

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

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**ACCOUNTING PROCEDURES
MANUAL FOR LOCAL UNITS OF
GOVERNMENT
IN MICHIGAN**

July 2007

**Local Audit and Finance Division
Bureau of Local Government Services**

**ACCOUNTING PROCEDURES MANUAL FOR LOCAL UNITS OF GOVERNMENT
IN MICHIGAN**

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INTRODUCTION

Purpose: The purpose of this manual is to assist local government officials in applying accounting procedures in their local unit of government. This manual has been developed under the authority of Public Act 2 of 1968, as amended; and Public Act 71 of 1919, as amended. Both require the State Treasurer to develop uniform accounting procedures to be followed by all local units of government.

In order to make this manual as useful as possible, the guidance in each chapter is divided into three sections: **General Concept Statements, Required Procedures, and Best Practices**. The General Concept Statements are the general principles or goals that should be attained in each section. The Required Procedures section identifies procedures that the Michigan Department of Treasury requires all local units to follow. The Best Practices section communicates beneficial procedures and other practices that we strongly encourage each local unit to put into place.

Any questions on this manual should be addressed to:

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Local Audit and Finance Division
P.O. Box 30728
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(517) 373-3227

Persons who are deaf, hard of hearing, or have a speech impairment may call (517) 636-4999 (TTY) or through Michigan Relay Center by dialing 711 or 1-800-649-3777.

Scope: This manual applies to all local units of government in Michigan, including:

- Counties
- Townships
- Cities
- Villages
- Public Libraries
- Any legal entity created by any of the above entities (such as Downtown Development Authorities, etc.)
- Jointly governed units created by any of the above entities
- Courts

This manual does not apply to the State of Michigan itself, school districts, or institutions of higher learning.

Some information contained in this document constitutes an interpretation of one or more statutes administered by the Bureau of Local Government Services and not legal advice upon which a user may place reliance. The contents of this document do not supersede the law.

INTRODUCTION

Other State Guidance: The Michigan Department of Treasury has issued a significant amount of additional guidance for local units of government related to budgeting, debt financing, and financial reporting. This guidance can be found at the Treasury's website at www.michigan.gov/treasury.

Required Basic Accounting Records or computerized equivalent: Every county and local unit of government in Michigan, from the smallest to the largest, must establish and maintain the following basic accounting records:

- The Uniform Chart of Accounts
- Controlled numbered official receipts
- Controlled numbered official checks
- A detailed receipt journal
- A detailed disbursement journal
- A general ledger

The minimum requirements are discussed in detail in the various chapters of this manual.

The basic accounting records of the local unit will be based on the Uniform Chart of Accounts. All local units in Michigan are required to use the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan, which was developed under the authority of Public Act 2 of 1968, as amended (MCL 141.421); and Public Act 71 of 1919, as amended (MCL 21.41). The primary objective of this classification of accounts is to provide a means for the accumulation of financial information which will be uniform for all local units of government. The Uniform Chart of Accounts is provided to facilitate the preparation of prescribed reports (such as the F-65 report) and also follows Generally Accepted Accounting Principles in the U.S. and Michigan law.

The classification provides a systematic arrangement of accounts to be used in recording financial transactions of local units of government in Michigan. A strict adherence to this classification of accounts will assure responsible local officials and the general public that similar transactions are recorded in the same manner within all local units.

The Uniform Chart of Accounts is available on Treasury's website under Local Government/Accounting Information. Additional information may be found in the appendix at the end of this manual relating to basic accounting records and their relationship to supporting documentation.

Some information contained in this document constitutes an interpretation of one or more statutes administered by the Bureau of Local Government Services and not legal advice upon which a user may place reliance. The contents of this document do not supercede the law.

CHAPTER 1--INTERNAL CONTROL

General Concept Statements

- Attempt to segregate the duties of custody, authorization, and recordkeeping;
- Keep in mind the costs of segregating duties relative to the benefit (in other words, if you have to hire a new employee in order to segregate a duty, the cost may outweigh the benefit).

Required Procedures

See each individual chapters' Required Procedures

Best Practices

Internal controls are the policies and procedures by which you maintain your financial records and engage in financial transactions on a daily basis. Simply put, internal control consists of all the measures taken by the local government for the purpose of:

- Protecting resources against waste, misappropriation, and inefficiency;
- Ensuring accuracy, timeliness, and reliability in accounting and operating data;
- Maintaining compliance with applicable laws and regulations (local, State, and Federal);
- Evaluating the level of performance of departments and personnel.

Examples of internal control include job descriptions, purchasing procedures, reconciliation of bank accounts, etc. Safeguarding cash and other assets of the local government and ensuring that funds are expended properly take on greater significance in the public sector. Under law, elected and appointed officials have both the authority and the responsibility to manage the resources for the greater public good.

Internal control is a continuum and there is no objective method to measure “adequate” internal control. State law requires an audit annually for local units over 4,000 in population; biennially for local units under 4,000 in population, Michigan Compiled Laws (MCL) 141.425. An audit requires the external auditor to perform a study and evaluate internal control, and it also requires the auditor to report any significant deficiencies to the governing body. The Department of Treasury expects any reportable conditions to be addressed by the local unit by either correcting the deficiency or documenting why it is in disagreement.

This section discusses internal control in general. Specific internal control procedures that are required by the State (such as reconciliation procedures, receipting procedures, and disbursing procedures) are included in separate chapters.

CHAPTER 1--INTERNAL CONTROL

A good guide on internal control for local units of government is the *Standards for Internal Control in the Federal Government*, November 1999, issued by the Federal Government Accountability Office (GAO) (Green Book) found at www.gao.gov which is based on the publication *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

An accounting system is designed to assemble, analyze, classify, record, and report financial data. In performing these functions, an accounting system also must maintain adequate control over a local unit of government's assets. An accounting system is only as reliable as the underlying data it processes. A local unit of government's internal control framework must provide assurance that the accounting system and its underlying data are reliable. An accounting system must also facilitate maintenance of internal control.

In evaluating its internal control system, each local unit should understand the five interrelated components that work together to protect public funds and ensure accuracy in the reporting of financial transactions. Each component needs to be present in an effective and efficient system of internal control.

- Control Environment--The control environment, as established by the elected officials and administration, sets the tone of the organization and influences how the employees within the organization go about their daily tasks. Control environment factors include:
 - The integrity, ethical values, and competency of all elected officials and employees;
 - Leadership philosophy and operating style;
 - The way management assigns authority and responsibility;
 - The way management organizes and develops its people.

All of the above factors combine to set an expected level of behavior for all your employees.

- Risk Assessment--Risk assessment is the identification and analysis of risks, both internal and external, that would prevent the government's objectives from being achieved. The risk analysis forms a basis for determining how risks can be managed effectively and efficiently. The risk assessment process is ongoing and evolving as employees, economic factors, elected officials, budgets, and technology changes. Mechanisms are needed to identify and respond to changing conditions;
- Control Activities--Control activities are the specific policies and procedures that ensure management directives are carried out. Control activities exist throughout the organization, at all levels, and in all departments. Such items include approvals, authorizations, statutory duties, verifications, reconciliations, security of assets, and segregation of duties;

CHAPTER 1--INTERNAL CONTROL

- Information and Communication--Information pertinent to the internal control system and the financial information must be identified, captured, and communicated in a form and manner that enables people to carry out their responsibilities. Information systems produce timely and accurate reports containing operation, financial, and compliance related information that make it possible to run and control the organization. All personnel must receive clear communication from management that their responsibilities will be taken seriously. They must understand their role in the internal control system and how their daily activities assists the organization in meeting its objectives;
- Monitoring--Internal control systems should be monitored. Monitoring is a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of business and includes regular management and supervisory activities and other actions personnel take in performing their duties. Internal control systems change over time and the way controls are applied may evolve. Procedures can become ineffective due to new personnel, the effectiveness of training and supervision, time and resource constraints, and other external pressures. Also, circumstances for which procedures were originally designed may change, making procedures obsolete.

