bulletin for Audits of County Road Commissions
 - h. Uniform Accounting Procedures Manual for County Road Commissions
 - i. Audit Guide for Transportation Authorities
 - j. Uniform Accounting Procedures for County District Health Departments

In addition to the above requirements, the following information is presented as additional guidance to assist the independent CPA in developing procedures for the audit of local government units.

1. The Constitution of the State of Michigan--1963. This can be accessed at: www.legislature.mi.gov

2. Funding Requirements of Local Unit Pension Plans and Retirement Systems--Article IX, Section 24 of the State of Michigan 1963 Constitution requires that “Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year...”
3. “Guide to Michigan County Government,” by Kenneth VerBurg and, “Managing the Modern Michigan Township,” by Kenneth VerBurg. These books may be obtained from Michigan State University Extension, State and Local Government Program.
4. Authorities and Responsibilities of Michigan Township Officials, Boards & Commissions Handbook--This may be obtained from the Michigan Townships Association, 512 Westshire Drive, Lansing, Michigan 48917. Website: www.michigantownships.org
5. Information related to the courts may be obtained from the Michigan Courts website at: <http://courts.michigan.gov/>

For auditing a district court, Michigan Court Administration Reference Guide, Section 6 - Fiscal Management is available at: <http://courts.michigan.gov/scao/resources/publications/manuals/carg.htm>

AUDITING PROCEDURES REFERENCES

6. Public Acts for Public Transportation (PA 283 of 1909, as amended, MCL 220.1 to 244.10 - Public Highways and Private Roads, including County Road Law; PA 111 of 1956, as amended, MCL 247.351 to 247.356 - Highways Within Townships; and PA 51 of 1951, as amended, MCL 247.651 to 247.675 - State Trunk Line Highway System). Public acts may be obtained from the Michigan Legislature website: <http://www.legislature.mi.gov/>
7. Revenue Bond Act (PA 94 of 1933, as amended, MCL 141.101 to 141.140). Website: <http://www.legislature.mi.gov/>
8. Revised Municipal Finance Act. (PA 34 of 2001, MCL 141.2101 to 141.2821). Website: <http://www.legislature.mi.gov/>
9. Local Government Fiscal Responsibility Act (PA 72 of 1990, MCL 141.1201 to 141.1291) Website: <http://www.legislature.mi.gov/>
10. Michigan Liquor Control Code and Administrative Rules. This information may be obtained from the Michigan Department of Energy, Labor and Economic Growth website: <http://www.michigan.gov/dleg/0,1607,7-154-10570---,00.html>
11. The bond ordinances and/or resolutions pertaining to the handling of residual funds and to any and all bonded debt authorized and/or outstanding during the audit period. This will be obtained from the clerk of the local unit being audited.

12. The applicable city charter, village charter, township statutes or enabling legislation which created the board, commission, authority, etc. This will be obtained from the clerk of the local unit being audited.
13. The official minutes of the local unit governing body. This will be obtained from the clerk of the local unit being audited.

The above requirements and additional guidance are not intended to be all-inclusive, but rather to give the independent CPA guidelines to develop comprehensive audit procedures.

MISCELLANEOUS

Responsibility for Audit Fees

MCL 141.426 states in part:

". . . The entire cost of any such audits will be borne by the local unit."

This has reference to all audits, whether by a local unit-selected CPAs, a state treasurer-selected CPA or a Department of Treasury audit. All financial arrangements are between the CPA and the local unit, even where the state treasurer has selected the CPA.

The state has no desire to disrupt the normal client relationship once it has been established, nor does it have any intention of acting as a collection agency for the independent CPA.

MISCELLANEOUS

Confirmation of State Payments to Local Units

The state treasurer does not directly provide confirmation of state payments to units. Appendix C suggests certain alternative auditing procedures for testing the revenues or receipts for these items.

Filing Requirements--PA 2 of 1968

For local units of government with less than 4,000 in population, an annual (one year) audit is required every two years. However, if the local unit has a population of 4,000 or more, an audit is required every year. An annual (one year) audit is required for charter townships, regardless of population.

Because an annual audit of a local unit of government with a population of less than 4,000 is required only every other year, the independent CPA may be unable to form an opinion as to the consistent application of accounting principles and/or the reasonable accuracy of the account balances at the beginning of the current year. Where the amounts materially affect current results, the independent CPA should state in their report the reasons that prevent them from expressing an unqualified opinion.

The audit report (including single audit reports and audit reports for authorities, boards, and commissions) shall be filed with the Department of Treasury, Local Audit and Finance Division. See the section titled "Federal Single Audit Act and Amendments of 1996" for further single audit requirements.

To be included with each audit report:

1. An Audit Procedures Report;
2. Any written correspondence with recommendations or deficiencies.

The audit report, any written correspondence with recommendations or deficiencies, and the auditing procedures report are to be filed with the Local Audit and Finance Division within six months after the end of the fiscal year of the local unit.

Requests for Extensions

The independent CPA may file the report at the request of their client. However, the final responsibility for the timely filing of reports rests with the local unit.

The chief administrative officer of a local unit may request an extension of the filing date from the state treasurer. When an audit cannot be completed within 6 months after the end of the fiscal year, a written request must be made before the audit is actually delinquent. A request for the extension for filing of an audit must include a letter from the chief administrative officer indicating:

- ❑ that the audit is in progress (identify any component units);
- ❑ when the audit is expected to be completed;
- ❑ an explanation of the existence of extraordinary circumstances beyond the control of the local unit and the audit cannot be completed and filed timely (the reasonable cause).

MISCELLANEOUS

Treasury will send a written response to all audit extension requests. The request for an extension will be denied absent the existence of an extraordinary circumstance beyond the control of the local unit.

The policy for audit and annual financial report filing extensions may be obtained from http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-6003--,00.html.

Noncompliance with Provisions of this Audit Manual

When the Department of Treasury determines that the conditions of this manual have not been met, the state treasurer or his representative shall review and discuss the audit with the independent CPA. After the review, the state treasurer or his representative may inspect all workpapers in an attempt to resolve the differences. This can be done voluntarily with permission of the local unit or by subpoena as outlined in section 10 of PA 2. Should differences of opinion still exist regarding

the audit, the entire matter may be turned over to the Michigan Board of Accountancy. The local unit should be aware of the provisions of section 10.

The Michigan Department of Treasury has prepared this manual with the advice and cooperation of the Michigan Committee on Governmental Accounting and Auditing. Audits of local units of government in Michigan are to be audited in compliance with the provisions of this manual, in addition to generally accepted auditing standards.

Independent CPA's should be aware that they are obligated to follow the provisions in this manual. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in their report the fact that such requirements were not followed and the reasons therefore.*

*Source--Interpretation 501-3, American Institute of Certified Public Accountants, Professional Ethics Division

APPENDIX A

AUDITING PROCEDURES REPORT -- Form 496

The auditing procedures report is available to be filed online at the following website: <https://treas-secure.state.mi.us/LAFDeform/TL41W71.aspx>

REPORTING GUIDELINES FOR NONCOMPLIANCE WITH THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 (PA 140 OF 1971, AS AMENDED), THE UNIFORM BUDGETING AND ACCOUNTING ACT (PA 2 OF 1968, AS AMENDED), THE REVISED MUNICIPAL FINANCE ACT, (PA 34 OF 2001), THE EMERGENCY MUNICIPAL LOAN ACT (PA 243 OF 1980, AS AMENDED), AND THE GENERAL
APPENDIX B

PROPERTY TAX ACT (PA 206 OF 1893, AS AMENDED).

Significant noncompliance matters are to be disclosed in the notes to the financial statements. The independent CPA should determine that the local unit has reasonable procedures in use to detect the following noncompliance matters. If reasonable procedures are not in use, the independent CPA should disclose this information in the notes to the financial statements, and disclose in a written communication of deficiencies.

In addition to these disclosures, the independent CPA should make appropriate comments on these noncompliance areas and recommendations for proper compliance by the local unit.

The following items are required to be reported as matters of noncompliance with the statutes:

Noncompliance With PA 140 of 1971, as Amended: Failure to File Reports and Deficit Elimination Plans With the Department of Treasury

1. Local Unit failed to formulate and file a deficit elimination plan to correct a deficit condition that existed at the end of the year under audit. (MCL 141.921[2])
2. All fund deficits are to be disclosed in the notes to financial statements.
3. Deficits in each individual fund are to be considered when applying this section. Materiality should not be a determining factor in deciding which fund deficits are to be disclosed.
4. For reporting fund deficits, the term "fund deficit" is defined as:
 - a. for governmental funds--unrestricted portion of fund balance.
 - b. for proprietary and fiduciary funds--unrestricted portion of net assets.

