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"Accounting Standards and Practices in Selected  
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Mr. Walter J. Cesarz

has been accepted toward fulfilment  
of requirements for

M. A. degree in Economics

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*H. S. Patton*

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ACCOUNTING AND STANDARD PRACTICES  
IN THE SELECTED MICHIGAN COUNTIES

ACCOUNTING AND STANDARD PRACTICES  
IN THE SELECTED MICHIGAN COUNTIES

by

Walter Joseph Cesarz

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THESIS



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## CHAPTER I

### INTRODUCTION

The administrative "headlessness" of county government can be well illustrated by the accounting and financial practices in use. Very few county accounting systems have been modernized or "streamlined" to meet the considerable changes in financial activities that have taken place, especially within the last decade. Most county officials believe they have adequate accounting systems. On the other hand, officials of some counties have thought otherwise and have taken the initiative in the improvement of their accounting policies without the aid of the state and with a consequent raising of the standards employed. Incidentally, one of the primary purposes of this study will be to study the influence of state supervision upon county accounting practices and to suggest further improvements in such supervision. However, no matter how good state supervision may be, it is the counties which must undertake a self-imposed task of coordination and improvement of accounting activities and procedures, for as long as they remain the "dark continent" of American politics, adequate services cannot be expected of them.

- A. History of State Control and Support of County Accounting and Budgetary Procedure. The initial provision for the state control of the Michigan county accounting systems

is found in the state constitution,<sup>1/</sup> which states that the legislature shall provide by law for the keeping, supervising, and auditing of public accounts in the counties by a competent state authority. It further provides that accurate and uniform records of all receipts, disbursements, and other financial records of all county officials shall be maintained. Finally, all these public records and audits are to be open to public inspection.

In 1911 an Act was passed which provided for county uniform accounting under the authority of the Auditor General.<sup>2/</sup> It specified, however, that these records were to be utilized only in those counties that desired state supervision of their accounting, auditing, and record-keeping activities. Since this statute did not require cooperation on the part of the counties, as a result, not a single county in Michigan came under its provision. Various difficulties arose between the state and the counties on the care of county patients in the state institutions. There was no method of ascertaining how much a county paid the state nor from what fund the money was drawn. Haphazard systems of accounting existed. In most instances, the payments were made as long as there was any money in the county's till, regardless of the fund to which the money belonged. The reconciliation of

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<sup>1</sup>

Michigan State Constitution - 1908, Article X, Section 18.

<sup>2</sup>

Act 183, P. A. 1911; C. L. 1915, Sections 265-275.

the County Treasurer's books with his balances in depositaries was an exception rather than a rule. These difficulties led to the enactment of mandatory legislation in 1919 for all counties requiring that they come under the standardized and uniform system of fiscal procedure, accounting, and reporting.<sup>3/</sup> At present the Auditor General is the proper authority for installing any system that he sees fit, as long as it is within the limits of the constitution. Before this Act was passed, the Auditor General, Oramel B. Fuller, appointed a public accountant, Fred Griswold, to go to various counties and study their records and practices for the purpose of adopting some uniform system for all counties. On July 1, 1919, this Act, under the supervision of Mr. Griswold, was first put into operation in Ingham county. Within a year, this system was installed in all the counties of the state with the exception of Wayne county. In the case of Wayne county, the Auditor General considered an adequate record-keeping and reporting system was already functioning. Three counties--Berrien, Cheboygan, and Lenawee - refused to subscribe to this Act, but the threat of removal of county officials from office led them to accept the prescribed standards. The County Audit Staff was organized to carry out the provisions of the Act. Of the auditors hired at the outset of the program, only

Mr. Griswold was an accountant. Later, most of the auditors employed were former county officials who had been defeated at the polls. An attempt was made to write a manual of instructions for the county officials on the use of forms, accounts, and records. Before this could be done, Mr. Griswold was given another state position to standardize the accounting systems for the state commissions and institutions. The result has been that for twenty years, the Michigan counties operated without such a manual.

No new improvements concerning the financial administration and accounting had been attempted (during the first decade) by the state. Genesee county was operating under the state statutes which provide for County Auditor<sup>4/</sup> and Purchasing Agent.<sup>5/</sup> Back in 1927, a County Controller Act had been passed,<sup>6/</sup> and Genesee and Macomb counties elected to come under this law.

In January, 1933, a new Auditor General, John K. Stack, Jr., took office. He felt that the County Audit Staff of twelve members was not competent and replaced them with six appointees of his own. A huge shortage in connection with tax collections was discovered in Jackson county, but the new appointees could not cope with the

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<sup>4</sup>

Act 275, P. A. 1913; C. L. 1929, Sections 1203 et seq.

<sup>5</sup>

Act 58, P. A. 1921; C. L. 1929, Section 1134.