Components of the Control Activity (Checks and Balances)

Internal controls rely on the principle of checks and balances in the workplace. It is in the design and implementation of control activities where internal controls are strengthened or weakened. Control activities include, but are not limited to, the following:

- Duties must be segregated among different people to reduce the risk of errors or misappropriation. No one person should have control over all aspects of the financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. When the work of one employee is checked by another, and when responsibility for the custody of the assets is segregated from the recordkeeping related to that asset, there is an appropriate segregation of duties. Duties must also be designed to be consistent with laws and regulations which may assign certain duties to particular elected officials or management;
- Make sure transactions are authorized by a person with delegated approval authority and that transactions are consistent with policy. Authorization procedures need to include a thorough review of supporting documentation to verify the propriety and validity of transactions. Approval authority should correspond with the nature and significance of the transactions and be in compliance with laws and regulations;
- Personnel needs to be competent and trustworthy with clearly established lines of authority that correlate to statutory or charter requirements. Organization charts should be developed that clearly communicate the lines of authority. Job descriptions should be maintained to ensure that employees are aware of the duties they are expected to perform and where those responsibilities end;

CHAPTER 1--INTERNAL CONTROL

- Provide employees with the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Employees also need to be aware of the proper channels to report suspected improprieties. Employees need to know that every employee has a responsibility for internal control;
- Make sure that policies and operating procedures in every department are written down and communicated to employees. Such documentation provides day to day guidance and will make training easier;
- Make certain that equipment, inventories, cash and other property are secured physically, counted periodically, and compared with control records. Financial records themselves are an important asset to which access should be limited;
- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed;
- Decision makers need to be provided with timely and accurate financial information to make budgetary and resource allocation decisions. If someone is to be held accountable for a certain responsibility, be sure to give them the necessary authority to complete that task. This will require that separate departments work together to achieve objectives for the local unit as a whole;
- Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Segregation of Duties

The functions of authorizations, recordkeeping, and custody of assets should be segregated where possible. For example, ideally the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation.

CHAPTER 1--INTERNAL CONTROL

Limitations in Internal Controls

The perfect internal control system does not exist. Staffing limitations can hamper establishing the necessary segregation of duties, especially for small units in a period of shrinking budgets. The potential for human error is always present and can be limited, but never eliminated. There will always be those that will specifically try to circumvent the system to their benefit regardless of the sufficiency of the internal control. Collusion between employees, elected officials, vendors, and other third parties can bypass an appropriately designed segregation of duties. Internal control needs to be designed to reduce the risks associated with undetected errors or misappropriation to a manageable level without making day to day operations inefficient and cumbersome. The cost of implementing a specific control should not exceed the expected benefit of the control. In analyzing the pertinent costs and benefits, management must consider the possible ramifications for the local unit, as a whole, and attempt to identify and weigh the intangible as well as tangible consequences.

The Government Finance Officers' Association (GFOA) has developed a series of suggested practices in the functional areas of cash management to give GFOA members and other state and local governments more guidance on sound financial management practices. A cash management link can be found under "Recommended Practices by Category" on the GFOA website: <http://www.gfoa.org/services/rp/index.shtml>

The GFOA website contains useful guidance in many areas including:

GFOA's *Documentation of Accounting Policies and Procedures*
<http://www.gfoa.org/services/rp/caafr/caafr-doc-accounting.pdf>

GFOA's *Enhancing Management Involvement with Internal Control*
<http://www.gfoa.org/services/rp/documents/rpic040204.pdf>

GFOA's *Establishment of an Internal Audit Function*
<http://www.gfoa.org/services/rp/documents/internalauditfunction.pdf>

CHAPTER 2--FINANCIAL POLICIES

General Concept Statements

- Adopt all policies required by statute (investment policy, credit card, ACH, etc.).
- Adopt other policies that will allow the governing body to exercise appropriate controls.

Required Procedures

The Investment of Surplus Funds of Political Subdivision Act, an investment policy required by Public Act 20 of 1943, as amended, addresses investment objectives, scope, diversity, delegation of authority, allowable instruments, safekeeping and custody, and prudence. For more information, refer to the Department of Treasury's website at: www.michigan.gov/treasury under Local Government/Accounting Information/Numbered Letters 1998-3 and 1998-4.

Public Act 266 of 1995 (entitled "Credit Card Transactions") and Public Act 280 of 1995 (entitled "Financial Transaction Device Payments") requires the governing body to approve a policy for the use of credit cards prior to accepting payment by credit card, or using credit cards to purchase goods or services for the official business of the local unit. This also applies to similar types of instruments, such as purchasing cards or procurement cards. Please note the Department of Treasury's Numbered Letters 1996-1 and 1996-2.

Public Act 738 of 2002 (entitled "Electronic Transactions of Public Funds") requires the governing body to approve a policy before making any payments using the ACH (Automated Clearing House) system (wire transfers).

Best Practices

Purchasing Policy

While not required by a specific statute, we suggest each local unit should adopt a purchasing policy. Such a policy should address the following aspects:

- Purpose--In general, the purpose of a purchasing policy is to encourage the efficient purchasing of appropriate goods or services at appropriate prices;
- Authority to Commit the Local Unit--The policy should expressly state which employees have the authority to purchase goods or services;
- Approval Process--The policy should define a process to purchase goods and services. The policy may distinguish between types of purchases (such as intergovernmental purchases, professional services, utilities, or emergency situations) and by dollar threshold. Often, purchase orders are also used to control and keep track of purchase commitments. Based on the types of service and dollar limitations, the policy should direct: (1) when competitiveness must be introduced (documented oral quotes, sealed bid, etc.); and (2) when additional approval is required (department head, supervisor, city manager, or governing body);

CHAPTER 2--FINANCIAL POLICIES

- Circumvention of Dollar Thresholds--The policy should expressly state that separating the work of vendors into smaller invoices is a violation of the dollar threshold rules;
- Grant Requirements--Purchases to be reimbursed from grants are often required to follow additional purchasing requirements, and the purchasing policy should adopt these requirements, at least indirectly (by reference);
- Purchasing Ordinance--It is imperative that the purchasing policy remain consistent with the purchasing ordinance, if one exists;
- Separation of Duties--The policy should separate the duties of ordering, processing for payments and receiving.

Ethics/Conflict of Interest Policy

Each local unit should adopt a policy which generally addresses the following aspects:

- General prohibition against entering into any business relationships that would put an employee or official into conflict with their obligations to the local unit of government;
- Requirement to disclose any personal transactions, in excess of a dollar threshold, entered into with any vendor that also does business with the local unit;
- Disclosure or prohibition of gifts received from vendors in excess of a dollar threshold;
- Explicit expectation that in the performance of their duties, the employee/official will work in the best interest of the local unit;
- An explicit expectation that all information provided will be truthful and complete.

Travel and Expense Reimbursement Policy

These policies may be incorporated into your purchasing policy, or may be stated as a separate policy:

- Authorization for any travel or business expense will be obtained prior to incurring the costs;
- All expenses requested for reimbursement will be substantiated with receipts or other documentation;
- All expenses requested for reimbursement will be for amounts that a reasonable, prudent person would conclude benefits the local unit (An example of the above would be that the approval to use a city-owned cell phone should not be considered an approval to have the local unit pay for personal phone calls).

CHAPTER 2--FINANCIAL POLICIES

Budget Policies

Refer to the Michigan Department of Treasury's "Uniform Budget Manual for Local Units of Government" for a comprehensive discussion of required budget policies. Refer to the Michigan Townships Association, "Building a Better Budget," for best practices.

Government Officers Finance Association (GFOA)

The Government Finance Officers Association (GFOA) has developed a series of suggested practices in the functional areas of public finance to give GFOA members and other state and local governments more guidance on sound financial management practices. Please note the following website:

<http://www.gfoa.org/services/rp/index.shtml>.

Also see the "Best Practices" section of each chapter for applicable GFOA references.

CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

General Concept Statements

- The treasurer must maintain control of all bank accounts (In a home rule city or village, this responsibility may have been designated by the charter to another position);
- Certain deposit accounts must not be commingled (current tax account; bond issues);
- Bank reconciliations must be timely.

Required Procedures

Each local unit must establish and maintain an adequate system of internal control which should include, at a minimum, the following:

Bank Accounts and Deposits

- All deposits are to be made intact. Intact means that the deposit must include the checks and cash received for a specific numerically sequenced receipt group;
- Deposits must be made timely and reconciled to official receipts;
- Deposit tickets (or attached listing) must list checks by name or number, and amount;
- All bank accounts must be in the name of the local governmental unit and the local unit treasurer. Use of the local unit's tax ID number should be strictly controlled by the treasurer;
- Tax collections must be deposited in a separate bank account in the name of the treasurer;
- All bank accounts should have an ending date of the end of each month;
- Bank signature cards should be kept current and the authorized signers limited;
- All financial institutions used as depositories must be approved by the governing body.