Noncompliance With PA 2 of 1968, as Amended, Uniform Chart of Accounts

1. Local unit failed to establish the uniform chart of accounts required by MCL 141.421.

REPORTING GUIDELINES FOR NONCOMPLIANCE WITH THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 (PA 140 OF 1971, AS AMENDED), THE UNIFORM BUDGETING AND ACCOUNTING ACT (PA 2 OF 1968, AS AMENDED), THE REVISED MUNICIPAL FINANCE ACT, (PA 34 OF 2001), THE EMERGENCY MUNICIPAL LOAN ACT (PA 243 OF 1980, AS AMENDED), AND THE GENERAL

2. Local unit failed to maintain the uniform chart of accounts required by MCL 141.421 and 141.436.

Noncompliance With PA 2 of 1968, as Amended, Budgeting

1. Local unit failed to adopt a budget. (MCL 141.436)
2. Local unit failed to adopt a balanced budget. (MCL 141.435)
3. Local unit failed to amend (control) budget when necessary. (MCL 141.437)

APPENDIX B

PROPERTY TAX ACT (PA 206 OF 1893, AS AMENDED).

4. Local unit failed to hold a public hearing before final adoption of a budget. (MCL 141.434)
5. Local unit created a debt or incurred an obligation not permitted by law. (MCL 141.438)
6. Local unit incurred expenditures in excess of the amount appropriated. (MCL 141.437 - 141.438)
7. Local unit incurred expenditures that were not authorized in the budget. (MCL 141.439)

Violations of the Revised Municipal Finance Act, or an Order Issued Under the Emergency Municipal Loan Act

The following items, while not exhaustive, would be violations of the requirements of the Revised Municipal Finance Act (PA 34 of 2001, MCL 141.2101 - 141.2821), or an order issued under the Emergency Municipal Loan Act, PA 243 of 1980, as amended, (MCL 141.931 - 141.942:

1. Improper commingling of debt service funds;
2. Loans obtained by the local unit without Local Audit and Finance Division approval or qualified status;

REPORTING GUIDELINES FOR NONCOMPLIANCE WITH THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 (PA 140 OF 1971, AS AMENDED), THE UNIFORM BUDGETING AND ACCOUNTING ACT (PA 2 OF 1968, AS AMENDED), THE REVISED MUNICIPAL FINANCE ACT, (PA 34 OF 2001), THE EMERGENCY MUNICIPAL LOAN ACT (PA 243 OF 1980, AS AMENDED), AND THE GENERAL

3. Inter-fund borrowing of debt service money;
4. Failure to fund reserve accounts;
5. Failure to set aside money as required by a Tax Anticipation Note or State Revenue Sharing Notes;
6. Use of debt service money for other than debt service payments;
7. Excess tax levies for debt service purposes;
8. Inappropriate transfer of excess debt funds to the local unit's operating funds.

APPENDIX B

PROPERTY TAX ACT (PA 206 OF 1893, AS AMENDED).

Noncompliance With Requirements for Distribution of Tax Collections (MCL 211.43)

Failure to meet the following schedule for distribution of tax collections constitutes delinquent distribution.

- A. Units with SEV of more than \$15,000,000
 1. Within 10 business days after the 1st and 15th day of each month, account for and deliver tax collections (on hand) on the 1st and 15th day of each month; and
 2. Within 10 business days after the last day of February, account for and deliver at least 90 percent of the tax collections (on hand) on the last day of February; and
 3. A final adjustment and delivery of the total amount of tax collections (on hand) shall be made not later than April 1 of each year; or

REPORTING GUIDELINES FOR NONCOMPLIANCE WITH THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 (PA 140 OF 1971, AS AMENDED), THE UNIFORM BUDGETING AND ACCOUNTING ACT (PA 2 OF 1968, AS AMENDED), THE REVISED MUNICIPAL FINANCE ACT, (PA 34 OF 2001), THE EMERGENCY MUNICIPAL LOAN ACT (PA 243 OF 1980, AS AMENDED), AND THE GENERAL

4. The local unit may enter into an agreement with tax assessing units to establish an alternative schedule for delivering tax collections.

B. Units with SEV of \$15,000,000 or less

1. Within 10 business days after January 10th, account for and deliver tax collections (on hand) through January 10th. However, when tax collections (on hand) exceed 25 percent of the taxes apportioned, account for and turn over the total amount of taxes (on hand);
2. Within 10 business days after the last day of February, account for and deliver at least 90 percent of the tax collections (on hand) on the last day of February; and
3. A final adjustment and delivery of the total amount of tax collections (on hand) shall be made not later than April 1 of each year; or
4. The local unit may enter into an agreement to establish an alternative schedule for delivering tax collections.

APPENDIX C

CONFIRMATION OF STATE PAYMENTS MADE TO LOCAL UNITS OF GOVERNMENT

The Michigan Department of Treasury, Local Audit and Finance Division does not provide independent CPAs with confirmation of state payments to local units of government.

The following alternatives are offered for the verification of state payments made to local units of government.

- 1) Warrant Stub--Each state warrant is accompanied with a stub, or in some cases with a special remittance advice. The information listed on the warrant stubs or remittance advice should aid in determining that state monies received have been properly classified to the appropriate funds and accounts of the local unit. NOTE: For Electronic Payments (both State and Federal), local units can usually print some kind of deposit notification that describes what the deposit is for. However, in some cases a description of the electronic payment is not readily available, requiring further investigation to determine the purpose of the payment.
- 2) Detailed Bank Deposit Tickets--for subsequent tracing to the cash receipts books.
- 3) Directing Confirmation Requests--to state agencies, which authorize payments to local units of government.

Following is a list of state agencies which authorize payments to local units of government:

(See next page)

APPENDIX C

STATE DEPARTMENTS TO CONTACT FOR CONFIRMATION OF PAYMENTS MADE TO LOCAL UNITS OF GOVERNMENT

<u>Type of Payment</u>	<u>Recipients</u>	<u>When Paid</u>	<u>Department</u>
State Aid to Libraries & Penal Fines	Cities, Townships, Villages & Counties	Twice each year	Department of Education Library of Michigan 702 West Kalamazoo P.O. Box 30007 Lansing, MI 48909 Phone: (517) 373-3828 Note: Some information, including e- mail contact information, is available on the department's website at: www.michigan.gov/libraryofmichigan
Motor Vehicle Fuel Tax Refunds	Cities, Townships,	Various	Department of Treasury Motor Fuel Tax Unit--Special Taxes

	Villages & Counties		Customer Service Center Treasury Operations Center Lansing, MI 48922 Phone: (517) 636-4600
Trunkline Maintenance	Cities, Villages & Counties	Monthly	Department of Transportation Financial Operations Division Accounts Payable Unit P.O. Box 30050 Lansing, MI 48909 Phone: (517) 335-2503
Michigan Transportation Funds (Primary & Local Road - Counties) (Major & Local Street - Cities & Villages)	Counties, Cities & Villages	Monthly	Department of Transportation Financial Operations Division Financial Outreach Unit P.O. Box 30050 Lansing, MI 48909 Phone: (517) 241-3178
Liquor License Refunds	Cities, Townships, Villages & Counties	Quarterly	Department of Energy, Labor and Economic Growth (DELEG) Liquor Control Commission 7150 Harris Drive P.O. Box 30005 Lansing, MI 48909 Phone: (517) 322-1383
Secondary Road Patrol & Law Enforcement Grants	Counties	Various	Department of State Police Office of Highway Safety Planning 333 South Grand Avenue P.O. Box 30634 Lansing, MI 48909 Phone: (517) 241-2500

APPENDIX C

STATE DEPARTMENTS TO CONTACT FOR CONFIRMATION OF PAYMENTS MADE TO LOCAL UNITS OF GOVERNMENT

<u>Type of Payment</u>	<u>Recipients</u>	<u>When Paid</u>	<u>Department</u>
State Revenue Sharing	Counties, Cities,	Bi-Monthly	Information to be obtained for state revenue sharing at the