<sup>6</sup>

Act 257, P. A. 1927; C. L. 1929, Section 1135.

situation. So one of the old members of the County Audit Staff was rehired to help in the audit work. In June of that year, the Auditor General awarded an auditing contract to a firm of certified public accountants, (Lawrence Scudder and Company), the low bidder. This contract covered a general audit of all counties in the state. The firm made an ordinary commercial type of audit, unsatisfactory in view of the needs for system improvements as well as for verification of records. Since this firm was the lowest bidder, it did not work well, as a private organization cannot afford to put too much time in its auditing if it is to make a profit for itself. In 1935, the County Audit work was again taken over by the new Auditor General, John J. O'Hara, and nearly all the members of the County Audit Staff under the late Oramel B. Fuller were rehired. In 1937, another Auditor General, George Gundry, took office. He removed all the assistants and replaced them with his own men, only the heads of the departments remaining. In 1938, he ordered every county to use the prescribed budget form of Calhoun county. This form was complete in every detail for nearly every type of expense that the county would encounter as far as the General, Poor, and Health Funds were concerned. This form was never put in operation, and when the present Auditor General, Vernon J. Brown, took office in 1939, the county officials were advised that it was not mandatory for them



to use the budget form. As a result, today only Calhoun county uses this form.

In 1941, the present Auditor General decided to improve the audits by hiring a public accountant, Richard C. Shepler, as the Supervising Auditor. The audits are now "streamlined" so as to give the totals of funds and accounts instead of showing exhaustive detail. Another improvement in state supervision has been produced as a result of the publication of "Manuals on the Standardized and Uniform System of Fiscal Procedure, Accounting, and Reporting for the Counties of Michigan". These manuals have been drawn up for the following county offices: County Clerk, County Treasurer, Register of Deeds, Judge of Probate, and Sheriff. Another manual has been written by the Michigan Department of Health for the County Health Units. The State Department of Social Welfare issued a memorandum of instructions to the Social Welfare Departments on accounting procedure in the counties. The latest development has been to place audits by the state staff on a calendar year basis. This meant, of course, that some audits for the year ended December 31, 1940, covered fiscal operations of fourteen months' duration, while others were for only three months.

Budgets have come into existence during the past decade. No definite dates can be determined for the beginning of budgeting for any county.

B. Present Status of State Supervision. In most respects the state supervision is administrative, but the constitutional, and the legislative aspects are also reflected in the organization and procedure of county operations. The Auditor General prescribes the books and forms for each department except for the Social Welfare (under the Supervision of State Department of Social Welfare) and the Health Units (under the State Department of Health). Books and forms are prescribed for each department by the Auditor General, but the counties pay for printing and binding. There is no state supervision of budgeting and reporting, but financial reports are given to the County Board of Supervisors annually and also whenever the latter requests them. These reports must be approved by the Auditor General but the cost is borne locally. They are not published by the state. The main supervision lies in the annual external auditing, conducted by the County Audit Staff of the Auditor General with the expense borne by the state. The State Department of Social Welfare audits the records of the County Department of Social Welfare. Their audit reports and those of the Auditor General are the best that can be found at the present time.

C. Nature and Activities of the Municipal Finance Officers' Association.<sup>7/</sup> This is a national organization, composed

of twelve hundred comptrollers, treasurers, auditors, and accountants of counties, cities, other local units and states.<sup>8/</sup> It serves as an exchange bureau of information and ideas on government finances and accounting. It publishes from time to time reports covering special topics on governmental accounting. The Association's Committee on County Accounting represents the auditors, controllers, accountants and other county officers whose goal has been the improvement of methods of county and finance standards so that greater comparability between financial statistics may be secured. In 1937, the committee published a pamphlet entitled "COUNTY FINANCE AND ACCOUNTING STANDARDS". At this writing it is still a guide to approved practices in county finance and accounting.

- D. Standards Established by the Municipal Finance Officers' Association. Standards are more than mere bookkeeping and financial devices. Standards are goals of achievement which apply to all governmental units regardless of size.<sup>9/</sup> The standards are carefully scrutinized in this report, and are adapted from the principles formulated by the Committee on County Accounting.

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Letter of August 18, 1941, and signed by Carl W. Tiller, to the writer.

