

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

General Instructions

Local Unit Basic Information

This area is pre-populated at login. If the fiscal year-end month is incorrect, please contact the Local Government Financial Services Division at 517-373-3227. If you have changed your fiscal year-end month, you will now be required to submit a formal statement of change. The statement must be from the Chief Administrative Officer of the municipality authorizing the new fiscal month end, the effective date, and the time period covered by the next financial audit. This statement of change may be submitted via email to LAFD_Audits@michigan.gov.

REPORTING

Opinion Date – Enter the date that the opinion was issued by selecting the calendar icon.

Governmental activities – Select the type of audit opinion for governmental activities. If governmental activities are not included in the reporting entity for the respective local unit, select “N/A” from the drop down list.

Business-type activities – Select the type of audit opinion for business-type activities. If business-type activities are not included in the reporting entity for the respective local unit, select “N/A” from the drop down list.

Aggregate discretely presented component units – Select the type of audit opinion for aggregate discretely presented component units. If the local unit does not have any discretely presented component units, select “N/A” from the drop down list.

Major fund(s) – Select the type of audit opinion for major funds. If the local unit does not have any major funds, select “N/A” from the drop down list. If any opinion unit for major funds is modified, this question should be answered with the most severe modification. The department considers an adverse opinion the most severe modification, followed by a disclaimed opinion, then qualified opinion.

Aggregate remaining fund information – Select the type of audit opinion for the aggregate remaining fund information. If aggregate remaining fund information is not

included in the reporting entity for the respective local unit, select “N/A” from the drop down list.

Aggregate discretely presented component units and remaining fund information – Select the type of audit opinion for the aggregate discretely presented component units and remaining fund information. If the local unit does not have the opinion unit of aggregate discretely presented component units and remaining fund information, select “N/A” from the drop down list.

GAAP – Has the local unit complied with generally accepted accounting principles (GAAP)? The unit must adopt generally accepted accounting principles (GAAP). Significant departures should be reported. Common noncompliance areas are a lack of an MD&A, actuarial reports not completed for pensions and other post-employment benefits (OPEB) and missing component unit information.

The Michigan Department of Treasury is charged with administering auditing and accounting guidelines that "conform as nearly as practicable" to national standards.

If this answer is “No,” one or more of the opinion units should likely have a modified (qualified or adverse) opinion.

Component Units, Funds and Significant Others – Are all required component units/funds/significant others of the local unit included in the financial statements and disclosed in the reporting entity notes to the financial statements when applicable? Select “Yes” if all required component units, funds, and significant others of the local unit are included in the financial statements and disclosed in the reporting entity notes to the financial statements as necessary.

For a definition of a component unit or fund, see the Michigan Committee on Governmental Accounting and Auditing (MCGAA) Statement No. 4. Significant others could include joint ventures, jointly governed organizations, or others that you believe would be misleading to exclude.

Additional examples of blended and discretely presented component units are in the Uniform

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

Reporting Format, after the adoption of Governmental Accounting Standards Board (GASB) Statement No. 34, pages 48-51.

Both may be found on Treasury's Web site at www.michigan.gov/treasury.

A "local unit of government" is defined by Michigan Compiled Laws (MCL) 141.422d as a county, a city, a village, a township, or an authority or commission established by a county, city, village, or township resolution, motion, ordinance, or charter. Identification of all local units of government subject to audit is necessary to the process of determining whether local units have complied with the audit and reporting requirements established by law.

All units of local government are required to obtain financial statement audits. Even if an entity does not fall into the categories as defined by GASB Statements Nos. 14, 39, and 61, please include the information requested for all those that are within the boundaries of the unit you are currently auditing.

Other Instructions

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission in a separate letter to our office at PO Box 30728, Lansing, MI 48909-8228.

Uniform Chart of Accounts – Is the unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? The Uniform Chart of Accounts for Local Units of Government in Michigan (Chart) has been developed under the authority of 1968 Public Act (PA) 2. The primary objective of the classification of accounts is to provide a means for the accumulation of financial information which will be uniform for all local units. Secondly, the accounts are provided to facilitate the preparation of prescribed reports. Thirdly, the Chart follows generally accepted accounting principles (GAAP) and Michigan law.

The Chart provides a systematic arrangement of accounts to be used in recording financial transactions of Michigan local units. Adherence to this classification of accounts will assure

responsible local officials and the general public that similar transactions are recorded in the same manner, not only within a local unit, but also among all the local units. The Chart prescribed is designed to serve basic legislative, budgetary and accounting objectives. No single local unit of government will use all of the funds, activities, and accounts contained in the Chart. Smaller local units will use only a few, but when one is used, it will be for the same purpose by each local unit using it.