	Townships, & Villages		Department of Treasury Office of Revenue and Tax Analysis website: www.michigan.gov/treasury click on Local Government Services/ Revenue Sharing Phone: (517) 373-2864
Land & Water	Cities, Townships, Villages & Counties	Various Dates	Department of Natural Resources and Environment (DNRE) Grants Management P.O. Box 30425 Lansing, MI 48909-7925 Phone: (517) 373-9125
Marine Safety Grants	Counties	Yearly	
Snowmobile Grants and Off Road Vehicle (ORV) Grants	Counties	Yearly	Department of Natural Resources and Environment (DNRE) Forest, Mineral and Fire Management Program Services Section P.O. Box 30452 Lansing, MI 48909-7952 Phone: (517) 335-3349
Fire	Cities, Villages & Townships	Three times each year	
All Human Services Grants and Programs	Note: DHS does not accept manual confirmation requests. All confirmations must be obtained electronically at the DHS website: www.michigan.gov/dhs by selecting Doing Business with DHS/Contractor Resources/Auditors & CPA Firms/ Contract Payments, CFDA Numbers, and FFP		Department of Human Services (DHS)
Labor Grants			Department of Energy, Labor and Economic Growth (DELEG) Finance & Administrative Services P.O. Box 30004 Lansing, MI 48909 Phone: (517) 335-1976
All Community Health Programs			Department of Community Health (MDCH) Accounting Division Expenditure Operations Section Lewis Cass Building 320 South Walnut Street P.O. Box 30270 Lansing, MI 48909-8220 Phone: (517) 241-5546

APPENDIX D

THE UNIFORM BUDGETING AND ACCOUNTING ACT PUBLIC ACT 2 OF 1968, AS AMENDED (MCL 141.421 - 141.440a)

Public Act 2 of 1968, as amended, is “An act to provide for the formulation and establishment of uniform charts of accounts and reports in local units of government; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from local units of government; to provide for the administration of this act; to prescribe the powers and duties of the state treasurer, the attorney general, the library of Michigan and depository libraries; and other officers and entities; to provide penalties for violation of certain requirements of this act; to provide for meeting the expenses authorized by this act; to provide a uniform budgeting system for local units; and to prohibit deficit spending by a local unit of government.”

Public Act 2 of 1968, as amended can be viewed, printed or linked from the Michigan Legislature website at: <http://legislature.mi.gov/doc.aspx?mcl-act-2-of-1968>

APPENDIX E

SECTION 21 OF THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 PUBLIC ACT 140 OF 1971 (MCL 141.921)

Section 21 of Public Act 140 of 1971 states:

- (1) If a city, village, township or county fails to provide an annual financial report or audit which conforms with the minimum procedures and standards prescribed by the state treasurer and is required under Act No. 2 of the Public Acts of 1968, as amended, being sections 141.421 to 141.440a of the Michigan Compiled Laws, or Act No. 71 of the Public Acts of 1919, being sections 21.41 to 21.53 of the Michigan Compiled Laws, the payments required under this act may be withheld until the financial report or audit is submitted as required by law.

- (2) For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the department of treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the department of treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the department of treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.

- (3) The department of treasury shall notify each house of the legislature of any local unit of government that fails to provide a financial report or an audit required by subsection (1) and of any local unit of government required to file a financial plan under subsection (2).

APPENDIX E

SECTION 21 OF THE GLENN STEIL STATE REVENUE SHARING ACT OF 1971 PUBLIC ACT 140 OF 1971 (MCL 141.921)

- (4) As used in this section, "deficit condition" means a situation where, at the end of a fiscal year, total expenditures, including an accrued deficit, exceeded total revenues for that fiscal year, including any surplus carried forward.

Public Act 140 of 1971 can be viewed, printed or linked from the Michigan Legislature website at: <http://legislature.mi.gov/doc.aspx?mcl-act-140-of-1971>

APPENDIX F

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Section 8 of PA 2 of 1968, as amended, provides in part:

“Every audit report shall:

- (a) State that the audit has been conducted in accordance with generally accepted auditing standards and with the standards prescribed by the state treasurer.
- (b) State that financial statements in such reports have been prepared in accordance with generally accepted accounting principles and with applicable rules and regulations of any state department or agency. Any deviations from such principles, rules or regulations shall be described.”

For purposes of this manual, the sources of accounting principles that are generally accepted are categorized in descending order of authority as follows: (Source: GASB 55)

- a. Officially established accounting principles - Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.
- b. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

- c. AICPA Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities. *(Note: As of the publication, the GASB had not organized such a group.)*

APPENDIX F

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- d. Implementation Guides (Q & A's) published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government. Statements, manuals, bulletins and other guidance issued by the Michigan Department of Treasury and the Michigan Committee on Governmental Accounting and Auditing.

If the accounting treatment for a transaction or other event is not specified by a pronouncement in category (a), a governmental entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)-(d) contain accounting principles that specify accounting treatments for a transaction or other event, the governmental entity should follow the accounting treatment specified by the accounting principle from the source in the highest category--for example, follow category (b) treatment over category (c) treatment.

If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)-(d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a)-(d) and may consider other accounting literature. A governmental entity should not follow the accounting treatment specified in accounting principles for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (a)-(d) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to state and local governmental entities by the GASB; Financial Accounting Standards Board (FASB) Statements, Interpretations, Technical Bulletins, Staff Positions, and Concepts Statements; Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issued Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board, or pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category.

APPENDIX G

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

GASB Pronouncements, exposure drafts, discussion memorandums and technical bulletins may be ordered from the GASB website: <https://www.gasb.org/store> or from:

Governmental Accounting Standards Board
Order Department
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Telephone: (203) 847-0700

NOTE: The complete text of each GASB pronouncement is not available at the GASB website, but can be ordered from the GASB as explained above.

However, summaries and current status information for GASB pronouncements, including GASB Statements, GASB Concepts Statements and GASB Interpretations can be accessed and viewed under Summaries/Status on the GASB website. Status information includes how a pronouncement affects, or is affected by, other pronouncements. Status information also includes primary codification section reference numbers for each pronouncement.

GASB Statements: Statements of the Governmental Accounting Standards Board (GASB Statements) establish new standards or amend those previously published. Statements are issued by GASB to set generally accepted accounting principles (GAAP) for state and local governments in the United States of America. These statements are the most authoritative source for governmental GAAP.

GASB Concept Statements: Concept Statements of the Governmental Accounting Standards Board set forth fundamentals on which financial accounting and reporting standards will be based. Unlike GASB pronouncements, concept statements do not establish accounting and financial reporting standards. Rather than the preparers and auditors of financial statements, the primary audience for a final concept statement is GASB itself. Concept statements provide a framework for setting standards, guiding GASB, and helping it maintain a consistent conceptual approach from standard to standard.

GASB Interpretations: Interpretations of the Governmental Accounting Standards Board clarify, explain, or elaborate on a pronouncement as an aid to its understanding.

GASB Codification: GASB Codification can also be purchased from the Governmental Accounting Standards Board. GASB Codification presents current effective accounting and financial reporting standards for state and local governments in a topical format. The material in the Codification integrates guidance from GASB Statements, Interpretations, Technical Bulletins, and Concept Statements; NCGA Statements and Interpretations; and the AICPA Audit and

Accounting Guide, *Audits of State and Local Governments*, and it is considered authoritative. The effects of pronouncements that have been issued but that are not yet effective are presented in an appendix to the Codification for the information of the reader. Similarly, GASB Concept Statements are presented in an appendix. Additional appendices include a paragraph-by-paragraph cross-reference of original pronouncements to material in the Codification and a topical index. The Codification is updated as of June 30 each year.

APPENDIX G

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

Discussion Memorandums: For some GASB projects, the first document is a Discussion Memorandum. Discussion Memorandums are staff documents issued on major projects as a basis for public comment. Comments may be sought either in writing or both in writing and in conjunction with a public hearing. This staff document is intended to present various accounting or financial reporting alternatives in a neutral fashion. This document has been used in several projects in the past (for example, measurement focus and basis of accounting, which was later incorporated into the projects that resulted in GASB Statements No. 33 and No. 34). Like all due process documents that could ultimately lead to a final Statement, a Discussion Memorandum can be downloaded free from the GASB website.

Exposure Drafts: The final stage of the GASB due process is the Exposure Draft. For many projects, this document may be the first formal exposure of a board proposal to the public. Exposure Draft proposals will usually make it into the final standard unless compelling arguments are made in the exposure period. Exposure Drafts include proposed Statements, Concept Statements, or Interpretations issued for public comment. Public hearings may be held in conjunction with the issuance of these documents. Exposure Drafts can be downloaded free from the GASB website.

Technical Bulletins: GASB Technical Bulletins are staff documents to provide guidance for applying Statements and Interpretations and for resolving accounting issues not directly addressed by those pronouncements.