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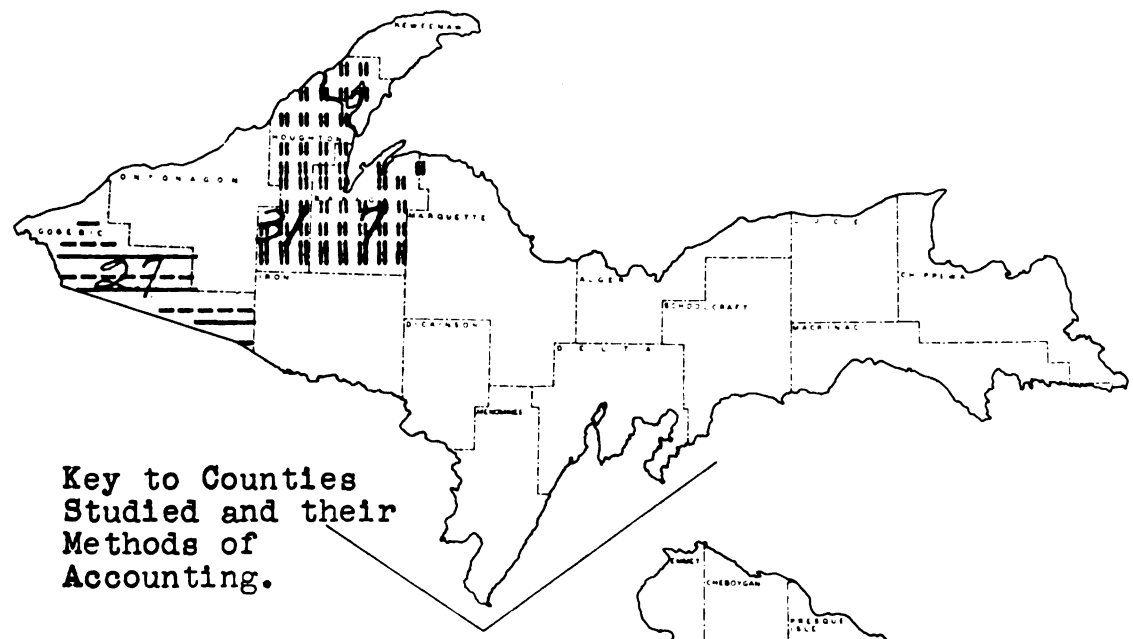
Minimum Accounting Standards for Tennessee Counties and Small Municipalities, Knoxville: The University of Tennessee, 1940, P. 6.

E. Counties Studied. To secure a better representation as to the finance and accounting standards in the Michigan counties, several of these were visited in various sections of the state. Those studied and the classification that can be made of them as to accounting supervision are:

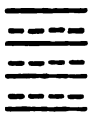
1. Baraga, Berrien, Clinton, Eaton, Houghton, Otsego and Sanilac -- decentralized system whereby each office keeps its own records and is responsible for its financial transactions.
2. Calhoun, Genesee, and Macomb -- County Controller.
3. Gogebic -- Auditor with limited accounting duties.
4. Oakland -- County Board of Auditors.

Each of these counties will be discussed in further detail as to the merits of their accounting and financial standards, and as to their methods of maintaining accounting records.

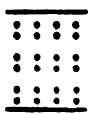
F. Methods of Comparison and Analysis Used in This Study. In order to secure the material on the general accounting and financial practices of these counties, each was visited sometime during the period between April 1 and August 1, 1941. The records and financial statements of all



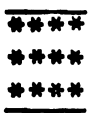
Key to Counties  
Studied and their  
Methods of  
Accounting.



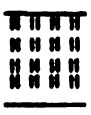
Auditor



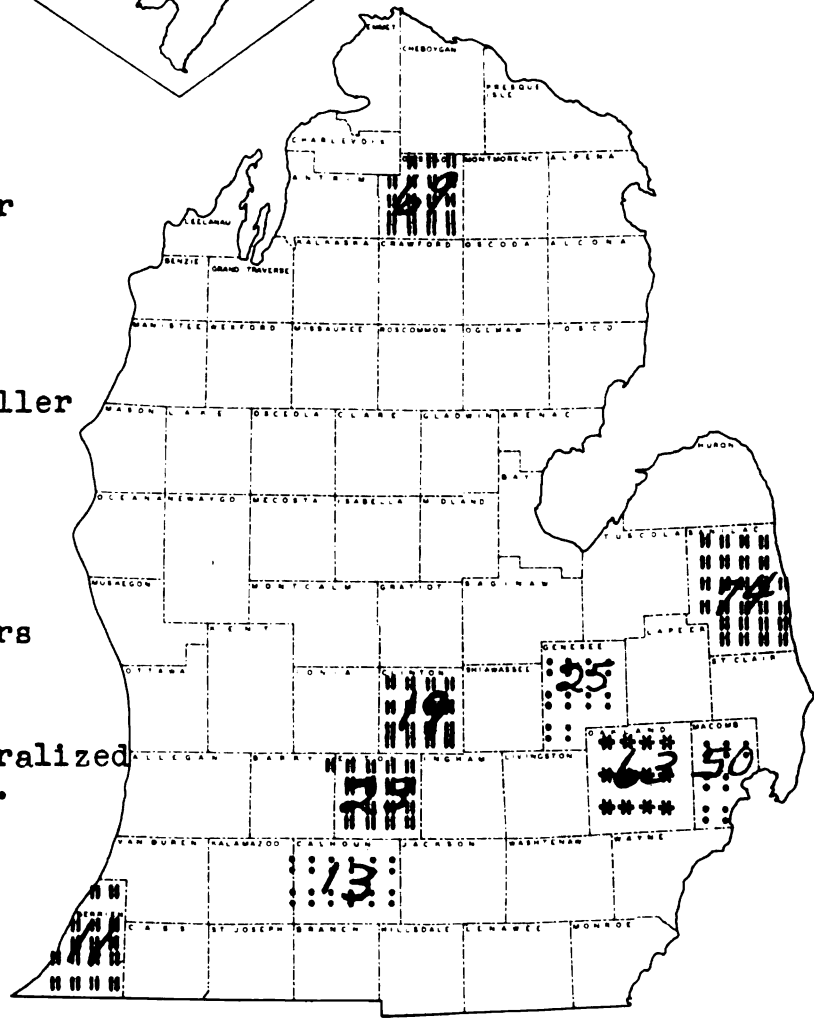
Controller



Board  
of  
Auditors



Decentralized  
Method.



