Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 731 (as enrolled)
Sponsor: Senator Philip E. Hoffman
Senate Committee: Local, Urban and State Affairs
House Committee: Local Government

PUBLIC ACT 146 of 1996

Date Completed: 8-6-96

RATIONALE

The Uniform Budgeting and Accounting Act required cities, villages, and townships with a population of less than 1 million to have an annual audit of their financial records, accounts, and procedures. Local units with a population under 2,000 were exempt from this requirement, but they had to obtain an audit at least every two years. This exception remained unchanged since it had been placed into law with the enactment of Public Act 2 of 1968. Since that time, the population of many small local governments has increased above the 2,000 threshold. Consequently, many local units that previously had their financial records audited every two years had to conduct a yearly audit. The cost of an audit evidently can consume a sizable portion of a small government's annual budget. The North Adams library district in Hillsdale County, for example, has an annual budget of $16,000 and must spend hundreds of dollars for an annual audit. Some people believed that the population threshold for an exemption to the Act's annual audit requirements should be raised to allow small local units that experienced population growth, but still have limited budgets, to obtain an audit every two years instead of yearly.

CONTENT

The bill amended the Uniform Budgeting and Accounting Act to require local units of government with a population under 4,000 to obtain an audit of their financial records, accounts, and procedures at least every two years. If an audit under this provision discloses a material deviation by the local unit from generally accepted accounting practices or from applicable rules and regulations of a State department or agency or discloses any fiscal irregularity, defalcation (embezzlement), misfeasance, nonfeasance, or malfeasance, the Department of Treasury may require an audit to be conducted in the next year. A local unit having a population of 4,000 or more will have to obtain an annual audit of its financial records, accounts, and procedures.

The bill deleted requirements that local governments with a population under 2,000 obtain an audit biennially, and that local governments with a population under 1 million obtain an annual audit of their financial records, accounts, and procedures.

The bill also deleted a provision under which a local unit with a population of at least 1 million had to obtain an annual audit, except that if internal auditing procedures for all public money were established and a copy of the annual internal audit had been filed with the State Department of Treasury, then an independent audit was required at least every five years.

MCL 141.425

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill increases from 2,000 to 4,000 the population threshold that allows a city, village, or township to obtain an audit biennially instead of annually. Population is a good indicator of the size of a community's budget. Even if the population of a small locality increased during the past few years, a local government's budget may be limited and the cost of an annual audit may be a sizable expenditure of that budget. Furthermore, a local government could put the money spent on an annual audit to better use for the community.

Opposing Argument

According to the Department of Treasury, fraud has occurred in some local governments because there was little oversight of their budgets due to the biennial audit requirement. An audit helps uncover fiscal irregularities that may need further investigation. By requiring small governmental units to conduct a yearly audit of their finances, the law enabled the Department of Treasury to detect sooner any financial abuses and prohibit them from continuing.

Response: If the biennial audit discloses any fiscal irregularities or wrongdoing, the Department may require a local government to obtain a subsequent audit in the following year.

Legislative Analyst: L. Arasim

FISCAL IMPACT

The bill will, for every other year, eliminate the cost of an audit for local units with a population between 3,000 and 4,000. This will save an estimated $430,000 biennially for the local units involved.

The bill will have no State fiscal impact.

Fiscal Analyst: R. Ross