The auditor is responsible for maintaining a current library and reference material relating to governmental accounting and auditing.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements arising from illegal acts that have a direct and material effect on the determination of financial statement amounts. "Illegal acts" includes noncompliance with the laws, regulations, and provisions of grants and contracts applicable to the auditee's activities. In accordance with audit standards section AU317, any noncompliance with laws and regulations must be disclosed in the financial statements, and communicated to those charged with governance. In an audit performed under *Government Auditing Standards*, noncompliance findings must also be included in the Report on Internal Control and Compliance. You should refer to the current version of the AICPA Audit and Accounting Guide for State and Local Governments, Chapter 4 (General Auditing Considerations) for a more complete discussion of financial statement compliance requirements.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

The purpose of this Appendix is to provide the auditor with a more complete understanding of the laws and regulations relevant to local units of government in Michigan. Accordingly, the audit must be planned to consider compliance with these provisions. The items discussed below are generally applicable to all local units in Michigan, both general purpose governments (counties, cities, townships and villages) as well as authorities, joint ventures, or any entity subject to Public Act 2 of 1968. In addition to these provisions, the auditor must consider any additional legal compliance requirements that are applicable to the specific auditee, such as city or village charters, local ordinances or resolutions, formal policies (e.g., investment policy or credit card policy) or contractual agreements.

Materiality should not be a consideration in reporting violations to the Department of Treasury. However, materiality should be used to determine the effect on the financial statements.

The information in this appendix addresses legal citations concerning governmental expenditures. It is intended for informational purposes and should not be considered a legal interpretation of the matters presented. Please consult your legal advisor if a legal opinion is needed.

Getting Started--Basic Premise of Local Government

Constitutional and statutory provisions specify that a local governmental unit and the officials of local governments have only those duties specifically granted to them by the Michigan Constitution and applicable statutes. Those provisions highlight the basic restrictive authority granted to Michigan's local units of government. If the action to be taken is not specifically authorized by the Constitution, a statute, court decision or Attorney General Opinion, that action cannot be legally executed.

This appendix does not contain a complete discussion of every law or regulation that applies to local units of government in Michigan. However, the "Other Provisions (Supplementary Information)" section of this appendix contains excerpts and descriptions of many of the constitutional provisions, laws, court cases and attorney general opinions that specify what local governments can and cannot do. The following list of compliance matters should be considered in planning a financial audit of a local unit of government in Michigan:

- Powers of the government, in general
- Authority for taxes being levied by the government
- Accounting and auditing requirements
- Investment provisions

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

- Credit card provisions
- Requirements for the payment of bills (claims)
- Requirements for budgeting
- Requirements for borrowing
- Restrictions on local government expenditures

Powers of the Government, in General

Home rule cities and villages will have charters that set forth the authority for many activities, as well as the requirements they must follow (Michigan Constitution, Article 7, Section 22). In general, these local units are subject to both state law and their local charters. When there is a conflict, the charter may at times supersede state laws (for instance, if the charter has provisions for paying bills, those would supersede the general state provisions); at other times it would not (for instance, if the charter allowed surplus funds to be invested in stock mutual funds, this would not be allowable under PA 20 of 1943). It is common to need the assistance of the local unit's legal counsel to determine the specifics of how various legal requirements apply.

Further, as a general rule, local units of government have no inherent powers and possess only those limited powers which are expressly conferred upon them by the State Constitution or State statutes or which are necessarily implied therefrom. (Supreme Court decisions *Hanselman v. Killeen* [1984] 419 Mich. 168 and *Mosier v. Board of Auditors* 295 Mich. 27, 29)

Authority for Taxes Being Levied by the Government

Local units of government are not allowed to levy property tax millages without specific legal authority. Michigan Department of Treasury Form L-4029, 20xx Tax Rate Request must be filed by each taxing entity and must set forth the legal authority for each levy. The original completed form must be submitted to the County Clerk(s) on or before September 30 each year, and copies must be submitted to Equalization Department(s) and each township or city clerk. The auditor should read this form and concur that all levied millages are legally authorized. If there is any lack of clarity, this should be communicated in writing to those charged with governance.

Note: In some circumstances, we have found that a unit of government has turned a tax levy over to an organization to expend as the organization deems necessary. In most circumstances, the taxing authority is with the unit of government and the levy is to provide specified services. The local unit must establish a fund, prepare a budget and when appropriate, should contract with the

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

organization to provide the service for a specific dollar amount. (See the “Other Provisions” section of this appendix for more information.)

Accounting and Auditing Requirements

Local units of government having a population of 4,000 or more shall obtain an annual audit.

Local units of government with less than 4,000 in population shall obtain an audit not less frequently than biennially (MCL 141.425).

The local unit of government official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall ensure that the local unit accounts are maintained and kept in accordance with the chart of accounts (Department of Treasury's Uniform Chart of Accounts) (MCL 141.421).

Each local unit of government shall make an annual financial report, which shall be uniform for all local units (Form F-65) (MCL 141.424).

Investment Provisions

Each local unit potentially has two sets of allowable investments that it must comply with. First, there is PA 20 of 1943, as amended, (MCL 129.91 - 129.97a) which is amended from time to time to change the listing of allowable investments. Secondly, Public Act 20 requires that each local unit must have an investment policy, adopted by its governing board, which sets forth a listing of allowable investments. These two listings may be the same or they may be different. In general, each local unit may only purchase investments that are allowed by both state law and its investment policy document. <http://legislature.mi.gov/doc.aspx?mcl-act-20-of-1943>

The auditor should obtain a copy of both the current state law and the local unit’s investment policy. As of August 2010, the PA 20 of 1943 listing of allowable investments can be paraphrased as follows:

- Savings accounts, checking accounts, or other depository accounts (such as a certificates of deposit) in a financial institution that: (a) is covered by FDIC or other federal insurance; and (b) maintains a branch office located in the State;
- U. S. Treasury (or a U.S. agency or instrumentality) bonds, securities or other obligations;
- Commercial paper, if rated in the 2 highest categories and less than 270 day maturity;
- Repurchase agreements (of U.S. Treasury or agency securities);

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

- Bankers' acceptances;
- State of Michigan or Michigan local unit obligations, if rated as investment grade;
- Mutual funds, interlocal unit agreement pools, or investment pools whose portfolios consist solely of investments otherwise allowable for direct investments under the Act; and
- Certificates of deposit that are purchased through a Michigan bank that are subsequently allocated to additional banks or credit unions in order to maintain full federal depository insurance.

MCL 129.96 requires the investment officer to submit a quarterly investment report to the governing body.

Credit Card Provisions

Public Act 266 of 1995, as amended, (MCL 129.241 - 129.247), allows local units to purchase goods (or services) by credit card, but only after adoption by a resolution of its governing body. <http://legislature.mi.gov/doc.aspx?mcl-Act-266-of-1995> To purchase goods or services by credit card, MCL 129.241-245 allows the governing body to enter into a credit card agreement if they adopt a resolution that includes the following:

- An officer or employee is designated to oversee credit card issuance, accounting, monitoring and compliance with the policy;
- The use of the credit card is only for the purchase of goods and services for the official business of the local unit;
- User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase and the official business for which purchased;
- Officer or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- Credit card to be returned to local unit at the termination of official or employee;
- Internal control systems over the use of credit cards;

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

- Approval of credit card invoices prior to payment;
- The balance including interest must be paid within 60 days of the initial statement date;
- Disciplinary measures for unauthorized use of a credit card; and
- Other matters the local unit considers advisable

Public Act 280 of 1995, as amended (MCL 129.221 - 129.224), allows local units to accept payments by credit card for a tax, assessment or fee. <http://legislature.mi.gov/doc.aspx/mcl-act280-of-1995> MCL 129.223 provides for the governing body to adopt a resolution allowing the acceptance of payments by financial transaction devices.

Requirements for the Payment of Bills (Claims)

In general, the governing body is required to approve disbursements before each bill is paid. The legal authority for this can be found in MCL 46.71 (counties), MCL 41.75 (townships), MCL 87.7 (cities) and MCL 65.7 (villages). It is important to understand that approval of a budget is not equivalent to approval of specific payments for individual goods or services. In addition:

- City and village charters may contain different procedures for bill paying, which would normally supersede these state requirements;
- Governing bodies are allowed to designate types of disbursements that may be approved by them after the fact. Examples might include utilities or other payments with penalties for late payment;
- Payrolls must also be approved by the governing body;
- This rule is generally not applied to remittances of property taxes to other units of government because tax distributions are not claims against the government, and are normally made from an agency fund. Tax distribution vouchers must be approved by the local unit official authorizing the payments.