MAP SHOWING THE MICHIGAN COUNTIES

Note: The numbers on the counties studied are those which come in alphabetical order when all the counties of Michigan are considered.

departments for the fiscal year, 1940, were examined. To get as much data as possible, various county officials and citizens, as well as some members of the State Department of Social Welfare and of the County Audit Staff of the Auditor General were interviewed. Statements and opinions of many persons who did not wish to be quoted are made in this report without reference, if in the opinion of the writer, they are worth stating.

In each chapter or each section of the chapter, the M. F. O. A. Standards of the Committee on County Accounting are given. Then the actual procedures, policies, or standards of the Michigan counties and sometimes of counties in some other states are given to show the variations. Finally, the conclusions are drawn and suggestions made which, in the opinion of the writer, will, if adopted, bring some improvement in accounting standards and practices in Michigan counties.

## CHAPTER II

### FINANCIAL ORGANIZATION

MFOA Standards. The number and types of transactions together with the constitutional and statutory provisions should be considered in formulating the type of financial organization applicable to all counties. Those activities, which are recognized as essential in financial administration involve (1) the collection, disbursement, and custody of county funds, (2) accounting and internal audit, and (3) purchasing and storing. The assessment procedure is important but will not be treated in its entirety. All these functions are separate and distinct, and, if the volume of work warrants, each should be performed by separate individuals. In smaller counties, where volume of work is not large, all accounting and purchasing may be done by the same person.

Actual Standards. Centralized administrative control does not exist in the Michigan county government. The legislative and executive powers pertaining to major financial authority rest with the board of supervisors, inasmuch as the board determines the tax rate and makes general appropriations.<sup>1/</sup> Some functions - such as welfare and medical assistance

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<sup>1</sup>

Act 156, P. A. 1851; C. L. 1929, Section 1130.

roads, and schools - are partly controlled by them. The Treasurer, Clerk, Sheriff, Register of Deeds, Probate Judge, and local Justices of the Peace are financial officers of the county and are responsible for certain types of revenue. Each official works independently of others and feels that he is responsible to the people and to no other county office. The main treasury duties are performed by the County Treasurer.

The authorization to spend is vested in the board of supervisors, who adjust, audit and allow accounts, and draw warrants on the county treasurer for payment of all claims against the county.<sup>2/</sup> These claims are presented to the board by the county clerk, or the board of auditors, or the controller, depending upon their method of accounting. The general procedure wherever the controller or board of auditors does not exist is for the county officials to purchase and send bills to the county clerk, who submits the bills on a voucher to the board of supervisors for approval.

The board of supervisors determines the tax levy which is sent to the assessed units to be spread. The assessment of all property liable to taxation is made annually in every township by the supervisor of each. Cities have their own assessors. The assessing officers place in a separate column on the assessment roll all taxes voted by school district. Nearly all drains are

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<sup>2</sup>

Michigan Historical Survey, The. Inventory of County Archives in Michigan. No. 13. Calhoun County, May, 1941. pp.77.



financed by special assessment. Assessments for county roads, wherever they occur, are made by the road commission.<sup>3/</sup>

The function of collecting taxes is vested in the township or city treasurer, who demands payment, gives notice of default, advertises, and finally levies on the property. The county treasurer collects all delinquent taxes and makes returns to the State Auditor General. The local units must file a statement of delinquent taxes with the treasurer.<sup>4/</sup> The collection of other revenues, fees, licenses, permits, court costs - is distributed among the several offices, as prescribed by statutes.

The county treasurer is the disbursing officer. All county funds are paid out of this office except for fees which are retained by the individual offices in some counties and not turned to the treasurer.

The accounting for receipts of revenues is performed by each department and (except for some fees retained) deposited with the county treasurer, for which an official receipt is issued by the treasurer and countersigned by the county clerk. The accounting for the disposition of money is made by the treasurer and the clerk, or the controller. The internal audit for any expense is made by the finance committee of the board of supervisors, or the board of auditors, or controller, or auditor, whichever the case

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<sup>3</sup>

Ibid. pp. 76-77; as Amended by Act 231, P. A. 1941. Section 39 and 53.

<sup>4</sup>

Ibid. Section 56a.

may be. Purchasing exists according to the policy of each county or its set-up. The county controller or auditor does all the purchasing and internal auditing for all the departments except road, health department, board of social welfare, and schools. In Oakland county the board of auditors not only performs the same type of purchasing but also does internal auditing duties in all departments. Great savings are made in these counties because of some degree of centralized purchasing. In the remaining counties studied, purchasing and accounting are decentralized, each department head purchasing materials and supplies as he sees fit. However, in Houghton county, some check on purchases is secured by delegating to the county clerk the responsibility of acting upon the need for purchases requested by the several department heads. The internal audit is made by the finance committee of the board of supervisors.