All cash and investments by statute must be under the control of the local unit treasurer. No other individual may hold cash of the local unit, or open up a bank account to hold local unit cash or investments (except for home rule cities and villages, if this authority is delegated). The treasurer may delegate this responsibility to others (for instance, at remote locations). Further, this control of cash requirement does not apply to money held by a police or sheriff's department as evidence, or bond money that a police or sheriff's department is collecting as an agent for the district court.

CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

Bank Reconciliations

All cash accounts should be reconciled to their respective bank statements monthly. An authorized individual not responsible for the actual physical handling of the cash should reconcile bank statements to the general ledger when possible. Bank statements and reconciliations must be retained for audit purposes.

Separate Bank Accounts

There are many benefits to pooling bank accounts from different funds together. However, State law and other restrictions require certain cash deposits to be kept in separate bank accounts as listed below:

Common Account--This bank account may include the General Fund and any other fund except those that require separate bank accounts.

Current Tax Collection Account--For real and personal property taxes collected by a township or city treasurer from July 1 through February 28 (county, school and township taxes). Tax administration (collection) fees must be deposited in this account. This account must be reduced to a zero or imprest balance as soon as possible after tax settlement. ([MCL 211.43b](#))

Bond Issues, Debt Fund and Capital Projects Fund--Separate investment and/or bank savings accounts may be required for each bond issue, debt fund and capital projects fund as specified within the specific bond ordinance or resolution:

- A common debt imprest (zero balance) checking account may be used for payment of debt service and a common capital project imprest (zero balance) checking account may be used for payment of construction costs;
- Cash accumulated for repayment of special assessment bonds (i.e., special assessment collections) must be kept in a separate bank account (one account may be used for all special assessment districts);
- Cash accumulated for repayment of unlimited tax general obligation bonds (UTGO), (i.e., residual property tax collections after debt service payments) must be kept in a separate bank account (one account may be used for all UTGO bonds);
- It is important to keep in mind that most bond ordinances also include requirements to keep bond proceeds separate from all other cash and investments. This means that, in general, each construction project funded by municipal bonds would have its own bank account. In addition, most revenue bond ordinances require separate accounts for a bond reserve, as well as several other accounts.

CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

It is important to recognize that separate depository accounts allow the use of one imprest checking account for the payment of bills. In other words, it is an appropriate practice to pay bills out of a common checking account, as long as the transfers from the restricted account into the checking account are only for the exact amounts of checks that are being written and released.

Recordkeeping Responsibilities--The treasurer must keep track of the total cash and investments allocable to each fund, and must reconcile these amounts to each month's bank statements. A listing of all cash and investments, along with a copy of the bank reconciliations, must be provided to the local unit accountant or bookkeeper each month (this would be the clerk in a local unit of government without a separately employed bookkeeper). The accountant or bookkeeper must reconcile the cash and investments recorded in the general ledger to either the treasurer's reconciliation (if it is adequately reconciled to the bank statements) or to the bank statements directly.

All local units are required by MCL 129.91, et seq., to adopt an investment policy that addresses investment objectives, scope, diversity, delegation of authority, allowable instruments, safekeeping and custody, and prudence. This policy must be sent to each financial institution accepting deposits or investments, and they should acknowledge receipt of same. For more information, please refer to the Department of Treasury's website, Numbered Letters 1998-3 and 1998-4.

Best Practices

GFOA's *Maturities of Investments in a Portfolio*

<http://www.gfoa.org/services/rp/cash/cash-maturities-investments.pdf>

CHAPTER 4--CASH RECEIPTING PROCEDURES

General Concept Statements

Procedures must be adopted to ensure that all cash collected will be deposited. These must include:

- Formal evidence must be created for each collection (such as a printed sequentially numbered cash receipt ticket, cash register receipt, etc.) and provided to payors where practicable;
- The system must include controls to ensure that every receipt is to be included in a periodic listing of cash receipts;
- Each bank deposit (evidenced by a bank deposit slip or other documentation) must be in agreement with the cash receipts listing noted above. In order for this to occur, both the deposit slip and the cash receipt listing must begin and end at the same time (e.g. daily, weekly, etc.);
- Currency must be deposited intact. Procedures must ensure that currency (cash and coins) are counted separately from checks or other payment methods, both in the list of cash receipts and in the deposit slip (or other bank deposit support). Total currency collected must be in agreement between these two sources;
- Deposits must be made timely.

Required Procedures

The treasurer is responsible for all cash receipts, unless this authority has been delegated to another official in a home rule city or village. If any employees other than the treasurer (or delegated official) of the local unit receive cash, they must do so with the approval of the treasurer and in accordance with all cash handling policies set forth by same. These other locations must either deposit all cash with the treasurer or deposit it into a bank account controlled by the treasurer. In all circumstances, all money received by the local unit of government should be receipted in the same manner.

There must be a record of each individual cash transaction. This may be accomplished using manually written or computer generated receipts, a cash register receipt, a point of sale cash receipts system, or any other method that results in a written record of each individual receipt. Manually prepared receipts must be printed sequentially numbered official receipts that includes the local unit name and the department name.

CHAPTER 4--CASH RECEIPTING PROCEDURES

Deposits should be made daily. However, in instances where the amount of cash on hand is minimal, deposits may be made less frequently (e.g., weekly), but at least monthly. Undeposited funds should be secured in a locked place such as a safe. Money to be deposited should be counted and reconciled to the summary of cash collections to be sent to the accountant or bookkeeper. If there is a difference, a “cash overage/shortage” account should be used. Never make up the difference from cash in the change drawer.

The change drawer should never be used to cash personal checks. This is a poor internal control that can too easily lead to theft and may be a violation of the State Constitution, Article IX, Section 18, which states, “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.”

The treasurer must provide the accountant or bookkeeper a record of all money received and the purpose of the amounts received (i.e., the budgeted revenue account or the receivable account). This may be done in summary form (e.g., department transmittal advices) or by individual receipt.

Receipts

- Receipt books issued to other departments must be accounted for numerically;
- The use of generic or “dime store” receipts is strictly prohibited;
- Cash, check, or credit card as the method of payment must be indicated on the receipt;
- The receipt must identify the individual receiving payment;
- The receipt must allow for immediate revenue account classification in conformity with the Uniform Chart of Accounts; and
- Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Money Received by Officials Other Than Treasurer

Transmittal Advice--The official receiving money must deposit all money with the treasurer frequently, at least monthly. A form known as a "Transmittal Advice" should be prepared in triplicate (duplicate if the official is the clerk) by the official for each deposit that was made with the treasurer. The form will indicate the name of the office or department, the period covered, inclusive numbers of receipts, the funds and accounts to which collections belong, and any necessary explanatory detail.

The original copy of the transmittal advice, together with the total amount collected, must be remitted to the treasurer. The duplicate copy is for the clerk, and the triplicate copy is filed by the official who made the collections and prepared the form.

CHAPTER 4--CASH RECEIPTING PROCEDURES

NOTE: Copies of departmental receipts and a receipts journal or register used to prepare the transmittal advice must be retained by each department or may be filed with the treasurer at the discretion of the treasurer. In small local units where relatively few receipts and accounts are involved, the receipt copies may serve as the transmittal advice at the discretion of the treasurer.

Upon receipt of the collections, the treasurer will prepare the official receipt in favor of the office depositing the collections (clerk, building inspector, etc.). In a manual system, a triplicate receipt is issued. The original receipt is given to the individual remitting the money, who should file it with the copy of the transmittal advice. The duplicate receipt is for the clerk. The triplicate receipt is retained by the treasurer who should enter the receipt number on their copy of the transmittal advice. The treasurer's receipt must reflect, at a minimum, the amount belonging to each fund. Account numbers should also be reflected, if not too numerous for the receipt. The clerk, using their copy of the receipt (and the transmittal advice copy, if necessary), will make the necessary entries into the receipts journal to the proper fund and account in the same manner as any other receipt received from the treasurer.

Property Tax Accounting Procedures

Property taxes must be collected by the treasurer or their designee like any other receipt of the local unit. All deposits of funds must be made to the local unit bank account under the control of the treasurer.