Requirements for Budgeting

Each Local unit is required to adopt an annual balanced budget for its General Fund and all special revenue funds (MCL 141.436); after holding a public hearing on the proposed budget (MCL

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

141.412). A balanced budget is defined as a situation where, for any fund required to have a budget, the following formula of estimated budget amounts does not produce a negative end of year fund balance:

- Beginning of year fund balance (deficit);

- Plus revenues and other financing sources;

- Minus expenditures and other financing uses;

- Equals end of year fund balance.

Balanced budgets are required by MCL 141.435 and 141.436.

The resolution approving the annual budgets is referred to as the “General Appropriations Act” and the level of detail contained in the General Appropriations Act (activity or departmental, line-item, etc.) determines the legal level of budgetary control. The budget must be amended prior to spending if there is not sufficient money in the budget to cover expenditures. Expenditures in excess of appropriations at this legal level of budgetary control are a violation of state law (MCL 141.437 and 141.438), and must be disclosed in the notes to the financial statements.

City and village charters often create additional budget requirements that the local unit must comply with.

The Michigan Department of Treasury issued a Uniform Budget Manual for Local Units of Government in August 2001. It can be accessed from Treasury’s website at:

http://www.michigan.gov/documents/treasury/UniformBudgetManual_646292_7.pdf

Requirements for Borrowing

In general, local units of government are not allowed to borrow money without specific legal authority to do so. That legal authority generally includes both the type of borrowing and the purposes for which money is being borrowed. For any debt obligations entered into by the local unit, the auditor should determine and document the specific statute or charter provision under which the debt has been incurred. See “Requirements for Borrowing” in the “Other Provisions” section of this appendix for more information, including statutes that authorize municipal borrowing.

Restrictions on Local Government Expenditures

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Local units of government in Michigan are only allowed to incur expenditures for a valid public purpose. The local unit is the steward of public resources, and they may not be used for a private purpose. Determining whether an expenditure is for a valid public purpose is a legal consideration. Often the local unit's legal counsel can be helpful in making this determination. There are numerous state statutes, court cases and attorney general opinions that define allowable expenditures. As a guide, the following is a list of the more common types of questionable expenditures:

1. Charitable Donations to Non-Profit Organizations: Unless the payment is in exchange for the provision of a governmental service that the local unit could have provided itself, this is not a valid public purpose. In general, such expenditures should be documented through a written agreement. This prohibition includes churches, veterans' organizations, community organizations, Little League, Boy Scouts, Big brothers/ Big Sisters, etc.
2. Donations to a Private Ambulance or EMS Service: MCL 333.20948 authorizes local governmental units to contract for ambulance services. This would only be allowed if there is a written agreement providing that the payment is in consideration for services rendered (which service the local unit could have provided with its own employees).
3. Public Celebrations and Events: MCL 123.851 specifically allows cities, villages and townships to expend money for observances of Armistice (Veterans), Independence and Memorial Days and Diamond Jubilee or Centennial celebrations. MCL 46.11a specifically allows counties to appropriate money for the celebration of Armistice (Veterans) Day.

It is improper for a unit of government to expend public money for an annual picnic or other celebration that is not specifically authorized by law and does not serve a public purpose. The Michigan Supreme Court in *Wayne County v Hathcock*, 471 Mich 445, 462; 684 NW2d 765 (2004), defined "public purpose" as having "for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants or residents within the municipal corporation, the sovereign powers of which are used to promote such public purpose."

4. Providing Coffee, Food, etc.: The purchase of coffee, food, etc., must be for a public, not an individual or private group or purpose. These expenditures for use at a regular or special meeting where the public is also participating in the coffee, food, etc., for fire fighters, volunteer or full-time employees, when working an extended period of time or when dedicating public buildings are normally considered expenditures for a public purpose.

Coffee, food, etc., for employees use during normal working hours is considered personal, not for a public purpose, and improper unless specifically provided for in a collective bargaining agreement or duly adopted employment policy of the governmental unit (fringe benefit). See the definition of "public purpose" in item 3 above.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

5. Retirement/Recognition Functions and Employee and Retiree Gifts: Retirement functions, gifts or plaques for employees or officials, recognition dinners for volunteer fire fighters or ambulance staff are usually not for a public purpose, therefore, not an allowable expense. Travel and meals as part of the cost of training volunteers to perform emergency services within the local unit are deemed a public purpose, payable as an expense when properly budgeted, authorized and approved. See the definition of “public purpose” in item 3 above.
6. Historical Activities: MCL 399.161 allows a township to appropriate money that the township board believes advances and fosters historical interests of the township. MCL 399.171 and 399.172 allow a city, county, township or village to individually appropriate money or jointly create a commission to advance the historical interests of the unit or units. MCL 399.201-399.215 allow a city, county, township or village to establish historical districts and a commission to preserve and refurbish historical structures.
7. Juvenile Delinquency--Youth Centers: MCL 123.461 allows a county, city, township or village to operate centers open exclusively to youths under 21 years of age and aimed at curbing juvenile delinquency within the community.
8. Economic Development: MCL 125.1601-125.1636 allows a county, city, village or township to incorporate an economic development corporation, file articles of incorporation and fund projects of said EDC, which are for a public benefit. MCL 125.1231 - 125.1237 allows county commissioners to create a county commission to promote economic development and provide in the county budget for the expenses of the commission.
9. Senior Citizens, Older Persons: MCL 400.571 - 400.577 allows a county, township, city or village to provide services to persons 60 years or older. Appropriations to a private organization must be specified in a contract. The terms of the contract must be published within 10 days of its approval in a local newspaper specifying the contract terms and services to be performed.
10. Legal Expenses: A governmental unit is not authorized to expend public money to assist residents with legal costs in defending the homeowners from possible civil action by a neighboring city to condemn their property for public use by the city. We are unable to see a "public purpose" for the township in this expenditure. Also this expenditure may be prohibited under the provisions of Article 9, Section 18 of the 1963 Michigan Constitution that prevents a governmental unit from lending its credit to the aid of any person, association or corporation, public or private, except as authorized in the Constitution.
11. Membership Dues: Membership dues to governmental associations such as MTA, MML, MAC and similar organizations that advise, inform and educate officials and employees are appropriate. (See court decision Hayes v City of Kalamazoo, 316 Mich. 443).
12. Training and Education: Registration fees, lodging, travel, and meals while in attendance at useful public informational or educational workshops and seminars are appropriate.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

13. **Mileage Reimbursements**: Local units should follow the IRS guidelines for determining which travel is considered a “business purpose.” Mileage of officials (except county finance committee and board of commissioners. See MCL 46.52 and 46.62) and employees to and from their residence to the city, township or village hall, county building or meeting rooms is not to be reimbursed. (Mileage paid to county commissioners must be included on their W-2 forms as taxable income.) This means that commuting from home to work and back is not to be reimbursed.
14. **Private Roads**: Expenses for private roads are the responsibility of the private owners of the road and it is inappropriate to use public funds for such purpose. However, this does not prohibit a local unit from assisting the private road owners by levying a special assessment for improving or maintaining a private road, as long as the special assessment is designed to cover 100% of the costs associated with the private road. (Public Act 188 of 1954, as amended, being MCL sections 41.721 - 41.738)
15. **Per Diem Payments to Township Supervisor, Clerk or Treasurer**: When the supervisor, clerk or treasurer is paid on a salary basis, it is inappropriate to pay extra or a per diem for attendance at meetings (MCL 41.95). (Check city and village charters for their compensation procedures or restrictions.) Extra compensation for summer tax collections is inappropriate, unless part of the initial salary resolution or is authorized within statutory procedures for an increase in salary.
16. **Flowers to the Sick or Departed**: Local governments do not have authority to expend money for floral gifts. (Attorney General Opinion Number 2346 dated July 18, 1956)

Other Provisions (Supplementary Information)

This section contains excerpts and descriptions of many of the provisions of the State Constitution, State Statutes, Court Cases and Attorney General Opinions that specify what local governments can and cannot do. This section should be used as a more detailed supplement to the compliance requirements presented earlier in this manual.

Authority for the Primary Governments

Constitutional Provisions, Michigan Constitution of 1963

(Article 7, Section 1) Each organized county shall be a body corporate with powers and immunities provided by law.

(Article 7, Section 17) Each organized township shall be a body corporate with powers and immunities provided by law.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(Article 7, Section 21) The legislature shall provide by general laws for the incorporation of cities and villages.

Authority for Separate Special Purpose Governments

Constitutional Provisions, Michigan Constitution of 1963

(Article 7, Section 27) Notwithstanding any other provision of this constitution the legislature may establish in metropolitan areas additional forms of government or authorities with powers, duties and jurisdictions as the legislature shall provide. Wherever possible, such additional forms of government or authorities shall be designed to perform multipurpose functions rather than a single function.