A. Treasury Duties.

M.F.O.A. Standards. The collection, disbursement, and custody of the county's funds involves the following duties:

1. Keeping a record of the receipts, disbursements, bank deposits, and balances of the county's cash.
2. Receiving and depositing daily to the credit of the county cash turned over by other departments or paid by the public, recording

the amount and source of each receipt, and promptly reporting all receipts to the appropriate accounting officer.

3. Collecting, recording, and reporting to the appropriate accounting officer interest on investments and on bank balances.
4. Making deposits only in depositories legally selected and only up to the maximum amount permitted by law or good judgment.
5. Seeing that depositories are properly bonded or that sufficient and good collateral is pledged.
6. Securing the maximum possible return on the county's investments consistent with safety.
7. Seeing that paid coupons and bonds are properly canceled.
8. Making disbursements only upon properly authorized Warrants.
9. Transmitting to other units promptly money collected for them.

Actual Standards. The property tax and the grants-in-aid are the counties' chief sources of income. Another source includes fees, licenses, and permits of which some are deposited to the county treasury or retained by the collecting office, depending upon the ordinance of the

said county.<sup>5/</sup> The statutes prescribe that each fee receiving office must report the fees to the county treasurer and county clerk at the end of each month.<sup>6/</sup> In many cases the fee officers actually refuse to report their collections because the State Auditor General would have too many civil cases on hand or there is no way of having some political official force them to do so. Obviously, these fees are costs of county government and should be included in the statement of expenditures.

With reference to Point 1, the county treasurers keep the records of daily and departmental receipts, disbursements, bank deposits of each fund, and effect the reconciliation of bank statements, as this is prescribed under the uniform accounting act.

Regarding Point 2, it was discovered that the county treasurers receive monthly, bi-monthly or weekly to the credit of the county all the cash turned over by other departments and give the serially numbered official receipt for it, including that of the county treasurer. The departments issue the serially numbered departmental receipts for each item of cash received daily unless otherwise provided. While turning money to the treasurer, the departments also submit an accompanying

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C. L. 1929, Section 1346, as amended by Act 202,  
P. A. 1931, Section 1.

6

C. L. 1929, Section 1347 and 15429.

revenue voucher (original). The duplicate is sent to the county clerk and the triplicate is maintained for their own record. The nature of this voucher is to indicate the source of revenue receipts, total fees collected, and the amount submitted to the county treasurer. The original of the official receipt goes to the depositing department, the duplicate to the county clerk, and triplicate is retained by the treasurer. This receipt is the posting medium for Cash Receipts Books in the county treasurer's and the county clerk's office.

It was found on Point 3 - collecting, recording and reporting to appropriate accounting officer interest on investment or bank balances - that Macomb, Eaton, and Oakland counties were the only counties which conformed to these standards.

Point 4 - making deposits in legally selected depositories - impounded accounts in closed banks as result of the depression of 1933. Oakland county has a policy of having deposits in twenty different banks, which in the estimation of the County Audit Staff of the State Auditor General's Department is too many. It is seldom found that the depositories are not in legally selected banks. At the present time, most banks do not wish to bid on deposits because of their huge cash surplus.

The statute provides for Point 5 that the depositories are properly bonded by a bonding company and paid by the county upon approval of county board.

Concerning section 6, only Macomb and Oakland counties have any investments, but they are very small. Therefore, it would be rather difficult to obtain maximum returns on their investments.

For Point 7, the coupons are audited externally as to their cancellation by the State Auditor General's staff, although road commissions have the most of the outstanding bonded indebtedness. Macomb county has a controller, who keeps watch on maturity dates of all county bonds, except those of the road commission.

The suggestion in Point 8 is well carried out in all counties. In Macomb and Calhoun counties the controller issues the warrants which are signed by the county clerk and the county treasurer. In Genesee county the controller issues and signs the warrants which are countersigned by the county clerk and county treasurer. In Oakland county the board of auditors issues warrants which are signed by the county clerk and the treasurer. In the rest of the counties studied the treasurer issues warrants which are signed by him and countersigned by the county clerk.

On Point 9, the counties transmit the agency money promptly as the benefitting units always know what money is due them.

B. Accounting Duties.

M.F.O.A. Standards. The duties involved in accounting and internal audit control are as follows:

1. Producing all of the information essential as a basis for the management of the county's finances.
2. Designating the methods of accounting to be followed by all departments, prescribing the records to be kept, and providing for standardized accounting documents, such as purchase orders, invoices, and payrolls as well as forms of reports.
3. Keeping all such records as are necessary to control adequately the financial transactions of the county.
4. Seeing that the county receives all revenues to which it is entitled and that all receipts are properly accounted for.
5. Pre-auditing all expenditures to see that they are made in accordance with law and that no payment is made without the written approval of the proper authorities.

6. Maintaining an up-to-date digest of state laws and county ordinances governing accounting, budgeting, and reporting.
7. Preparing all the financial statements needed to show the financial condition and the financial operations of the county, monthly, annually, and at any other time when requested by the chief executive, administrative officers, or members of the county board for their guidance in carrying out their duties.

Actual Standards. The accounting and the internal control methods depend upon the type of accounting control provided in the counties studied. With minor exceptions, the legal requirements that pertain to accounting are general because all the counties, except Wayne, come under the County Uniform Accounting Act.