Property tax bill copies or payment coupons are used as receipts for tax collections. The official receipt that is used for other local unit collections is not issued for individual tax collections.

During the period of July 1 through September 15, current (summer) property tax collections are made by the treasurer, as provided by statute.

During the period of December 1 through February 28, current (winter) property taxes are made by the treasurer, as provided by statute.

A separate tally should be made of property tax collections, indicating the taxing unit whose taxes have been collected, and should subsequently be matched with the distributions to those taxing units.

Record of Tax Collections

A separate Tax Collection Receipts Journal (as noted in this section) with a separate set of receipts must be maintained for tax collection, either manually or electronically. If maintained manually, at least one entry must be made per day for the total taxes collected. Individual entries may be made, but are not mandatory. The form of the journal may vary, but it must provide for an immediate determination of the amount collected for each tax collected.

CHAPTER 4--CASH RECEIPTING PROCEDURES

Upon completing the daily posting of the Tax Collection Receipts Journal, an official departmental (regular) receipt must be written for the day's collections. A copy of the official departmental receipt is given to the clerk for entry into the local unit's accounting records.

Depending on the dollar amount of collections, the availability of a vault, or other means of safekeeping, deposits should be made on a daily basis or at least weekly. Deposits must be made intact and match the total posted in the journal.

Record of Tax Collection Distributions

Distribution of the tax collection to the county treasurer and other tax assessing unit treasurers must be made within 10 days after the first and the fifteenth of the month, if another distribution schedule has not been agreed upon (MCL 211.43). The distribution should include all collections made up to that point.

Posting of Receipts

The cash receipts journal is maintained by the clerk in a township or village and the treasurer in a county (a city receipts journal is maintained according to the city charter). Each receipt is posted to the receipts journal in numerical order to the proper bank account, fund, and revenue account. In a manual system, monthly totals by fund are posted from this journal to the general ledger revenue control account. The general ledger is the responsibility of the clerk.

Best Practices

Government Officers Finance Association (GFOA)

GFOA's *Electronic Commerce and Cash Management*

<http://www.gfoa.org/services/rp/documents/ElectroniccommerceRPOrlando.pdf>

GFOA's *Check Fraud Protection*

<http://www.gfoa.org/services/rp/cash/cash-check-fraud-protection.pdf>

Internal Controls

We recommend that separation of duties be considered where possible. For example, collections should be reconciled by an individual not involved in the receipting process. Ideally, the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation.

Reconciliation to the general ledger and supporting ledgers should be performed in a timely manner (i.e., within thirty days of month end).

Each cashier should have their own cash drawer or, if sharing a drawer, a system should be in place for identifying the processor.

CHAPTER 4--CASH RECEIPTING PROCEDURES

If available and cost effective, lock box processing for high volume accounts should be used.

GFOA's *Use of Lockbox Services*

<http://www.gfoa.org/services/rp/cash/cash-use-lockbox.pdf>

Automated systems should be used when available for faster processing and efficiency.

Cash refunds should not be issued for overpayments at the time of occurrence. Either a credit should be issued or a check refund generated once it has been determined that the check received has been cleared for payment by the bank.

All checks returned for insufficient funds or closed accounts should be run through the treasurer's office. Payments should be removed from the account and the customer should be billed for fees associated with the bad check.

Other Cash Journals

When the volume of receipts warrant it, the department receiving cash should maintain a cash receipts journal, posting each receipt and extending it to the proper fund and account. Totals from such a journal would be used in preparing the monthly transmittal advice. Note: Only the official receipt prepared by the local unit treasurer will be posted to the official cash receipts journal from which monthly postings are made to the general ledger.

Receipts

- When possible, someone other than the person who writes receipts or posts the accounting records should be responsible to verify that collections received in the mail are properly receipted;
- When possible, collections should be reconciled by an individual not involved in the receipting process.

Manual System

If a manual receipting system is used, we recommend using a three-part receipt form that records the following information:

1. Date received;
2. Amount received;
3. Purpose (e.g., garbage, labels, taxes, etc.);
4. Receivable/invoice/customer name, number/parcel number/etc., if any, and the general ledger account number. The receipt should allow for immediate revenue account classification in conformity with the Uniform Chart of Accounts;
5. Name of the person accepting the receipt;

CHAPTER 4--CASH RECEIPTING PROCEDURES

6. Receipt Number (whether assigned or prenumbered);
7. Indicate form of payment (e.g., paid by cash, check, or credit card).

Distribution of Triplicate Receipts

Original Copy: For the payor;

Duplicate Copy: For the clerk;

Triplicate Copy: Retained by the treasurer (should not be removed from the receipt book).

All copies of voided or canceled receipts (except the clerk's copy) should be retained in the receipt book. The clerk should receive his/her copy, properly marked "VOID." The most important recommended practice is to adopt a policy to deposit all funds intact and to separately state cash from checks or other payment forms. Depositing intact means that the amount deposited should equal the total of the cash drawer receipts for the day. Identifying each receipt (either in a cash register or on manual cash receipt forms) as cash and then separately stating cash on the bank deposit slip is a strong protection against cash replacement fraud. Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Resource Material

Revenue Collection Administration-A Guide for Smaller Governments, GFOA, 1993.

CHAPTER 4--CASH RECEIPTING PROCEDURES

SAMPLES OF FORMS

| SAMPLE UNIT Transmittal Advice Date: <u>May 31, 20XX</u> Office of the Clerk | | |
|--|-----------------------|--------------------------------------|
| Collections for <u>May 20XX</u> | | |
| Receipt Numbers <u>75</u> to <u>115</u> , Inclusive | | |
| General Fund (101): | | |
| Account 476 | Building Permits | \$ 150.00 |
| Account 667 | Rent of Township Hall | 50.00 |
| Account 687 | Refund from Vendor | 25.00 |
| Subtotal | | <hr style="width: 100%;"/> 225.00 |
| Cemetery Fund (209) | | |
| Account 643 | Sale of Lots | 200.00 |
| Total Collections | | <hr style="width: 100%;"/> \$ 425.00 |
| I hereby certify that the foregoing is a complete account of all fees and monies collected for the period herein stated and that all items are verified in detail by documents on file and by credits duly entered on the books of account of the undersigned: | | |
| Signed: _____ | | Date: _____ |

CHAPTER 5--CASH DISBURSEMENT PROCEDURES

General Concept Statements

- The governing body must fulfill its responsibility to approve all payments (In a home rule city or village, the charter may not require the governing body to approve bills.);
- Someone with adequate knowledge and responsibility must approve each invoice or request for payment (if the governing body has knowledge of individual transactions, this will suffice; if not, such as in larger organizations, employees should be designated to perform this approval, including review of each invoice or other supporting documentation);
- Procedures must be put into place to control the release of funds:
 - Two signatures are required on each check, the treasurer and clerk or their deputies (In a home rule city or village, the charter may require two check signers.);
 - Wire transfer and ACH authorization must be limited.

Required Procedures

Each local unit must establish and maintain an adequate system of internal control which includes, at a minimum, the following:

Disbursements

- Dual signatures are required for all checks (except the separate tax collection checking account). The dual signatures must be the clerk (or deputy clerk) and the treasurer (or deputy treasurer) (See charter);
- It is never acceptable to sign blank checks;
- Statutorily, the separate tax collection bank account only requires the signature of the treasurer. However, the treasurer must provide the clerk with summaries of tax receipts and copies of all checks written so the clerk can enter the information into the local unit's accounting system;
- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Note: For all disbursements for which an invoice cannot be obtained (e.g., Trust and Agency Fund disbursements, internal rent payments), supporting vouchers must be attached. Vouchers must describe the payment to be made, indicate account number to be charged, and be signed by the person approving the disbursement;
- Original bills, not copies, must be used for documentation;

CHAPTER 5--CASH DISBURSEMENT PROCEDURES

- 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 limited payments prior to approval to avoid finance or late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must be approved after payment is made;
- Checks should not be returned to the originating office for distribution;
- Bank accounts must be promptly reconciled (within the month following the bank statement date) by an individual not involved in the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation;
- Adequate security must be provided over unused checks;
- Checks must not be signed prior to being completely filled out;
- All functions (i.e., deposit, write checks, issue/send checks, reconcile account) regarding a checking account should not be performed by the same individual;
- Numerically controlled or computer numbered checks must be used; and
- Cancelled checks must be made available to the local unit (record retention requirement) which may be electronic optical images.