(Article 7, Section 28) The legislature by general law shall authorize two or more counties, townships, cities, villages or districts, or any combination thereof among other things to: enter into contractual undertakings or agreements with one another or with the state or with any combination thereof for the joint administration of any of the functions or powers which each would have the power to perform separately; share the costs and responsibilities of functions and services with one another or with the state or with any combination thereof which each would have the power to perform separately; transfer functions or responsibilities to one another or any combination thereof upon the consent of each unit involved; cooperate with one another and with state government; lend their credit to one another or any combination thereof as provided by law in connection with any authorized publicly owned undertaking.

General Statutory Provisions

(MCL 124.501 - 124.512) **Urban Cooperation Act:** A County, City, Village, Township or Charter Township may exercise jointly with any other public agency of the state, with a public agency of any other state, any public agency of Canada, or with any public agency of the United States government, any power, privilege or authority which such agencies share in common and which each might exercise separately.

(MCL 124.531 - 124.536) **Intergovernmental Transfers of Functions and Responsibilities:** “Political subdivision” means a City, Village, Other Incorporated Political Subdivision, County, School District, Community College, Intermediate School District, Township, Charter Township, Special District or Authority. Two or more political subdivisions are authorized to enter into a contract with each other providing for the transfer of functions or responsibilities to one another or any combination thereof upon the consent of each political subdivision involved.

NOTE: Several other specific statutes (MCL 17.74 and 46.171, for example) authorize the joint operations of sewer, water and other public functions by governmental units.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

For additional authority for joint operations, see **Authority for the Activity Being Paid for by the Government** later in this appendix.

Powers of the Government

Constitutional Provisions, Michigan Constitution of 1963

(Article 7, Section 22) Under general laws the electors of each city and village shall have the power and authority to frame, adopt and amend its charter, and to amend an existing charter of the city or village heretofore granted or enacted by the legislature for the government of the city or village. Each such city and village shall have power to adopt resolutions and ordinances relating to its municipal concerns, property and government, subject to the constitution and law. No enumeration of powers granted to cities and villages in this constitution shall limit or restrict the general grant of authority conferred by this section.

(Article 7, Section 26) Except as otherwise provided in this constitution, no city or village shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose.

(Article 7, Section 34) The provisions of this constitution and law concerning counties, townships, cities and villages shall be liberally construed in their favor. Powers granted to counties and townships by this constitution and by law shall include those fairly implied and not prohibited by this constitution.

(Article 9, Section 18) The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in this constitution. (NOTE: The Supreme Court in the decision of Black Marsh Drainage District v. Rowe [1958], 350 Mich. 470, held that this provision applies to all political subdivisions of the state.)

(Article 11, Section 3) Neither the legislature nor any political subdivision of this state shall grant or authorize extra compensation to any public officer, agent or contractor after the service has been rendered or the contract entered into.

Supreme Court Decisions

(Hanselman v. Killeen [1984] 419 Mich. 168) Local governments have no inherent powers and possess only those limited powers which are expressly conferred upon them by the State Constitution or State statutes or which are necessarily implied therefrom.

(Mosier v. Board of Auditors 295 Mich. 27, 29) A county is a municipal corporation and possesses only those powers which have been conferred upon it by the Constitution and the statutes.

Opinions of the Attorney General

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(Opinion of the Attorney General, 1955-56, No. 1704, page 32) Appropriation of township funds which is not expressly authorized or necessarily implied with express statutory powers is unlawful whether with or without a vote of the township.

Authority for Taxes Being Levied by the Government

Constitutional Provisions, Michigan Constitution of 1963

(Article 7, Section 21) The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.

Supreme Court Decisions

(City of Berkley v. Township of Royal Oak [1948] 320 Mich. 597) Local units of government derive their powers of taxation from the legislature and such power cannot be exercised except in pursuance of express statutory authority.

General Statutory Provisions

(MCL 211.1) General Property Tax Act

(MCL 141.501) City Income Tax Act

Opinions of the Attorney General

(Opinion of the Attorney General, 1998, No. 6998) A city may not, in the absence of specific statutory authority, levy a property tax millage in excess of the millage limitations imposed by its charter or by the Home Rule Cities Act.

Authority and Contractual Procedures for Disbursing Taxes to an Organization

In some circumstances, we have found that a unit of government has turned a tax levy over to an organization to expend as the organization deems necessary. In most circumstances, the taxing authority is with the unit of government and the levy is to provide specified services. The local unit must establish a fund, prepare a budget and when appropriate, should contract with the organization to provide the service for a specific dollar amount.

EXAMPLES

<u>Tax</u>	<u>Authority</u>	<u>Levying Unit</u>
Police and Fire Protection	MCL 41.801	Township

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Fire Authority	NONE (See above)	
Joint Fire Authority	NONE; See Urban Cooperation Act Agreement, or MCL 124.601 below	
Emergency Services Authority	MCL 124.601	Authority, County, City, Village or Township
Services to Senior Citizens	MCL 400.576	County, Township, City or Village
Senior Center (Nonprofit)	NONE (See above)	
Conservation District	MCL 46.22	County
Port District	MCL 120.24	Port District
Recreation Authority	MCL 123.1141	Authority
District Library	MCL 397.183	District Library

The above list is not all-inclusive. For any other tax levies, the procedures in the above paragraph would apply.

Accounting and Auditing Requirements

Constitutional Provisions, Michigan Constitution of 1963

(Article 9, Section 21) The legislature shall provide by law for the annual accounting for all public moneys, state and local, and may provide by law for interim accounting.

(Article 9, Section 21) The legislature shall provide by law for the maintenance of uniform accounting systems by units of local government and the auditing of county accounts by competent state authority and other units of government as provided by law.

General Statutory Provisions

(MCL 141.421) (1) The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government. Such chart of accounts shall conform as nearly as practicable to the uniform standards as set forth by the governmental accounting standards board or by a successor organization that establishes national generally accepted accounting standards and is determined acceptable to the state treasurer. The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts. The state treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting.

(MCL 141.424) (1) The chief administrative officer of each local unit shall make an annual financial report (local unit fiscal report) which shall be uniform for all local units of the same class.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(MCL 141.425) (1) A local unit having a population of less than 4,000 shall obtain an audit of its financial records, accounts, and procedures not less frequently than biennially. However, if any audit under this subsection discloses a material deviation by the local unit from generally accepted accounting practices or from applicable rules and regulations of a state department or agency or discloses any fiscal irregularity, defalcation, misfeasance, nonfeasance, or malfeasance, the department of treasury may require an audit to be conducted in the next year.

(MCL 141.425) (2) A local unit having a population of 4,000 or more shall obtain an annual audit of its financial records, accounts, and procedures.

(MCL 21.45) (2) A county shall obtain an annual audit of its financial records, accounts, and procedures and may retain certified public accountants to perform the audits. If a county fails to provide for an audit, the state treasurer shall either conduct the audit or appoint a certified public accountant to perform the audit. The entire cost of any audit shall be borne by the county.

Requirements for the Payment of Bills (Claims)

Paying Claims--Vendor Bills

COUNTIES

(MCL 46.71) Provides that it shall be the duty of the county board of commissioners, or board of county auditors in counties having a board of county auditors, to adjust, allow and authorize the payment of all claims against the county. Any claim not adjusted or ordered paid shall not be paid.

Exception to MCL 46.71 (MCL 46.51 - 46.54) Authorizes the county board of commissioners in counties with less than 75,000 population to provide by resolution for the appointment of a finance committee. When a statutory finance committee is appointed, the finance committee approves all claims.

Exception to MCL 46.71 (MCL 46.61 - 46.63) Authorizes the county board of commissioners in counties with not less than 75,000 and not more than 500,000 population to provide by resolution for the appointment of a finance committee. When a statutory finance committee is appointed, the finance committee audits all claims. Approval for payment must be by the county board of commissioners after audit by the finance committee.

TOWNSHIPS

(MCL 41.75) The township board shall approve claims against the township and authorize payment of allowed claims. Paid claims shall be filed and preserved by the township clerk. The treasurer shall pay claims upon order of the township board, signed by the clerk.

CITIES Note: Charter provisions may apply.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(MCL 87.7) All claims against the city shall be filed with the clerk for adjustment, and after examination thereof, the clerk shall report the claims with all accompanying vouchers and counter claims of the city, and the true balance as found by the clerk, to the council for allowance, and when allowed shall draw the city warrant upon the treasurer for the payment thereof, designating thereon the fund from which payment is to be made.