In discussing Point 1 of the accounting duties, which involves the procurement of all financial information for proper management, much can be said about the present scheme of decentralization. Since each office keeps its own records of cash receipts, the fees which are retained by the office are not included in the statement of revenues and expenditures. This point will be discussed more in detail in the chapters that follow.



Concerning Point 2, the methods of accounting that are to be followed in all departments except Social Welfare, and the Health Units are prescribed by the State Auditor General. The State Department of Social Welfare supervises the Standards for the Social Welfare Department, and the State Department of Health designates the methods for the Health Units. The accounting documents are standardized in all the departments, but the Health Units, although the latter will soon have uniform accounts. Purchase orders, invoices, and payrolls are not uniform among the counties, but they are maintained, especially in the road departments.

On Point 3, records do control the receipts except fees retained by the departments, but not the expenditures, because the system is on the cash basis instead of accrual basis, as will be discussed in Chapter IV. Many expenses may be encountered in one administration but paid by their successors. Macomb and Calhoun counties come nearest to an adequate control by including the Vouchers or Bills Payable accounts in their expenditure reports to the county board.

Concerning Point 4, Macomb, Oakland, and Genesee counties seem to receive all the revenues to which they are entitled by having (1) addressograph machines to print the tax rolls and avoid mistakes of descriptions, (2) dog warden on percentage basis to collect all dog

taxes possible, (3) all county officers turn their fees to the county, and (4) cash register system of recording actual receipts whereby each amount of cash received is simultaneously recorded on the tape of the cash register and the payer's receipt. The accounting for those revenues is done by the county clerk or the county controller in these counties. At this writing Calhoun county is contemplating the installation of addressograph machines for tax rolls. This is for the purpose of avoiding charge-backs, whereby the taxpayer cannot be forced to pay taxes when there is a wrong description of property. Dog tax collections in Otsego, Eaton and Clinton counties are very good, but in Gogebic, Houghton, Baraga and Sanilac counties they are poor. It is difficult to check up tax receipts of the county treasurer. Wherever some officers are kept on a fee basis (as in Baraga, Berrien, Clinton, Houghton, Otsego and Sanilac) there is a tendency for county officials not to report certain fees which are prescribed to them by law. Sometimes no receipts are made for those fees making it impossible to audit them.

In Point 5, all the expenditures are pre-audited by the finance committee, controller, or the county board of auditors. In all these counties the payments are made with the written approval of proper authorities. In some counties, the road commissions issue and sign

their own warrants. The same can be said of some Social Welfare departments. Sometimes counties make illegal expenditures, such as Red Cross, but no effective attempt has been made by the State Auditor General to stop it.

On Point 6, it has been discovered that there is no up-to-date digest of state laws on budgeting. There are manuals for fiscal procedure, accounting and reporting for the following offices: County Clerk, County Treasurer, Judge of Probate, Sheriff and Register of Deeds. Concerning the county ordinances, one would have to read the proceedings for the past several years to get all the county ordinances.

It has been discovered about Point 7, that some counties make several financial statements per year while others make one or none at all. The usual statements are to give the receipts and expenditures for the preceding period. Baraga county clerk and the auditor in Gogebic county prepare monthly and annual reports. Calhoun county controller prepares financial statements for the first nine months of the present fiscal year; this is submitted to the board of supervisors during the October session to consider the budget for the following fiscal year. At the end of the year the controller makes a financial report for the last quarter, together with the report of the first three quarters of the fiscal year and the totals for the full year. Clinton, Genesee, Houghton, Macomb,

Sanilac, and Berrien counties prepare only the annual financial statements which show the financial operations of the county, the trial balance of all funds and the abstract of all funds. Berrien county clerk keeps the recapitulation figures of all the General Fund disbursements. It is always easy to get any financial information in Genesee, Calhoun, and Macomb counties on all departments except Road, Social Welfare, and Health Units. Oakland county does not publish a periodical or annual statement but by request it may be obtained from the county board of auditors. The county treasurer and the county clerk of Eaton county have not been issuing any financial reports for the past few years. Therefore, it is necessary to look into county accounting records or the state audit reports to find what the actual receipts and expenditures were for any year. In Otsego county, the treasurer gives only the abstract of funds to the county board, but the clerk and register of deeds (same person) boasted that he has not made an annual report for the past twelve years.

- C. Ideal Financial Organization. To establish an ideal system of fiscal control, a strong centralized system of financial organization would be necessary. A clear-cut distinction would be made between the legislative, executive, and judicial functions. A finance department

would handle all the assessing, purchasing, accounting and treasury. All the necessary details for the performance of these duties would be included in this one department. If necessary, different individuals would handle those separate and distinct functions.