The governing body must approve the bill list prior to releasing the checks (except for home rule cities and villages, if this authority is delegated). The governing body may preapprove certain expenditures (typically payroll, utilities, contracts, and emergency purchases), but those expenditures must be presented to the governing body at a subsequent meeting. In a township, payments approved by the board and signed or certified by the township clerk shall be paid by the treasurer.

The payee, amount, purpose and the disbursing fund of each disbursement must be communicated to the accountant or bookkeeper for entry into the general ledger.

Unclaimed checks must be investigated and remitted to the State Treasurer after being unclaimed for one year, in accordance with unclaimed property laws.

CHAPTER 5--CASH DISBURSEMENT PROCEDURES

Best Practices

In addition to the practices discussed in Chapter 2, a purchasing policy should be in place to control the disbursement process. We suggest the following procedures:

- All invoices should be initialed or marked after payment to prevent the reuse of invoices in the system;
- Duplicate invoices should be destroyed or stamped to indicate that they are duplicated;
- Checks should be prenumbered and the numerical sequence be accounted for; and
- Actual pay rates should be authorized rather than percentage increases.

Positive Pay--A banking product that allows a unit to notify their financial institution of the checks they have issued that are currently valid and also allows sending voids. Information is sent electronically either by internet or file uploads to a server on a regular basis (daily, weekly, etc). Information can include name, check number, check date, and check amount for verification depending on the financial institution capabilities. If the check is not on the issued check list provided, no payment is allowed. Duplicate check number payments are not allowed. Notification is sent daily of any unmatched attempts to charge your account.

Negative Pay--An alternative to Positive Pay; designed to help protect against fraud and forgery. Your financial institution provides a daily electronic file listing all checks paid on the account from the previous day. One matches these checks against an issued check file and notification is made to your financial institution (on the same day) of any checks that are to be returned unpaid.

GFOA's *Use of Positive Pay Versus Reverse Positive Pay*
<http://www.gfoa.org/services/rp/documents/rppay040204.pdf>

Other GFOA Cash Management references can be found at:
<http://www.gfoa.org/services/rp/cash.shtml>

CHAPTER 6--PAYROLL AND RELATED LIABILITIES

General Concept Statements

- Each unit must adopt a process for hiring employees and setting/changing compensation;
- Withholdings must be remitted timely; payroll tax returns must be filed timely;
- Personnel information must be maintained and secured.

Required Procedures

Each local unit must document a process for hiring new personnel and the setting/changing of pay rates.

The governing body continues to have the responsibility to approve the bill list prior to releasing the checks (except for home rule cities and villages, if this authority is delegated). The governing body may pre-approve certain expenditures, which is typically done for payroll, but those expenditures should be presented to the governing body at a subsequent meeting.

Withholdings and other deductions must be remitted as required by law. Payroll tax returns must be filed as required by law.

Personnel information must be maintained, and should include the following:

- Employment application
- Date of employment
- Pay rate
- Changes in pay rate and pension
- Authorization for payroll deductions
- Earning Records (W-2 and related documents)
- W-4 Form (employee's withholding allowance certificate)
- Authorization to work in the US (INS Form I-9)
- Termination date and related documents where appropriate.

Best Practices

- Timekeeping and attendance records should be created for each employee, and signed or initialed by the employee;
- Time records should be approved by appropriately authorized personnel prior to preparing payroll;

CHAPTER 6--PAYROLL AND RELATED LIABILITIES

- Payroll duties should be adequately segregated between the following: payroll master file (including maintenance of pay rates), payroll check preparation, and payroll distribution;
- Periodic review of classes of positions and pay rates to check compliance with the provisions of the salary and wage ordinance is suggested;
- Payroll should be in a separate bank account;
- A written policy should specify the duties of each position;
- Recognize that payroll responsibilities are complex; if appropriate expertise is not available internally, consider hiring an outside consultant;
- Recommendations from the disbursement section concerning checks (Chapter 5--separation of duties and recordkeeping) also apply to the payroll;
- Actual pay rates should be authorized rather than percentage increases.

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

General Concept Statements

- A general ledger must be maintained to record all cash receipts, all cash disbursements, and all other appropriate transactions as defined by GASB;
- The Michigan Department of Treasury's Uniform Chart of Accounts must be followed, or an equivalent system that is derived from the Uniform Chart of Accounts.
- A formal record must be created of all journal entries (manual general ledger adjustments), including the supporting reasons and documentation for the adjustment;
 - You must create a procedure to ensure that all journal entries made are included in this permanent record (via the use of printed sequentially numbered journal vouchers, etc.).

Required Procedures

Ledgers

Ledgers are books which are either manual or computerized records of a group of specific accounts. The general ledger contains all the accounts supporting the financial data of the local unit. The accounts in the general ledger include general accounts and also those referred to as control accounts. A control account is the master account or primary account, which summarizes the detail of a supporting ledger known as a subsidiary ledger. For example, the control or primary account known as Accounts Payable is the account in the general ledger, whereas the detail of the individual accounts for each vendor are contained in the Accounts Payable subsidiary ledger. The detail of the subsidiary ledger should always support the activity in the general ledger.

General Ledger

The detail of the accounts in the general ledger summarizes how the transactions have changed the balance over the course of time. Transactions are first recorded in journals and these transactions are recorded at a specific time in the general ledger and, when applicable, in the subsidiary ledger. The balances of the general ledger are used to prepare and should reconcile to (support) the financial statements.

General Ledger Accounts

The detail of the general ledger accounts is known as the account detail history (more commonly referred to as the general ledger sheet in a manual system). This detail exists for all assets, liabilities, reserves, fund balances, revenue control, expenditure control, and entries to any necessary control accounts for the subsidiary ledgers within these categories. A separate account detail history exists for each individual general ledger account.

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

Standard information included as part of the account detail history typically includes the account number, the name of the account, page numbers, and column headings. Columns are provided for: (1) posting or instrument date; (2) memorandum, or explanation of entry; (3) posting reference; and (4) columns for debits, credits and the net ledger balance.

General Ledger Entries and Balancing

Entries to the general ledger are made from source journals. Source journals may include, depending on the sophistication of your system: (1) the cash receipts journal; (2) the sales/receivable subsystem (recording of invoices processed for collection); (3) cash disbursements journal; (4) the payroll journal; (5) the purchases/accounts payable subsystem (recording of vendor's invoices received for payment); (6) inventory subsystem; and (7) the general journal entries.

Generally, in a manual system as well as the other mentioned subsystems, only monthly totals are posted from the receipts and disbursements journals to the control accounts in the general ledger. The posting in a computerized system will vary from individual line-items or batch totals to the control accounts in addition to the posting of the subsidiary ledger detail. In either manual or computerized systems, the posting of the entries from the general journal are posted individually.

Whenever a posting is made to a general ledger account, the ending balance is computed and entered. This reflects the balance of any given account as of the most recent posting. When a posting is made to a control account, the subsidiary ledger must be balanced and compared to the total in the control account. The totals between the two should always equal each other.

At the end of each accounting period (generally the end of each month and at year end), a trial balance is prepared from the general ledger accounts to prove that the ledger, as a whole, is in balance (total debits equals total credits and balances to zero). A manual trial balance will include all the period ending balances. A computerized trial balance generally will include the balance at the beginning of the period, the total of debits and credits for the period, and the balance at the end of the period. Listing this information in an output record provides for extensive cross-checking of transactions for completeness and correctness. In addition, in the case of a computerized system, it is important that this is performed prior to the permanent update to the general ledger's master file.

Fund Structure

Currently, there are three categories of funds for financial reporting purposes: (1) Governmental Funds are made up of the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds and Permanent Funds; (2) Proprietary Funds include Enterprise Funds and Internal Service Funds; and (3) Fiduciary Funds include Pension Trust Funds (and other employee benefits), Investment Trust Funds, Private Purpose Trust Funds, and Agency Funds (such as a Tax Collection Fund).

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

It cannot be stressed enough that each and every fund of the local unit must appear in the local unit's general ledger.

Fund Establishment

Most local units will have, at a minimum, three basic funds: the General Fund, General Agency Fund and Current Tax Collection Fund. The number of funds a local unit chooses to establish and maintain should be limited to those required by law (state or local), where a separate tax is levied or whose revenue is restricted.

