Legislative Analysis

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REVISE COUNTY UNIFORM SYSTEM OF ACCOUNTING

House Bill 4184 as introduced
Sponsor: Rep. Richard Ball
Committee: Intergovernmental and Regional Affairs

First Analysis (4-28-09)

BRIEF SUMMARY: The bill would establish in statute the current practice in which the counties themselves have their audits conducted on an annual basis; in other words, the statute would be updated to reflect current practice. Among other things, the bill would require a county to obtain an annual audit of its financial records, accounts, and procedures, and allow 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 counties.

FISCAL IMPACT: House Bill 4184 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 State 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.

THE APPARENT PROBLEM:

Each of Michigan's 83 Counties currently undergoes an annual financial audit, performed by a certified public accountant. The results of the audits are posted on-line at the Department of Treasury website. See Background Information.

In 76 counties, those audits are conducted locally. Seven counties contract with the Department of Treasury to perform their audits, although the department bids out the work to local CPAs. The cost of the counties' audits is borne entirely by the counties.

In its February 2004 audit of the Treasury Department's Bureau of Local Government, the Auditor General pointed out that Section 5 of Public Act 71 of 1919 requires the Department of Treasury to conduct financial audits of counties each year. Further, Section 21 of Article 9 of the Michigan Constitution requires that counties be audited by a "competent state authority."

The Department of Treasury notes that the legislature does not appropriate funds to hire accountants who undertake county audits—at a cost estimated to be $3 million annually. In addition, county officials have long undertaken their own audits.

To eliminate the discrepancy between existing law and current practice, legislation has been introduced that would define the term "competent state authority" to include the financial audits of counties performed by certified public accountants.

THE CONTENT OF THE BILL:

House Bill 4184 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.

(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 4184 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 4184 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 4184 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

BACKGROUND INFORMATION:

To view the counties' annual audits, visit http://www.michigan.gov/treasury. Select Local Government Services from the menu at the left. Then select Local Unit Audit Reports, also located on the menu at the left side of the page. The audits are available in PDF format.

ARGUMENTS:

For:

This bill would update the statute, to establish in law the current practice in which the counties themselves have their audits conducted on an annual basis.

Now each of Michigan's 83 counties completes an annual audit of its financial operations, and files that report with the state. The audits follow minimum auditing procedures and standards, set by the state treasurer, and conforming to the generally accepted auditing standards and procedures established by the American Institute of Certified Public Accountants.

Against:

Although this is a good bill, it should be amended to require counties to also follow the guidelines of the Governmental Accounting Standards Board (sometimes called "GASBEE") when their financial audits are undertaken. According to committee testimony, GASB standards are currently the norm for local government audits, and must be met, for example, when counties tally their financial liability if they offer retirees health insurance.

POSITIONS:

The Department of Treasury supports the bill. (4-28-09)

The Michigan Association of Counties is neutral on the bill. (4-28-09)

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■ 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.