Some governmental units may choose to implement a chart of accounts that is more complex than this Chart, or with slightly different numbering (use of additional digits, etc.). This is acceptable as long as the basic structure of the accounts is retained.

Compliance with Local Government Financial Services Division guidance – Nothing came to my attention that caused me to believe that the local unit failed to comply with guidance issued by the Local Government Financial Services Division (e.g., Uniform Reporting Format, Accounting Manual, Audit Manual, Budget Manual, Numbered Letters, MCGAA Statements). If nothing came to your attention, mark yes. Answer "Yes" if the local unit is compliant with various guidance from the Local Government Financial Services Division and the Department of Treasury. Examples of the guidance mentioned above would include the Uniform Reporting Format and various accounting manuals and Numbered Letters. Links have been provided to offer further information on the [Uniform Reporting Format](#), [Accounting Manual](#), [Audit Manual](#), [Budget Manual](#) (other than budget variances which are reported elsewhere on this form), and [Numbered Letters](#). Other Treasury guidance can be found at www.michigan.gov/treasury.

STATUTORY

Charters and Ordinances – Nothing came to my attention that caused me to believe that the local unit failed to comply with charters or ordinances. If nothing came to your attention, mark yes.

Indicate whether the local unit has been compliant with their charter and other ordinances. If they have not been compliant, please include the section of the charter or ordinance which the local unit has violated.

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

Judgment Levy/Bond – Does the local unit have a court ordered judgment tax levy or judgment bond? Indicate whether the local unit has a court ordered judgment tax levy or judgment bond. If they have either of the above, please specify the length of the levy. Judgment bonds are similar to conventional municipal bonds and are likewise the result of a court decision; they become a form of local government debt issued to finance the decision. Financing of the principal and interest associated with the bond is through a property tax levy spread over several years. This is a symptom of financial distress and should, therefore, be noted in the Auditing Procedures Report.

Tax Revenues Collected – Has the local unit distributed tax revenues that were collected for another taxing unit timely as required by the General Property Tax Act? Local units that have collected tax revenues for another taxing jurisdiction must distribute the collections in accordance with MCL 211.43 (Section 43(3) of the General Property Tax Act, 1893 PA 206, as amended).

If there is a violation, it should be communicated in writing to those charged with governance and be included in the “Stewardship, Compliance, and Accountability” section of the notes to the financial statements as well as a report of deficiencies.

Pension Actuarially Determined Contribution – Has the current year pension actuarially determined contribution been paid by the unit required by the Constitution 1963 Article 9, § 24? Indicate whether the local unit has paid the current year pension actuarially determined contribution.

Expenditures – Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the manual for Audits of Local Units of Government in Michigan, as revised? Illegal or unauthorized expenditures are defined in the Audits of Local Units of Government in Michigan manual (Appendix H). Examples follow:

- Contributions to churches, veterans, nonprofit organizations;
- Payment of funeral expenses for a person injured on government property;

- Donations to a private ambulance or EMS service not under contract with the governmental unit;
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters;
- Donations to community organizations;
- Expenses for private road construction or maintenance;
- Office refreshments, picnics;
- Gifts to officials and employees or retirement recognition events;
- Flowers to the sick or departed;
- Mileage of officials and employees to and from their residence to the city, township, or village hall, county building, or meeting rooms;
- Per diem compensation to township supervisor, clerk, and treasurer on a salary basis for attending township board meetings. (Check City and Village Charters for their compensation procedures or restrictions);
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized within statutory procedures for an increase in salary; and
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

Fraud or Embezzlement – Is the unit free of indications of fraud or illegal acts that came to your attention during the course of the audit that have not been previously communicated to the Local Government Financial Services Division? Indications of fraud, embezzlement, or illegal acts, which came to the auditor’s attention during the course of an audit should be reported to the Local Government Financial Services Division, are:

- Defalcation--To misuse funds; embezzle;
- Fraud--A deception deliberately practiced in order to secure unfair or unlawful gain. Fraud is distinguished from general errors

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

by intent. Two primary types that should be considered are misappropriation of assets (e.g., taking cash) and fraudulent financial reporting;

- Embezzlement--Taking assets (e.g., money) for one's own use in violation of a trust; and
- Illegal Acts--Are acts committed by officials working in their capacity as agents of the local unit which are contrary to federal, state, or local laws, regulations, and/or ordinances that would not necessarily benefit them personally.