Generally, a separate fund should not be established as a means to control General Fund activity. Budgets can be effectively controlled by setting up separate departments (activities) within the General Fund.

Local Unit General Ledger Responsibility

The size and character of the local unit will determine who holds the responsibility for maintenance and oversight of the general ledger. In small local units, the clerk will typically record general ledger activity while maintaining the receipts journal, disbursements journal, payroll journal, and subsidiary ledgers (it is not uncommon in larger local units for a finance department to handle these activities). The treasurer will work with the clerk to maintain records and properly account for cash and investment balances in addition to collecting cash receipts and making regular bank deposits.

Best Practices

For general ledger reporting purposes, local units may use the General Capital Asset listing and the General Long-Term Debt listing. These funds ("account groups") were primarily used to record fixed assets and long-term debt. Upon implementation of GASB No. 34, these account groups are no longer presented in the local unit's audited financial statements. However, their continued use is helpful for bookkeeping purposes.

In addition to monthly postings from the receipts and disbursements journals, it is often necessary to make adjustments or other entries to the general ledger.

Examples include:

- Transfers of money from one fund or account to another within the same bank account (appropriations from the general fund to the library fund, police fund, fire fund, etc.);
- Wire transfers and electronic fund transfers (EFTs);
- Establishing certain accounts receivable and accounts payable;
- Corrections of errors;
- Closing revenue and expenditure accounts to fund balance at the end of the year;
- Other adjusting entries.

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

Journal Entry Preparation

Journal entries (or vouchers) should be sequentially numbered by year (i.e., 99-1, 99-2, etc.).

Each journal entry should contain adequate explanation and supporting documentation, and should have an independent review.

The journal entry form should normally be prepared in duplicate with one copy for the clerk (or appropriate accounting personnel) and one for the treasurer. This will permit both officials to maintain the required cash balances of the various funds.

It is advisable to use a separate form for each transaction to avoid confusion and multiple explanations.

Opening Entries

After opening entries are posted to the general ledger at the beginning of each fiscal year, monthly postings would then be made from receipts, disbursement journals, and journal entries.

Note: Opening entries should have reference to a source document (e.g., prior year post-closing trial balance).

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

| | | | |
|--------------------|-------------|----------------------|----------------------------|
| Local Unit Name | | | |
| Journal Entry | | | |
| | | | Journal Entry Number _____ |
| | | | Journal Entry Date _____ |
| Account Number | Description | Debit | Credit |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Explanation | | | |
| | | | |
| | | | |
| | | | |
| Prepared By: _____ | | Date: _____ | |
| Approved By: _____ | | Approval Date: _____ | |

CHAPTER 8--INTERNAL ACCOUNTING AND REPORTING

General Concept Statements

- The governing body must be provided a comparison of year to date revenues and expenditures, compared to budgeted amounts, at least quarterly. (Charter townships also have a legal responsibility under the charter township act to provide the 1st, 2nd, and 3rd quarterly reports.)
 - It may be helpful to the governing body to also see a balance sheet.

Required Procedures

The local unit's legislative body must be provided periodic financial reports from the treasurer and the clerk. Charters may alter who provides the various reports (e.g., clerk or accounting or controller or finance department). Reports provided by the clerk and the treasurer must reconcile to each other on a monthly basis. These reports will assist the board or council in determining whether the financial activity of the various funds is within the adopted budgets. The required periodic reports must be presented to the governing body at least quarterly.

- Detail Revenue by Fund--Budget and Actual Quarterly
- Detail Expenditures by Fund--Budget and Actual Quarterly

Best Practices

- Monthly, the treasurer should produce a summary report of cash activity by fund and a summary report of cash activity by bank account, certificate of deposit and investment account.
- Monthly, the clerk (or designated official maintaining the general ledger) should produce a balance sheet by fund.

The two reports shown above will assist the board or council in determining the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

- A budgetary comparison schedule should be prepared by all local units monthly.
- We suggest that the bookkeeping duties be periodically shifted between two or more employees (e.g., during vacations, etc.).
- For computerized accounting systems, access to the computers should be limited to only authorized personnel and/or the security system should document specific users who have initiated transactions, particularly editing or modifying transactions (general journal entries, water and sewer billing corrections, etc.).
- All accounting records, including computerized systems, should be safeguarded from loss due to fire, theft, floods or misplacement.

CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING RESPONSIBILITIES

General Concept Statements

Required annual reports:

- Form F-65, Annual Local Unit Fiscal Report, Michigan Department of Treasury, for all primary units of government;
- Annual audits (if the population is less than 4,000, biennial filing is required);
- Deficit Elimination Plans for each fund in a deficit;
- The Municipal Finance Qualifying Statement;
- The Act 51, Annual Financial Report, Michigan Department of Transportation, for all road and street activities.

Required Procedures

Form F-65 Annual Local Unit Fiscal Report

Every county, city, village, and township must file an Annual Local Unit Fiscal Report (Form F-65) with the State Treasurer in accordance with Public Act 71 of 1919, Public Act 2 of 1968 and Public Act 275 of 1980. The Form F-65 must be received by the Michigan Department of Treasury within 6 (six) months after the end of the local unit's fiscal year and must be filed annually regardless of the filing requirements for an audit. Failure to timely file Form F-65 may cause the unit's State Revenue Sharing money to be withheld. (MCL 141.921)

Form F-65 all of the financial activity of the governmental unit except for the agency funds and the depreciation in proprietary funds. Some authorities and joint agencies should be included in the F-65 form. Also, discretely presented component units should be combined in the form. The form should reflect fund financial data versus the government-wide statement data. Federal and State governments and other researchers use the Form F-65 to compile various statistics for legislators, other governmental agencies and departments, and business and industry.

For further information regarding Form F-65, please see the instructions for the form. Both the form and the instructions may be downloaded from Treasury's website at www.michigan.gov/treasury.

CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING RESPONSIBILITIES

Annual Audit

All local units with a population in excess of 4,000 (as of the 2000 census) must have an annual audit of their financial records. Local units with less than 4,000 population may have the audit performed biennially except for charter townships. The audit must be performed by an independent certified public accounting firm approved by the local unit's governing board or performed by the Michigan Department of Treasury. The audit must be filed with the Department of Treasury no later than 6 (six) months after the local unit's fiscal year end. It is strongly recommended that the audit be filed electronically at www.michigan.gov/treasury, then click on "Local Government Services" and "Local Unit Audit Reports." Also see Treasury's Numbered Letter 2005-2 for instructions. The chief administrative officer can request an extension in writing from the State Treasurer (with a copy provided to the governing body) for extraordinary circumstances. The extension request must be received by the Department of Treasury prior to the due date of the audit. The address to file the audit or to request an extension is: Michigan Department of Treasury, Local Audit and Finance Division, P.O. Box 30728, Lansing, MI 48909-8228.

Fund Deficits/Deficit Elimination Plans

A fund deficit is defined as a situation where, for any fund, the following formula produces a negative end of year fund balance:

- Beginning of year fund balance (deficit);
- Plus revenues and transfers in;
- Minus expenditures and transfers out;
- Equals end of year fund balance (deficit).

For proprietary fund types (enterprise or internal service), replace "fund balance" with "unrestricted net assets."

If any fund of a local unit ends its fiscal year in a deficit fund balance, the unit must draft and file a financial plan with the Michigan Department of Treasury within 90 (ninety) days after the beginning of the next fiscal year to correct the condition. Fund deficits are determined at the individual fund level, not at the government-wide level. The local unit can implement the plan once the Department of Treasury certifies it. If the local unit fails to comply with the above requirements, an amount equal to 25% of the local unit's State-Shared Revenue funding will be withheld until the requirements are met (MCL 141.921).

CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING RESPONSIBILITIES

Municipal Finance Qualifying Statement

Under the Revised Municipal Finance Act, Public Act 34 of 2001, the chief administrative officer for each municipality is required to submit annually a Municipal Finance Qualifying Statement (Form 3883) within 6 (six) months from the end of each fiscal year to the Local Audit and Finance Division of the Michigan Department of Treasury. In addition, if a component unit (authorities, agencies, funds, commission, boards or department) is authorized to issue municipal securities on their own behalf and in their own name, they must separately submit a qualifying statement. For additional information, refer to the Michigan Department of Treasury's website: www.michigan.gov/treasury, Local Government, Municipal Finance, Revised Municipal Finance Act, 34-2001-III, Section 141.2303.

