

Legislative Analysis



REVISE UNIFORM SYSTEM OF ACCOUNTING AND REPORTING FOR COUNTY GOVERNMENT

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 6385

Sponsor: Rep. Richard Ball

Committee: Intergovernmental, Urban, and Regional Affairs

Complete to 9-9-08

A SUMMARY OF HOUSE BILL 6385 AS INTRODUCED 8-20-08

House Bill 6385 would amend Public Act 71 of 1919, which establishes a uniform system of accounting and reporting for county governments, to revise the system of financial auditing for counties. Among other things, the bill would require a county to obtain an annual audit of its financial records, accounts, and procedures, and allows county officials to retain a certified public accountant to do so. If a county failed to provide an audit, the state treasurer would either conduct the audit or appoint a CPA to perform one. The entire cost of the audit would be borne by the county.

(Reportedly, the bill would establish in law the current practice in which the counties themselves have their audits conducted on an annual basis. The statute would be updated to reflect this practice.)

Currently under the statute, each county must make an annual financial report, uniform for all accounts, with the state treasurer. The substance of these reports must be published by the state treasurer (at the expense of the state) in an annual volume of comparative statistics, and a copy is distributed to each member of the legislature, and each county office, while 200 copies are reserved for general distribution. House Bill 6385 would retain the requirement that each county make an annual financial report to the state treasurer, but would eliminate the requirement that those reports be published in an annual volume of comparative statistics.

Under the current law, the state treasurer is the supervisor of the accounts of all county offices, and can examine their books, accounts, and financial affairs. The law states that any examination must be made at least once in each year, or as often as the state treasurer considers it to be for the public good. The law allows the state treasurer to employ auditors, examiners, and assistants whose compensation and reimbursement for travel are subject to the approval of the State Administrative Board, and paid from a fund set up by the state treasurer for that purpose. House Bill 6385 would retain the provision that the state treasurer is the supervisor of the accounts of all county offices, but eliminate the additional provisions described above.

Instead, House Bill 6385 requires a county to obtain an annual audit of its financial records, accounts, and procedures, and allows county officials to retain a certified public accountant to do so. If a county fails to provide an audit, the state treasurer would be

required either to conduct the audit or to appoint a CPA to perform one. The entire cost of the audit would be borne by the county.

Under the bill, the state treasurer would set minimum auditing procedures and standards, conforming with the generally accepted auditing standards and procedures established by the American Institute of Certified Public Accountants. A copy of every audit report would be filed with the state treasurer, and the state treasurer could require that a county's audit report and its report of auditing procedures be filed in a state-approved electronic format. A copy of an audit and the auditing procedures report would have to be filed by county officials within six months after the end of the fiscal year for which an audit had been performed. (An extension of this deadline could be requested for reasonable cause. The chief county official who requested an extension must, within 10 days of making that request, inform the county's governing body in writing.)

The bill requires that every audit report contain all of the following:

- Assurance that the audit had been conducted in accord with generally accepted auditing standards, and with the standards prescribed by the state treasurer.
- Assurance that the financial statements had been prepared in accord with generally accepted accounting principles, and with the applicable rules and regulations of any state department or agency (describing in detail any deviation from those principles, rules, or regulations).
- Disclosure of all deviations by the county from generally accepted accounting practices, or from state rules and regulations.
- Disclosure of fiscal irregularities, including any defalcations (that is, embezzlement), misfeasance, nonfeasance, or malfeasance that came to the auditor's attention.

The bill specifies that a financial audit performed by a CPA in a manner consistent with auditing procedures and standards established by the state treasurer would constitute an audit by competent state authority for purposes of Section 21 of Article IX of the State Constitution. (This section requires accounting for all public moneys, state and local.)

MCL 21.44 and 21.45

FISCAL IMPACT:

House Bill 6385 would have minimal fiscal impact on the State of Michigan and county governments. The bill would eliminate the statutory language that the State Treasurer has the responsibility to conduct financial audits of the counties and may employ auditors and examiners to do so. The bill would establish in law the current practice in which the counties themselves have their audits conducted on an annual basis. Under the bill's provisions, the Treasurer would only conduct an audit if a county does not provide for one.

Because the State of Michigan is not currently conducting these audits, there is no significant fiscal impact to the State of Michigan. For similar reasons, since counties are financing the annual audits currently, this bill's requirement that they continue this financing would have a minimal fiscal impact to counties as well.

Legislative Analyst: J. Hunault
Fiscal Analyst: Viola Bay Wild

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.