All instances of fraud, embezzlement, or illegal acts should be reported to the Michigan Department of Treasury. If a previous report (oral or written) has not been submitted to our office, the local unit or independent certified public accountant (CPA) should contact our office at 517-373-3227. Please also state whether law enforcement has been notified.

The CPA is only required to report on those instances that came to his/her attention during the normal course of the audit activities. Codification of Statements on Auditing Standards AU 240 may be used as guidance, but should not limit the reporting of all instances of fraud, embezzlement, or illegal acts.

BORROWING/DEBT/DEFICIT

Deficits – Does the local unit have a negative fund balance in any of its unrestricted (unassigned, assigned, and committed) fund balances/unrestricted fund net position (not government-wide statements)? Mark “No” if there are zero or positive balances in all of the local unit’s unassigned fund balances / unrestricted net position, PA 140 of 1971. If the answer is “Yes,” the corresponding form is not the required deficit elimination plan and is only for informational purposes.

Note: 1971 PA 140, the Glenn Steil State Revenue Sharing Act; Attorney General Opinion #6154; and 2001 PA 34, the Revised Municipal Finance Act, require each local unit of government, which ends a fiscal year with a deficit in any of its funds to file a deficit elimination plan with the Department of Treasury.

This includes any fund in the audit including component units, but excludes joint ventures, jointly governed organizations, etc., that are not being audited.

The independent auditor should report the following noncompliance matters:

- a) All fund deficits are to be disclosed in the basic financial statements or notes thereto.
- b) Deficits in each individual fund (not fund type) are to be considered when applying this section. Materiality should not be a determining factor in deciding which fund deficits are to be disclosed;
- c) If a fund deficit or surplus arises because of a change in generally accepted accounting principles, an appropriate note disclosure(s) should be made; and
- d) In addition to the disclosures required above, the CPA should make appropriate comments on these noncompliance areas and recommendations for proper compliance by the local governmental unit.

Please see Numbered Letter 2016-1 for further information on how to identify a deficit.

Revised Municipal Finance Act – Is the local unit in compliance with 2001 PA 34, the Revised Municipal Finance Act? Select whether the local unit has been compliant with the Revised Municipal Finance Act. This act addresses topics related to the borrowing of money and the issuance of certain debt and securities by local units. This act also details the prescribed penalties for units that are not compliant. Section 303 provides the compliance requirements to issue municipal securities. Some of which include: the most recent audit report that was issued within the 6 month deadline, the municipality is not currently exceeding its statutory debt limits, the municipality was not in violation of any of the provisions in the covenants for an outstanding security, etc.

Municipal Finance Act and Emergency Municipal Loan Act – Is the local unit in compliance with orders issued under 1980 PA 243, Emergency Municipal Loan Act? Examples of violations may include, but are not limited to, the following:

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

- a) Improper handling or use of restricted/debt retirement funds:
 - Commingling of debt retirement funds;
 - Interfund borrowing from debt retirement funds;
 - After a tax supported municipal security is paid off, the transfer of excess debt retirement funds to the municipality's operating fund if other limited or unlimited tax supported municipal securities are outstanding;
- b) Loans obtained by the municipality without statutory authority or applicable Treasury approval (general characterizations such as "note payable" will warrant further review because it is not clear whether there is proper statutory authority and whether Treasury approval may be required);
- c) If evident or otherwise determined, non-compliance with any qualifying criteria found in Section 303 (3) of the Revised Municipal Finance Act, 2001 PA 34;
- d) Failure to fund reserve accounts;
- e) Failure to set aside money as required by a Tax Anticipation Note or State Revenue Sharing Notes;
- f) Use of debt service money for other than debt service payments;
- g) Excess tax levies for debt service purposes; and/or
- h) Transfer of excess debt funds to the local unit's operating funds.

BUDGET

Budget – Did the local unit adopt a budget for all required funds? The local unit must adopt a budget for all required funds.

The legislative body of each local unit shall pass a general appropriations act for General and Special Revenue funds.

Public Hearing – Was a public hearing on the budget held in accordance with State statute? Before final passage of a general appropriations act (budget) by the legislative body, a public

hearing shall be held as required by MCL 42.26, MCL 42.27, MCL 45.556, MCL 124.410, MCL 141.412 through MCL 415, and MCL 15.261 through MCL 275.

Line-Item Budget Deficits – Were the local unit's actual expenditures within the amounts authorized in the budget? 1968 PA 2, the Uniform Budgeting and Accounting Act, requires that a deviation from the original general appropriations act shall not be made without amending the budget. The amendment must be approved by the legislative body prior to the expenditure being made. There is no authority to amend the budget after year end. See the Michigan Department of Treasury's Uniform Budget Manual for more information.