- D. Conclusions and Recommendations. To centralize the financial organization of the county, it would be necessary to change the state constitution. Accounting and treasury duties can be centralized under the present constitution by statutes without the change of organization of county offices. The counties which made some attempt to control their finances have shown progress toward better accounting and better preparation of the essential financial data. The assessment of property is poor in all the counties. To have some state organization do the assessing would be a step in the right direction. The purchasing is best in counties where it is centralized or some attempt made to check the purchases. The counties having the controller, or auditor, or board of auditors report great savings on purchases; the purchasing duties - such as requisitions, acceptance of bids, issuance of purchase orders, and delivery and inspection of items - are included. The advantages and savings from centralized purchasing do not require much stress, and the counties should adopt it. The policy in all the counties is that

the receipts for services in the various county offices, less legal deductions, are turned over to the county treasurer daily, or weekly, or monthly, whichever way is convenient. Some county officers, whose compensation consists wholly or partly in fees, refuse to report the fees. They also refuse to post in their Cash Receipts Books some of the fees which are retained by them. The county treasurer keeps books of receipts, deposits, and disbursements of all county's money. The best improvement now would be to have all fees paid to the county treasurer. The payment for the maintenance of fee officers would be made only by the county treasurer and in accordance with the proper authorization. This would show truer receipts and disbursements of the county. The same policy concerning fees had been recommended for the Illinois counties.<sup>7/</sup> The county controller of Michigan centralizes all the accounting and purchasing in one department. The greatest improvement in the financial organization would be to have all the accounting duties centralized in one office, but separated from the treasury duties. Thus one department would do all the accounting and purchasing, while the other would do all the treasury work.

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Allen, H. K., Control of Expenditures in the Local Governmental Units of Illinois. Urbana: The University of Illinois, 1940. pp. 28-29

## CHAPTER III

### BUDGETING

MFOA Standards. A budget is a financial plan showing proposed expenditures for a given period or purpose balanced against the probable revenues to meet the expenditures, as expressed in the appropriation and revenue acts, ordinances, or resolutions. There are two types of budgets; current, which covers a period of one year, and long-term, which is prepared for at least five years. The responsibility of preparing a county budget should be delegated to some official. The chief financial officer, the chairman of county board, the chairman of the finance committee, or some employee designated by the county board would be the appropriate individual to undertake this particular work. The chief financial officer should furnish all the information needed in budgeting and be delegated to enforce budget. The enforcement of the budget, because of experience of previous year, can be accomplished by approving all the purchases and expenditures only when they do not exceed the amount provided in this financial plan. Finally, the budget should be adopted by the county board.

Actual Standards. Authorities on county government agree that the first step toward the financial control and economy in county government is the adoption and the strict adherence

to the standard budgetary principles.<sup>1/</sup> A county may incorporate the principles of proper budgeting, but be half-hearted in carrying them out.<sup>2/</sup> Macomb, Oakland, Genesee, Gogebic, Calhoun and Berrien counties have a contingent account set up to care for exigencies. In Berrien, the improper application of principles is shown in the fact that this account has become a reserve account to replenish usually overdrawn appropriations. Sanilac, Clinton, Eaton, and Otsego counties do not attempt to budget their expenditures. Eaton, Berrien, Sanilac, Houghton and Baraga counties' budgets consist merely of appropriations to the General Fund classification.

The ills in budgetary procedure can well be blamed upon the lack of citizen interest. One of the greatest difficulties under the present county organization is that there is no central county officer who can be charged with any budget duties. It has been suggested by many political scientists that the best officers for these duties would be the board of auditors, if any, otherwise the clerk.<sup>3/</sup> However, no regular system of budgeting exists in the Michigan counties. In fact, much time would elapse before the counties could be induced to maintain uniformly prepared budgets. As yet, no laws have been passed to put any form of county budget into operation; so there

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Bromage, Arthur W., and Reed, Thomas H. Organization and Cost of County and Township Government. Detroit: Detroit Bureau of Governmental Research, 1933. pp. 49.

2

Ibid. pp. 50.

3

Miller, Loren B. Local Finance Procedure. Detroit: Detroit Bureau of Governmental Research, 1933. pp. 47.



is no way for the state to prevent a county from adopting any sort of budget it desires. In 1931 an Act was adopted which provided for the establishment of uniform budgets for all local governments except the counties. Such budgets together with the appropriate financial reports were to be submitted to state treasurer. In the opinion of many interested parties this law was not given a fair chance. Township supervisors strenuously opposed this legislation on the basis of "home rule" principle.

After but partial application and for reasons which cannot be held final, the repeal of this law resulted from the enactment of Act 41, Public Acts of 1933, one of the "Hartman-Brown" bills introduced by the two re-elected members of a 1931 legislative commission appointed to study state (not local) expenditures.<sup>4/</sup> The attitude of the state legislature after repeal is that it will show interest in local budgets only when there is a state appropriation to the locality and the legislature wants to know how the money is being spent. Since all township supervisors are members of the county board of supervisors, it would be very difficult to have the counties adopt a state-sponsored budget system at once.