(MCL 88.20) The council shall audit and allow all accounts chargeable against the city but no account or claim or contract shall be received for audit or allowance, unless it shall be accompanied with a certificate of an officer of the corporation (city), or an affidavit of the person rendering it, to the effect that he verily believes that the services therein charged have been actually performed or the property delivered for the city, that the sums charged therefore are reasonable and just, and that to the best of his knowledge and belief, no set-off exists, nor payment has been made on account thereof.

VILLAGES Note: Charter provisions may apply.

(MCL 65.7) Council to audit and allow all accounts chargeable against the village. An account or claim or contract shall not be received for audit or allowance unless it is accompanied with a certificate of an officer of the village, or an affidavit of the person rendering it, that the services therein charged have been actually performed or the property delivered for the village, that the sums charged therefore are reasonable and just, and that to the best of his knowledge and belief, no set-off exists, and no payment has been made on account thereof.

NOTE: We have found that some volunteer fire departments, parks departments and similar governmental activities performed by a group, committee or agency of a local unit have paid their claims without the prior approval of the local unit's legislative body. Unless the agency (fire, parks, etc.) is an authority or other agency with the statutory authority to approve its own claims for payment, the legislative body must approve its claims.

Requirements for Budgeting

Constitutional Provisions, Michigan Constitution of 1963

(Article 7 Section 32) Any county, township, city, village, authority or school district empowered by the legislature or by this constitution to prepare budgets of estimated expenditures and revenues shall adopt such budgets only after a public hearing in a manner prescribed by law.

General Statutory Provisions

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Specific budget procedures for charter townships are required by MCL 42.24 through 42.27. Local units may have charter provisions or local ordinances requiring specific budgetary procedures. The local procedures must be followed when they are more restrictive than the general statute.

Public Act 2 of 1968, as amended, “the Uniform Budgeting and Accounting Act” provides a uniform budgeting system for local units. Following are references to significant sections of the Michigan Compiled Laws that relate to PA 2 of 1968.

(MCL 141.436) Requires a local unit governing body to adopt a General Appropriation Act, after holding a public hearing on the proposed budget (MCL 141.412).

(MCL 141.434) The “Chief Administrative Officer” must prepare a recommended budget for the general fund and all special revenue funds for the ensuing fiscal year.

(MCL 141.435) The recommended budget must include:

- a. Revenue and expenditures for the prior fiscal year;
- b. Estimated revenue and expenditures for the current fiscal year;
- c. An estimate of revenue and expenditures for the next fiscal year;
- d. The amount of surplus or deficit at the beginning of each fiscal year; and
- e. The amount of surplus or deficit expected at the end of each fiscal year.

(MCL 141.434) The “Chief Administrative Officer” must transmit the recommended budget to the legislative body in accordance with a timetable sufficient to allow review and approval prior to the beginning of the next fiscal year.

(MCL 141.412) A local unit is required to hold a public hearing on the proposed budget. A notice of the time and place of the public hearing must be published in a newspaper of general circulation within the local unit at least 6 days prior to the hearing. The notice must also state the place where a copy of the proposed budget is available for public inspection.

(MCL 141.436) The legislative body must pass a General Appropriations Act for the general fund and all special revenue funds.

(MCL 141.435 and 141.436) The General Appropriations Act must include:

- a. The amount of surplus or deficit at the beginning of each fiscal year;
- b. The amounts appropriated for the expenditures of the next fiscal year;
- c. The estimated revenues, by source, for the next fiscal year;
- d. The amount of surplus or deficit expected at the end of each fiscal year.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(MCL 141.439) The Appropriation Act may include a narrative authorizing the fiscal officer to make transfers between activities, cost of personnel, capital outlay or other budgetary action authorized by the legislative body.

(MCL 141.436) The legislative body shall not adopt a General Appropriations Act or an amendment which causes estimated expenditures, including an accrued deficit, to exceed estimated revenue, including an accrued surplus.

(MCL 141.437 and 141.438) Expenditures cannot exceed the amount authorized in the Appropriation Act unless the local Appropriation Act is amended. Expenditures cannot be authorized unless they are provided for in the Appropriation Act.

(MCL 141.438) Expenditures cannot be authorized that exceed the amount appropriated by the legislative body.

(MCL 141.440) Authorized expenditures in excess of or contrary to the Appropriation Act (budget) can be recovered by civil proceedings brought by the Attorney General or prosecuting attorney.

Any budgetary procedure specified in a charter or ordinance of a local unit that is more restrictive than the general statute must be followed.

The Michigan Department of Treasury issued a Uniform Budget Manual for Local Units of Government in August 2001. It can be accessed from Treasury's website at: http://www.michigan.gov/documents/treasury/UniformBudgetManual_646292_7.pdf

Requirements for Borrowing

Constitutional Provisions, Michigan Constitution of 1963

(Article 7, Section 11) No county shall incur any indebtedness, which shall increase its total debt beyond 10 percent of its assessed valuation.

(Article 7, Section 17) Each organized township shall be a body corporate with powers and immunities provided by law.

(Article 9, Section 13) Public bodies corporate shall have power to borrow money and to issue their securities evidencing debt, subject to this constitution and law.

(Article 7, Section 21) The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall . . . restrict the power of cities and villages to borrow money and contract debts.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

General Statutory Provisions

The Revised Municipal Finance Act, Public Act 34 of 2001, as amended (MCL 141.2101 - 141.2821):

A municipality shall not borrow money and issue municipal securities except in accordance with this act. However, there are some borrowings that are not subject to the Revised Municipal Finance Act. See MCL 141.2105 below for specific examples, including contracts for the purchase of real or personal property. A municipality must have specific legal authority to enter into any debt obligation, either statutory authority or authority from a municipality's charter. In general, the statute that allows a municipality to borrow is called the "authorizing statute." Generally, a municipality may qualify to issue municipal securities without further Treasury approval, by submitting a Municipal Finance Qualifying Statement to the Michigan Department of Treasury. Municipalities that do not qualify under the provisions of the act must obtain prior approval from Treasury before issuing any municipal securities.

(MCL 141.2103c) "Debt" means all borrowed money, loans, and other indebtedness, including principal and interest, evidenced by bonds, obligations, refunding obligations, notes, contracts, securities, refunding securities, municipal securities, or certificates of indebtedness that are lawfully issued or assumed, in whole or in part, by a municipality, or will be evidenced by a judgment or decree against the municipality.

(MCL 141.2103n) "Security" means an evidence of debt such as a bond, note, contract, obligation, refunding obligation, certificate of indebtedness, or other similar instrument issued by a municipality, which pledges payment of the debt by the municipality from an identified source of revenue.

(MCL 141.2105) Municipal security; limitations. A municipal security does not include any of the following:

- (a) A contract for the purchase of real or personal property.
- (b) A contract for the lease of real or personal property with or without an option to purchase.
- (c) A contract, lease, note, or other security given in connection with a contract described in subdivision (a) or (b).
- (d) A security that is evidence of an emergency loan under section 1 of 1855 PA 105, MCL 21.141, in conjunction with the emergency municipal loan act, 1980 PA 243, MCL 141.931 to 141.942, or qualified agricultural loans under section 2a of 1855 PA 105, MCL 21.142a.
- (e) A mortgage secured by real property and its corresponding security to the extent secured by the mortgage.
- (f) A contract between 1 or more municipalities under whose terms 1 or more municipalities pledge their revenues or full faith and credit to secure payment of a proposed municipal security issued by 1 of the municipalities.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Following are references to various State statutes that authorize local units of government in Michigan to incur debt. The list is not intended to be a complete list of all statutes that authorize local government debt.

Installment Purchases

(MCL 123.721) A city, township, or village may enter into a contract or agreement to purchase real or personal property (land, buildings, equipment, etc.) for public purposes, to be paid for in installments over a period not to exceed 15 years or the useful life of the item purchased. The outstanding balance of such purchases, exclusive of interest, shall not exceed 1¼ percent of the local unit's taxable value. The contracts or agreements do not require approval of the Department of Treasury, as they are not subject to the provisions of the revised municipal finance act.

(MCL 46.11b) A county may purchase land, property or equipment to be used for public purposes, and pay in installments for a period not to exceed 10 years or the useful life of the item purchased, whichever is less. The aggregate liability of purchases made pursuant to this section shall not exceed 1/2 of 1 percent of the State Equalized Value in the County. The contracts or agreements do not require approval of the Department of Treasury, as they are not subject to the provisions of the revised municipal finance act.

(MCL 224.10) A county road commission may enter into a contract or agreement for the purchase of real or personal property for public purposes to be paid for in installments over a period not to exceed 15 years or the useful life of the property acquired, whichever is less. The contracts or agreements do not require approval of the Department of Treasury, as they are not subject to the provisions of the revised municipal finance act.