The questions related to whether the local unit's expenditures exceeded the corresponding budget attempt to filter out smaller deviations and are based on the legal level of budgetary control (activity level being the largest allowed). The questions are dynamic, meaning that depending on how they are answered, additional questions are asked. First, were there *any* deviations from the budget? If yes, were any of these large amounts? In other words, were any negative deviations at the legal level of budgetary control greater than 10% of the *total* expenditures? If yes, then was the deviation itself larger than 10% of that line (level of budgetary control – usually activity level)?

INTERNAL CONTROLS

Board/Council Approval – Has the board or council approved all disbursements prior to payment as required by charter or statute? The board or council must approve all disbursements prior to payment.

All disbursements must be approved by the legislative body prior to issuance unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval. The CPA is only required to report on those that came to his or her attention during the normal course of the audit activities. All

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

invoices of the local unit are not expected to be examined by the CPA.

Deposits/Investments – Do all deposits / investments comply with statutory requirements including the adoption of an investment policy? A local unit cannot hold deposits/investments which do not comply with statutory requirements, 1943 PA 20, MCL 129.91; or 1982 PA 55, MCL 38.1132.

If there is a violation, it should be communicated in writing to those charged with governance and be included in the “Cash Deposits and/or Investments” section of the notes to the financial statements.

Note: Violations of local governmental unit charters or ordinances may spell out legal funding requirements. Any violations of these requirements must be disclosed. Amendments to 1943 PA 20, MCL 129.91 require the governmental unit’s legislative body to formally approve an investment policy to conform to this act.

Bank Reconciliations – To your knowledge, were the bank reconciliations performed timely? Bank reconciliations should be performed timely (approximately six weeks subsequent to month end).

All cash accounts should be reconciled to their respective bank statements monthly. An individual not responsible for the actual physical handling of the cash should reconcile bank statements to the general ledger and prepare monthly financial statements.

Any financial institutions used as depositories must be approved by the governing body in accordance with their investment policy.

Other reported deficiencies – Are there any reported deficiencies other than segregation of duties and/or the preparation of financial statements? Any communication with management (oral or written) that is related to internal controls or statutory noncompliance would constitute a deviation regardless of whether they would be classified as material weaknesses, significant deficiencies, control deficiencies, substantial and legal noncompliance, recommendations, or other classifications.

Were there any reported deficiencies including those that would be related to internal controls, statutory compliance, or other areas of concern?

A written report of the comments should be uploaded to the Department’s web site. This may mean one must extract the items from the existing report or merely attach the separate report if available. In either scenario, a separate file rather than the audit is needed.

Number of Deficiencies

Please include the count of all deficiencies, including those related to segregation of duties and/or the preparation of financial statements.

FINANCIAL STATEMENTS

Data Input (applicable to all types of local units of government).

General (or primary) fund revenues, expenditures, and other financing sources (uses) should come from the “Statement of Revenues, Expenditures, and Changes in Fund Balance/Net Position” (or Income Statement).

General (or primary) fund balance should also be obtained from the “Statement of Revenues, Expenditures, and Changes in Fund Balance/Net Position” (or Income Statement).

The governmental, business type, and component unit total net position should be obtained from the government-wide “Statement of Net Position.”

Governmental long-term debt is the total year-end amount of all long-term liabilities including, but not limited to, both long-term debt (such as bonds, notes, and loans) and all other long-term liabilities (such as compensated absences, leases payable, and claims and judgments). Only pension and OPEB liabilities are excluded. For these purposes, this amount also includes both the amounts due in more than one year and the portion due within one year. Only governmental activities are included; business-type activities and discretely presented component units are excluded.

Instructions for Michigan Form 496 Auditing Procedures Report (APR)

Major Fund Deficit Amount (primary fund for stand-alone, single-fund audits) should be the accumulated amount of all unrestricted Major Fund deficits including the General (primary) fund and should be entered as a positive number.

Attached Communication. Have all applicable attachments been uploaded? If there is a negative fund balance in any fund, a Deficit Elimination worksheet must be completed and submitted. If the local unit has not complied with GAAP, an exception letter must be attached that describes the deviations from generally accepted accounting principles. If there are indications of fraud or illegal acts by the local unit and a forensic audit has been produced, that report should be attached. The audit report must be included with the APR filing within 6 months after fiscal year-end. If there is any other information that you believe would be important for the Department to know, please attach these documents as well.

CPA Information. Please provide the name of the individual CPA responsible for the audit and the required individual's 10-digit numeric State Board license. This number begins with 1101. Do not use the firm number.

Include the email address for the Local Unit's primary contact, not the email address of the auditor.