Act 51 Road and Street Financial Report

Cities, villages, and road commissions must file an Act 51 Road and Street Financial Report. Information for the Act 51 report reflects the revenues and expenditures of all road and street work and conforms to the requirements of Public Act 51 of 1951, as amended. The completed report must agree with the audited financial statements, with the exception of any road and street work that was recorded in funds other than the Major and Local Street Funds. The report must be received by the Michigan Department of Transportation (MDOT) no later than 120 days after the municipality's fiscal year end. An extension of the filing deadline must be received by MDOT, in writing, before the due date. A copy of the municipality's audited financial statements must also be submitted to MDOT within six months after the municipality's fiscal year end. A city or village with a year ending before July 1 must file before the subsequent December 31 or it will be ineligible for its Winter Maintenance Payment. Failure to comply will also result in the withholding of Michigan Transportation Fund payments. The Street Financial Report, forms, instructions and Resolution for Designation of Street Administrator are available at: http://www.michigan.gov/mdot/0,1607,7-151-9625_23109---,00.html. Questions concerning the report should be directed to the Financial Operations Division at (517) 373-1527.

Best Practices

- For those local units with less than 4,000 population, we strongly recommend the performance of an audit or a review in the off-year.

CHAPTER 10--CAPITAL ASSETS

General Concept Statements

AICPA Audit and Accounting Guide, State and Local Governments with Conforming Changes, as of May 1, 2005, paragraph 7.58:

- **Existence or Occurrence:** Reported capital assets represent items owned or otherwise required to be reported (such as capital assets acquired through capital lease), considering the entity's capitalization policies, as of the end of the period. Reported capital expenditures and depreciation expense represent amounts relating to the period;
- **Completeness:** The financial statements report all capital assets and accumulated depreciation as of the end of the period, and all capital expenditures and depreciation expense relating to the period;
- **Rights and Obligations:** The financial statements properly reflect conditions and agreements that affect the entity's rights and obligations concerning capital assets as of the end of the period;
- **Valuation or Allocation:** Capital assets, accumulated depreciation, capital expenditures, and depreciation expense are reported at the proper amounts;
- **Presentation and Disclosure:** The financial statements properly classify, describe, and disclose the activity and balances relating to capital assets, including classification in the proper fund and activity. Financial statement presentation and disclosure are made in conformity with GAAP, consistently applied.

Required Practices

The purchase, addition, disposal, and sale of an asset must have prior approval from the appropriate local officials. If machinery or equipment is purchased with Michigan Transportation Funds (MTF), prior approval from MDOT is required.

Recording Process

It is essential that the amount of capital assets be recorded within the local unit's general ledger. The amount in the general ledger must be supported by detailed subsidiary ledgers. Infrastructure assets that are associated with a specific enterprise or internal service fund are recorded in the appropriate fund.

The recording of capital assets makes it possible to provide for protective custody and to fix responsibility for proper use and custody of such assets. It also permits proper disclosure on financial statements, for no financial report is complete without reflecting the capital assets of a local unit.

CHAPTER 10--CAPITAL ASSETS

The first step in recording capital assets is a complete inventory, at least by the following classes:

- Land and Improvements
- Buildings and Improvements
- Machinery and Equipment
- Construction in Progress

If desired, land and land improvements may be recorded separately, as may buildings and building improvements. Machinery and equipment may be further classified as office machines, office furniture, automobile, etc. Construction in progress is used until a construction project is completed, at which time the proper asset classification is increased and construction in progress eliminated.

Once the capital assets are inventoried and valued by various classifications or groupings, they are ready for recording in the general ledger. We recommend they be recorded in a General Capital Assets Control, as explained in the “*Index of Funds*” in the Uniform Chart of Accounts.

Subsidiary Records

Once capital assets are recorded in the general ledger, subsidiary records must be maintained for each item. Suggested attributes are:

- Classification (land, building, equipment, etc.)
- Payment Voucher Number
- Date Acquired
- Vendor
- Description (abbreviated)
- Cost
- Location (clerk, treasurer, etc.)
- Fund From Which Purchased
- Method of Acquisition (purchase, gift, etc.)
- Estimated Life
- Depreciation Method
- Date, Method, and Authorization of Disposition

The total of the individual costs must equal the amount recorded in the general ledger. Such a reconciliation must be made periodically (at least annually).

CHAPTER 10--CAPITAL ASSETS

A periodic inventory must be made to ensure that all recorded items are on hand and that all items on hand have been properly recorded.

Best Practices

- We suggest that each local unit have a written capital asset policy that addresses asset capitalization and asset retirement/sale practices (setting a dollar threshold and perhaps a useful life threshold).
- We suggest that assets be tagged or labeled, and safeguarded to prevent loss.

GFOA's *Establishing the Estimated Useful Lives of Capital Assets*

<http://www.gfoa.org/services/rp/caafr/caafr-establishing-estimated.pdf>

GFOA's *Ensuring Control over Noncapitalized Items*

http://www.gfoa.org/services/rp/documents/controlled_capital_assetsRP.pdf

GFOA's *The Need for Periodic Inventories of Tangible Capital Assets*

<http://www.gfoa.org/services/rp/documents/periodicinvoftangiblecapassets.pdf>

CHAPTER 11--TAX INCREMENT FINANCING DISTRICTS AND INDUSTRIAL FACILITIES TAX

General Concept Statements

None

Required Procedures

Tax Increment Financing Districts can be created by several types of authorities, each with their own statutes governing the required procedures. Various authorities include: Tax Increment Financing Authorities (TIFAs), Downtown Development Authorities (DDAs), Local Development Financing Authorities (LDFAs), and Brownfield Redevelopment Authorities (BRDAs).

There are myriad rules to be followed in operating a tax increment financing district. Refer to the Michigan State Tax Commission for a more comprehensive discussion of these rules. This section of the manual is intended to summarize just the significant provisions that the accountant needs to be aware of related to these authorities:

- In general, all of the plans have sunset provisions. Read the plan to understand what event causes termination.
- Not all TIFAs, DDAs and LDFAs use tax increment financing, but those that do must have a Tax Increment Financing (TIF) Plan. This is an important document, which must go through a public hearing process. The TIF plan will specify which taxes may be captured (and to what extent--often certain millages are captured at a lower rate) and the purposes for which captured taxes may be spent. You should have a copy of the TIF plan, and understand which taxes may be captured and what types of expenditures are allowed by the plan.
- Regardless of which taxes the TIF plan allows to capture, the three school related taxes (K-12, Intermediate School District (ISD) and State Education Tax (SET)) may only be captured to the extent they are necessary to fund eligible obligations, eligible advances, and other protected obligations as those terms are defined in the statutes. Refer to the Michigan State Tax Commission or your TIF attorney for further definitions of these terms.
- Once a TIF district has captured sufficient funds to reasonably achieve the purposes set forth in the TIF plan, it may no longer capture taxes. Captured taxes that will not be expected to be necessary to accomplish the projects (i.e., excess fund balance) should be refunded. Taxes must only be refunded proportionately to the original capture (you may not refund all unused monies to the General Fund).
- All TIF districts except BRDAs capture growth in taxable value for the district, as a whole, and not on individual properties. This is an important concept. The TIF district has an initial base taxable value which generally remains constant and is not available for capture. Decreases in the taxable value of some properties in the district result in a reduction in the amount of taxable value of other properties being available for capture.