[MCL 141.2413(3)] Issuance of Short-term Municipal Security in anticipation of Long-Term Municipal Security Proceeds

(MCL 123.961) Building Authority Bonds, Public Act 31 of 1948, as revised

(MCL 141.2517) Capital Improvement Municipal Securities

(MCL 46.175c) County Public Improvement Bonds, Public Act 342 of 1939, as amended

(MCL 211.87c) Delinquent Tax Notes (Exempt from the Revised Municipal Finance Act)

(MCL 123.741) County Department and Board of Public Works Bonds, Public Act 185 of 1957, as amended

(MCL 123.755) County Department and Board of Public Works Special Assessment Bonds, Public Act 185 of 1957, as amended

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

(MCL 141.2515) Municipality Water Supply or Sewage Disposal, Public Building, or Other Public Improvement Municipal Securities, Public Act 34 of 2001, as amended

(MCL 125.1662, 125.1663 and 125.1666) Downtown Development Authority Bonds and Notes, Including Tax Increment Bonds), Public Act 197 of 1975, as amended

(MCL 280.434 and 280.435) Drain Bonds and Notes, Public Act 40 of 1956, as amended (The notes shall not be subject to the revised municipal finance act unless the principal amount of the obligation exceeds \$300,000.00.)

(MCL 141.2511) County, township, city, or village municipal securities for the purpose of funding any part or all of a county or intercounty drain special assessment, Public Act 34 of 2001, as amended

(MCL 141.2415) Federal and State Grant Anticipation Notes, Public Act 34 of 2001, as amended

[MCL 331.43 (13)] Hospital Finance Authority Loans, Public Act 38 of 1969, as amended

(MCL 331.8) Hospital Authority Bonds, Public Act 47 of 1945, as amended

(MCL 124.289) Sewage and Water Authority Bonds, Public Act 233 of 1955, as amended

(MCL 600.6097) Judgment Bonds, Public Act 236 of 1961, as amended

(MCL 125.2164) Local Development Finance Authority Bonds, Public Act 281 of 1986, as amended

(MCL 141.2407) Revenue Sharing Anticipation Notes, Public Act 34 of 2001, as amended

(MCL 141.2601) Refunding Bonds, Public Act 34 of 2001, as amended

(MCL 141.2513) Self-Insurance Municipal Securities, Public Act 34 of 2001, as amended

(MCL 141.101 - 141.139) Revenue Bonds, Public Act 94 of 1933, as amended

(MCL 141.2401 and 141.2403) Municipality Tax Anticipation Notes, Public Act 34 of 2001, as amended

[MCL 46.11(h)] County Tax Anticipation Notes

(MCL 46.11c) County Energy Conservation Improvements Installment Contracts or Notes

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT Authority for the Activity Being Paid for by the Government

Advertising the Agricultural, Industrial, Commercial, Educational or Recreational Advantages of the State or Local Units of Government

Counties (MCL 46.161) by special tax levy or general fund appropriation

Cities and Villages (MCL 123.881) from a special tax levy

Townships (MCL 41.110c) by appropriation

Places of Recreation, Parks

COUNTIES

(MCL 46.351-46.367) A county board of commissioners may appoint a 10-member commission to oversee the operation of parks and places of recreation. County commissioners set policy, approve budget, debt, and tax levy. Two or more county boards may create a regional commission with the funds to be on deposit with the county treasurer of the county in the region making the largest contribution.

(MCL 123.66 et seq.) A county board of commissioners may appoint a 3 member board of county park trustees (to consist of county road commissioners) to operate parks and places of recreation. County commissioners approve rules, approve budget, debt, and tax levy.

CITIES AND VILLAGES

(Constitution: Article 7 Section 23) Any city or village may acquire, own, establish and maintain, within or without its corporate limit, parks, boulevards, cemeteries, hospitals and all works which involve the public health or safety.

(MCL 41.428) A city or village may appropriate to a township to acquire and operate free recreational facilities. The contributions are to be made to the township park commission.

TOWNSHIPS

(MCL 41.421 et seq.) Townships may establish a park commission to acquire, maintain, manage and control township parks and recreational facilities.

CITY, VILLAGE, COUNTY OR TOWNSHIP

(MCL 123.51) A city, village, county or township may operate a system of public recreational facilities.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Community College Maintained by a School District

(MCL 380.1607) A county, township, or other governmental unit may contribute annually towards the support of a community college maintained by a school district.

Libraries

City, Township or Village Libraries (MCL 397.201 - 397.217) A city, township or village may establish and maintain a public library. A city may, without vote of the electorate, levy one mill for the library. A city, township or village, after voter approval, may levy up to two mills to establish, operate and maintain a library.

County Libraries (MCL 397.301) A county board of commissioners may establish a public library, and they may contract for the use of a public library already established within the county, with the body having control of such library, to furnish library service to the people of the county.

Public Libraries under Control of Boards of Education (MCL 397.261 - 397.262)

NOTE: Several other statutes may authorize contributions to established libraries for library services to a local unit's inhabitants or for the consolidation of library services, including the following:

Regional Libraries Act (MCL 397.151 - 397.159)

District Library Establishment Act (MCL 397.171 - 397.196)

Hospitals

(MCL 331.151) A county may establish and operate a county hospital after a vote of the electorate.

(Attorney General Opinion No. 5083, August 6, 1976) A county board of commissioners may contract for services with a private, nonprofit corporation to provide health or welfare services to persons who are the proper concern of the county pursuant to guidelines and where final authority to take discretionary action remains with the public body.

Municipal Health Facilities Corporations Act (MCL 331.1101-331.1507) A county board of commissioners or a city or village council may incorporate 1 or more corporations under this act. **NOTE:** A health care corporation established under this act is a discretely presented component unit of the incorporating unit.

(Constitution: Article 7 Section 23) Any city or village may acquire, own, establish and maintain parks, boulevards, cemeteries, hospitals and all works which involve the public health or safety.

APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Municipal Hospital Authority Act (Community Hospitals) (MCL 331.1-331.11) Two or more cities, townships and villages, or any combinations may incorporate a hospital authority to establish, expand and/or operate a hospital or health care facilities.

(MCL 41.712) A township board may, by majority vote, pay from unexpended balances in its contingent fund to any hospital a sum that fairly represents the reasonable share of the township in the maintenance and support of the hospital whose facilities are made available to the residents of the township at standard rates. However, the hospital and township board shall agree upon the number of residents of the township to which the hospital shall make facilities available during each year.

Tax Tribunal (SEV) Appeals

MCL 211.44(3) allows any taxing unit to contribute to the defense of tax tribunal issues defended by a local tax assessing unit to the extent that the cost of the appeal exceeds 1 percent of the administration fee available to the tax assessing unit.

Retirement--Pensions and Benefits

Townships: A township board may, by resolution, establish retirement, health, and life and/or accident insurance benefits for township officials and employees. (MCL 41.110b) The board may provide that officials or employees pay a portion of the premium and deduct that cost by payroll deduction.

Counties: (MCL 46.12a) County commissioners may establish retirement systems and provide group life, health, accident and hospitalization, and disability coverage for retired county employees.

All Local Units: Public Act 427 of 1984, as amended, (MCL 38.1501 - 38.1558) provides for a retirement system for municipal and judicial employees.

ACKNOWLEDGMENTS

We wish to express our appreciation for the dedicated efforts of the staff members of the Local Audit and Finance Division, Department of Treasury, who devoted many hours to writing, rewriting and reviewing this material prior to submission to the Michigan Committee on Governmental Accounting and Auditing.

The following are members of the Michigan Committee on Governmental Accounting and Auditing:

Suzanne K. Schafer, Department of Treasury; Chairperson

Larry J. Allen, CPA, Stewart, Beauvais & Whipple; Jim Baker, CPA, Siegfried, Crandall, Vos & Lewis; Patsy K. Cantrell; Jim Carlson, Department of Treasury; Gerald J. Deslover, CPA, Rehmann, Robson & Co.; Rana M. Emmons, CPA, Post, Smythe, Lutz & Ziel; Denise D. Hammond, MBA, CGFM; Joseph C. Heffernan, CPA, Plante & Moran; Patrick L. Mutchler, CPA, Brickley DeLong; John H. Ogden, CPA, City of Port Huron; Joseph Siedenstrang, Muskegon County; Tim Soave, Oakland County; Aaron M. Stevens, CPA, Abraham & Gaffney, PC; Michael Styczenski, CPA; Cary Jay Vaughn, CPA, Department of Treasury.