

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|---|--------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | County |
| Fiscal Year End | Opinion Date | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

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.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
|--|--------------------------|--|-------|----------------|
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature  | | Printed Name | | License Number |

Instructions for Completing Form 496, *Auditing Procedures Report*

GENERAL INSTRUCTIONS

Local Unit Identification

Unit Type-Check the Unit Type that applies to your local unit. This form is not applicable to schools.

Local Unit-Enter the name of the local unit and the county in which the unit is located.

Fiscal Year End-Enter the month, day and year of your fiscal year end.

Opinion Date-Enter the date that the opinion was issued.

Audit Report Date-Enter the date that the audit report was submitted to the Department of Treasury.

LINE BY LINE INSTRUCTIONS

Check the applicable “yes/no” box for each statement.

Line 1. Component Units, Funds, and Agencies.

Check “yes” if all required component units, funds, and agencies 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, Fund or Agency, see the Michigan Committee on Governmental Accounting and Auditing (MCGAA) Statement No. 4.

Additional examples of blended and discretely presented component units are in the Uniform Reporting Format, after the adoption of Governmental Accounting Standards Board (GASB) 34, pages 48-51.

Both may be found on Treasury’s website at www.michigan.gov/treasury

Line 2. Deficits. Check “yes” if there are no accumulated deficits in one or more of this local unit’s unreserved fund balances/unrestricted net assets (Public Act (PA) 275 of 1980) and has not exceeded its budget for expenditures.

Informational Note: Both PA 140 of 1971, the Glenn Steil State Revenue Sharing Act, as amended, and PA 34 of 2001, the Revised Municipal Finance Act, as amended, require each local unit of government, which ends a fiscal year with a deficit in any of its funds to file a corrective financial plan with the Department of Treasury. PA 2 of 1968, the Uniform Budgeting and Accounting Act, as amended, requires that a deviation from the original general appropriations act shall not be made without amending the general appropriations act. When necessary, the budget must be amended. 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.

While the statement asks two questions, either part would be relevant. The statement includes any fund in the audit including component units, but excludes joint ventures, jointly governed organizations, etc., that are not being audited. In relation to deficits, we are only interested in the fund financial statements and not the government-wide statements.

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.
- d) In addition to the disclosures required above, the independent certified public accountant (CPA) should make appropriate comments on these noncompliance areas and recommendations for proper compliance by the local governmental unit.
- e) All amounts where expenditures exceeded its budget.

Line 3. Uniform Chart of Accounts. The Uniform Chart of Accounts for Counties and Local Units of Government in Michigan (Chart) has been developed under the authority of PA 2 of 1968. 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 of Accounts 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 is retained.

Line 4. Budget. 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 all funds except trust or agency, internal service, enterprise, debt service or capital project funds.

Line 5. Public Hearing. Before final passage of a general appropriations act (budget) by the legislative body, a public hearing shall be held as required by Michigan Compiled Laws (MCL) 42.26, 42.27, 45.556, 124.410, 141.412 - .415, and the Open Meetings Act, MCL 15.261 - .275.

Line 6. Municipal Finance Act. Examples of violations may include, but are not limited to, the following:

- 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, PA 34 of 2001, as amended.

Line 7. Tax Revenues Collected. Local units that have collected tax revenues for another taxing unit must distribute the collection in accordance with MCL 211.43 (Section 43(3) of the General Property Tax Act, PA 206 of 1893, as amended).

If there is a violation, it should be addressed in the management letter (comments and recommendations) and the "legal section" of the notes to the financial statements.

According to the Bulletin for Audits of Local Units of Government Appendix B, Noncompliance on Delinquent Distribution of Tax Collections (MCL 211.43), failure to meet the following schedule for distribution of tax collections constitutes a delinquent distribution:

- a) Units with State Equalized Value (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
 - 4) The local unit may enter into an agreement with tax assessing units to establish an alternative schedule for delivering tax collections.
- b) Units of SEV of \$15,000,000 or **less**:
 - 1) Within 10 business days after January 10, account for and deliver tax collections (on hand) through January 10. 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.

Line 8. Deposits/Investments. A local unit cannot hold deposits/investments which do not comply with statutory requirements. (PA 20 of 1943, as amended [MCL 129.91], or PA 55 of 1982, as amended [MCL 38.1132]).

If there is a violation, it should be addressed in the management letter (comments and recommendations) and the “Deposits and Investments” section of the notes to the financial statements.

Informational 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 PA 20 of 1943 (MCL 129.91) require the governmental unit’s legislative body to formally approve an investment policy to conform to this act.

Line 9. Expenditures. Illegal or unauthorized expenditures are defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (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.
- Presents 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.

- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

Line 10. Fraud or Embezzlement. 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 Audit and Finance Division.

- Defalcation-To misuse funds; embezzle.
- Fraud-A deception deliberately practiced in order to secure unfair or unlawful gain. Fraud is distinguished from general errors by intent. Two primary types that should be considered are misappropriation of assets (e.g., taking cash) and fraudulent financial reporting. See Statements on Auditing Standards (SAS) 99 for further information.
- Embezzlement-Taking (money, for example) for one’s own use in violation of a trust.
- 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, and 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 the CPA) should submit a separate report at the time of filing which will not be posted on the website with the audit.

The CPA is only required to report on those instances that came to his/her attention during the normal course of the audit activities. SAS 99 may be used as guidance, but should not limit the reporting of all instances of fraud, embezzlement, or illegal acts.

Line 11. Comments and Recommendations.

Any comments and recommendations (oral or written) that has not been rectified from previous years would constitute a deviation regardless of whether they would be classified as material weaknesses, reportable conditions, significant deficiencies, substantial, legal noncompliance, or other classifications.

A written report of the repeated comments should accompany the audit report (management letter).

Line 12. Audit Opinion. Check “no” if the audit opinion is other than unqualified.

It is assumed that if the report is not unqualified, that it is either qualified, a disclaimer, or an adverse opinion. Any of these would be reason for further review by the Department of Treasury.

Line 13. GASB 34. The unit must adopt GASB 34 or GASB 34 as modified by MCGAA Statement No. 7, and other generally accepted accounting principles (GAAP).

The Michigan Department of Treasury is charged with administering auditing and accounting guidelines that “conform as nearly as practicable” to national standards. The only deviation from those standards that has been issued as guidance is illustrated in the MCGAA Statement No. 7, Basic Financial Statements for Counties and Local Governments in Michigan. This exception would normally change the auditor’s opinion.

Line 14. Board/Council Approval. The board or council must approve all invoices prior to payment.

All disbursements must be approved by the legislative body prior to disbursement 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/her attention during the normal course of the audit activities. All invoices of the local unit are not expected to be examined.

Line 15. Bank Reconciliations. 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 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.

A “local unit of government” is defined for purposes of MCL 141.425 as a city, a village, or a township or an authority or a 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.

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

Certification

Check the respective column to indicate that the Financial Statements and the letter of Comments and Recommendations have been filed or include a brief justification as why it will not be filed.

Include the Firm name, telephone number and address where indicated.

Not only is the accounting firm name required, but also include the name of the individual CPA responsible for the audit. Along with the name of the individual, please include the State Board license number for the individual as well.