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- Authorities may not discriminate among property types in a TIF plan. That is, they may not exclude personal property, homestead property, etc. A percentage of all property may be excluded, and discrimination among millages is allowed (many plans exclude the capture of debt millage, for example) as long as proportionality requirements among operating millages are not violated. Whatever exclusions from capture are made should fall equally on all property in the district.
- Note that if you have a property inside the TIF district that switches from an Industrial Facilities Tax (IFT) roll back to the property tax roll, you should treat it as two properties--one on the IFT roll (with zero value) and one on the property tax roll (at full value). The base year remains the same, with the IFT property retaining its base year value and the property tax roll retaining its base year value. The opposite also holds true for a property that goes from the property tax rolls to the IFT rolls.
- Every Downtown Development Authority (DDA), Tax Increment Finance Authority (TIFA), and Local Development Finance Authority (LDFA) is required by law to annually submit a financial report to the governing body of the municipality and to the State Tax Commission. Reporting requirements are prescribed for the DDA by Public Act 197 of 1975, for TIFA by Public Act 450 of 1980, for LDFA by Public Act 281 of 1986 (STC Bulletin 1997-09), Brownfield Redevelopment Authority by Public Act 281 of 1996, Corridor Improvement Authority by Public Act 280 of 2005, and Historic Neighborhood Tax Increment Finance Authority by Public Act 530 of 2004.
- Industrial Facilities Tax (IFT) properties and Commercial Facilities Tax (CFT) properties are exempt from the regular property tax rolls. These properties pay a lower tax, based on their exemptions:
 - New property exemptions pay tax at 50% of the current tax rates, except for SET (the State decides on each property how much of its SET will be exempt). For all IFT and CFT properties that were granted their certificate prior to 1994, they continue to pay at 50% of the 1993 operating millage rate for K-12 and ISD allocated, special education and vocational education mills, in lieu of the current rate for SET, K-12 and ISD allocated, special education and vocational education mills;
 - Replacement or Rehabilitation properties pay the current millage rate levied for non-homestead property times a taxable value that is frozen as of the certificate date;
 - Collections of K-12 operating millage should **not** be remitted to the local K-12 school district; it should be remitted to the State. Collection of the ISD millage (both operating and debt) should be remitted to the State, not the ISD. Use form 170, IFT Tax Report to provide Treasury an annual summary of IFT collections.

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Best Practices

- Treasurers are required by statute to send tax increment revenues to authorities. It is incumbent upon treasurers to determine the proper amount to disburse. By the time tax bills are sent, treasurers should have all the data they need to compute tax increment revenue: the initial assessed value (IAV), current year value of the district, the millage rates, verify authority to capture school taxes, and any limitations on capture imposed by the TIF plan.

It is suggested that treasurers who collect and distribute captured taxes first become familiar with all statutory requirements related to the particular taxes which are being captured. If necessary, consult with the State Department of Treasury, the county treasurer and your local attorney.

- If an authority does receive excess tax distributions from the treasurer (i.e., it receives tax revenue that does not meet the definition of tax increment revenue), the proper course of action is to return it to the treasurer who made the disbursement. Authorities should not send excess receipts to other taxing units. Proper disposition of property tax revenue is the responsibility of the municipal treasurer.
- An authority needing legal advice should retain its own counsel, or rely on the corporation counsel of the municipality that created it.

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All transactions affecting a local unit's financial resources should be recorded in the accounting records and substantiated with evidence. The accounting records, which comprise the accounting system, generally consist of the following:

- Source Documents--evidences of original transactions that are used in the accounting system as the initial data in the recording process.
- Books of Original Entry--registers or journals in which the input information is initially recorded and isolated from the other details of the transaction.
- Books of Final Entry--primarily the general ledger which is used to prepare the financial statements (supported by subsidiary ledgers as needed).

Source Documents

The source documents contain the details supporting the accounting transactions and may be generated internally or externally. Source documents provide all the details of the transaction. Generally, they include information about the dollar amount to be recorded, the parties involved, the terms of the transaction, and other relevant information. Examples of source documents include the following:

| | | |
|-----------------------|--------------------|-----------------|
| Cash Receipts | Transmittal Advice | Tax Bills |
| Deposit Slips | Deposit Advice | Utility Bills |
| Purchase Requisitions | Purchase Order | Check/Warrant |
| Vendor Packing Slips | Shipping Documents | Vendor Invoices |

Books of Original Entry

The relevant accounting information is extracted from the source documents and recorded in the books of original entry. These books consist of special journals, which record accounting transactions with similar characteristics and the general journal. The major books of original entry and their uses are as follows:

- Cash Receipts Journal--used to record or summarize information from the daily cash receipts;
- Cash Disbursements Journal--used to record all cash payments by the governmental unit, except for payroll;
- Payroll Journal--used to record all cash payments for payroll by the governmental unit;
- Utility Journal--used to record all sales of utilities on account (e.g., water/sewer, electric, gas, etc.);
- Purchase Journal--used to record all purchases of supplies or inventory on account. It also includes information about the corresponding purchase orders;

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- General Journal--used to record all journal entries authorized by management. If a local unit uses prenumbered journal vouchers, the general journal would consist of the collection of journal vouchers maintained in numerical sequence.

Throughout the year, certain transactions occur that would not be recorded in the special journals. These transactions, which typically include revenue and expenditure accruals, should be recorded in the general journal. The general journal can either be a separate ledger book or a collection of pre-numbered journal vouchers.

Books of Final Entry

Once a month, the accounting information from the books of original entry are posted to the general ledger, books of final entry. After the general ledger has been posted and balanced, it is used to prepare the monthly financial statements.

Many of the general ledger accounts are referred to as control accounts because they consist of summary postings. The supporting details of the control accounts are maintained in subsidiary ledgers. The subsidiary ledgers should be posted daily. By posting daily, the local unit will have more up-to-date information which is very important with regards to customer balances and vendor payables. Examples of subsidiary ledgers include the following:

- Property Taxes Receivable--Current Year
- Property Taxes Receivable--Prior Year
- Water and Sewer Receivables
- Accounts Payables
- General Capital Assets
- General Long-Term Debt

As an accounting system becomes more detailed and complex, additional records and procedures will be necessary to provide the information desired. This manual does not address the more detailed systems that may be necessary to provide the additional information.

REFERENCES

Financial Related Michigan Statutes

| Public Act Number | General Topic | Common Name |
|-------------------|-----------------|---|
| PA 2 of 1968 | Accounting | Uniform Budget and Accounting Act (Amended by PA 493 of 2000) |
| PA 493 of 2000 | Accounting | Uniform Budget and Accounting Act (Amended PA 2 of 1968) |
| PA 140 of 1971 | Accounting | State Revenue Sharing, Deficit Reduction Plan Filing Requirements |
| PA 20 of 1943 | Accounting | Investment of Surplus Funds |
| PA 266 of 1995 | Accounting | Credit Card Transactions |
| PA 738 of 2002 | Accounting | Electronic Transactions of Public Funds |
| PA 51 of 1951 | Accounting | Transportation |
| PA 381 of 1996 | Component Units | Brownfield Redevelopment Financing Act |
| PA 183 of 1964 | Component Units | Building Authorities |
| PA 197 of 1975 | Component Units | Downtown Development Authorities (DDA) |
| PA 338 of 1974 | Component Units | Economic Development Corporations (EDC) |
| PA 18 of 1933 | Component Units | Housing Facilities (Housing Commissions) |
| PA 164 of 1877 | Component Units | City, Village, and Township Libraries |
| PA 281 of 1986 | Component Units | Local Development Finance Authorities (LDFA) |
| PA 321 of 2000 | Component Units | Recreation Authorities |
| PA 450 of 1980 | Component Units | Tax Increment Finance Authorities (TIFA) |
| PA 7 of 1967 | Component Units | Urban Cooperation Act |
| PA 34 of 2001 | Debt | Revised Municipal Finance Act |
| PA 99 of 1933 | Debt | Installment Purchase Contracts |
| PA 72 of 1990 | General | Local Government Fiscal Responsibility Act |
| PA 279 of 1909 | General | Home Rule Cities Act |
| PA 442 of 1976 | General | Freedom of Information Act |
| PA 267 of 1976 | General | Open Meetings Act |
| PA 156 of 1851 | Retirement | County Retirement Systems |
| PA 345 of 1937 | Retirement | Fire and Police Pension Systems |
| PA 427 of 1984 | Retirement | Municipal Employees' Retirement System |
| PA 77 of 1989 | Retirement | Township Retirement Systems |
| PA 206 of 1893 | Revenue | General Property Tax Act |
| PA 284 of 1964 | Revenue | Uniform City Income Tax Act |
| PA 198 of 1974 | Revenue | Industrial Facilities Tax Exemptions |
| PA 243 of 1959 | Revenue | Trailer Coach Parks (Trailer Fees) |

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Information about each organization may be found at the following websites:

<http://www.MiGFOA.org>

MCGAA

http://www.michigan.gov/treasury/0,1607,7-121-1751_2194-171575--,00.html