The controller, or auditor, or board of auditors, or finance committee of the board of supervisors may control

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<sup>4</sup>  
Ibid. pp. 50.

the budget operation since there is no chief executive in any of the Michigan counties. The responsibility of preparing a budget in every Michigan county is delegated to some committee, usually known as a finance or a budget committee, except in the county having a board of auditors. In Oakland, the board of auditors prepares the budgets, salaries schedules and other pertinent budget information. As a rule, a controller has to have some political connection because his term of office exists only at the pleasure of the board of supervisors. Therefore, in Calhoun, Genesee and Macomb counties, the controller would be reluctant to take the responsibility of preparing a tentative budget because his recommendation of certain appropriations would arouse the ire of some political office-holders. The same situation would hold true of the auditor in Gogebic county who does not keep any set of books but assists in preparing a budget and in making out periodical reports. A controller, however, furnishes the appropriate committee with information for the preparation of the budget, such as actual expenditure during the past year as compared with the estimated expenditures. Despite the handicaps, the counties with controller, auditor, or board of auditors, certainly do show a better budget than counties where the budgets are prepared by some finance committee only.

As to budget enforcement, the controller, auditor, or the board of auditors are the chief financial and accounting

officers since they approve purchases and do the pre-auditing of all expenditures before they are audited by the appropriate committee. In other counties, the clerk is the chief accounting officer, but the finance committee or the board of supervisors itself controls budget expenditures, loosely or otherwise.

A. Preparation of Budget.

M.F.O.A. Standards. The budget calendar should be prepared to indicate sufficient time allotted for each step in the preparation of the budget before the beginning of the year. It should include all activities carried on in the county whether through departments or semi-independent boards. Each department should be required to prepare an estimate of expenditures necessary to finance its operations.

Revenues earned by each department or county official must be included and must not be expended without proper authorization from county board. Activities to be financed from general revenues (general taxes and other revenues not allocated specifically by statutes to any particular activity) should be included in general budget. In preparing estimates of expenditures and revenues, the actual expenses and revenues of the last two years should be considered and allowance for any changes in conditions which might affect estimated revenues or expenditures. Deficits must be avoided,

but where they exist some attempt must be made to eliminate them.

After the new budget has been prepared, it should be submitted to the legislative body for consideration and adoption. The budget document should consist of the following:

1. Budget Message which discusses the budget as a whole and in which the principal items of proposed expenditures and revenues are explained. Past year's experience, the present status and the financial trend and policy for the coming year are given attention.
2. Budget Summary has total proposed expenditures and resources to finance them brought together. Revenues are classified by main sources, such as taxes, departmental earnings, etc.; expenditures are classified by character (current expenses, capital outlay, etc.) and object (personal services, materials and supplies, and equipment).
3. Detailed Statement of actual revenues for each preceding two years, estimated revenues for the current year, and any additional sources for the current and the coming year.

4. Schedules showing the fixed and unavoidable expenditures for the coming year, including such items as interest on notes and bonds; judgments and costs; maturing general serial bonds; contributions to sinking funds; contributions to pension funds; the estimated deficit in any fund at the end of the current year.
5. Departmental Schedules show expenditures of each department for the past two years, estimated expenditures for the current year, departmental requests, and the amount recommended by the budget authority.
6. Departmental Work Programs which will be determined by the changing departmental policies as well as by the amount and character of services to be performed.
7. Debt Statement shows not only the Debt Limit, but also the total amount of debt applicable to Debt Limit (Bonded Debt and other Debt) and the Legal Debt Margin.
8. Debt Schedule shows principal and interest requirements by years for (a) existing debt and (b) for new bonds to be issued under the terms of proposed budget.
9. An analysis of tax delinquency.

10. Schedule of short-term borrowing transactions during past two years, the current year, and proposed for the coming year.
11. Appropriation Ordinance and tax levy ordinance to carry the budget into effect.
12. Schedule of salary and wage rates applicable to each class or position.

Actual Standards. The preparation of the budget usually begins about May of each year. At that time, the State Department of Social Welfare notifies all the county boards of supervisors that they must make appropriations for the Social Welfare department in their county. Fiscal control in the Michigan counties is somewhat in the hands of the county tax allocation board, which is composed of the county treasurer, the chairman of the finance committee of the board of supervisors, the county school commissioner, one member of school district maintaining twelve grades, and one member not officially connected with any local unit selected by Judge of Probate.<sup>5/</sup> The last two members hold office for one year. The board selects one of its officers, as chairman and the county clerk serves as clerk of the board.<sup>6/</sup> The principal function of the board is to review the budgets and statements of the local units of the

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Michigan Historical Records Survey, The. Inventory of County Archives of Michigan, No. 7, Baraga County. December, 1937, pp. 28-29.

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Act 62, P. A. 1933

county, cities, villages, townships and school districts, and determine the tax rates required according to the proposed budgets as restricted by the constitution. From these submitted budgets, the board usually determines and approves the maximum tax rates for every local unit. The meetings of this board which include the public hearings are held monthly during May, June, July, and August. Any aggrieved local unit may appeal the final order of the tax allocation board to the State Tax Commission only.<sup>7/</sup> By August, the county knows what portion of the taxes will be allocated to it.

In the meantime, the county department heads have submitted their budget requests for the next fiscal year. It is usually an exception rather than a rule to have each department transmit a schedule of proposed expenditures to the proper authority. Whenever proposed expenditures are given by the department heads, they usually show some padded expenses so that the appropriation could be larger for the department that made the request. Revenues earned by the departments are seldom included in the budget and, if they are, there is a tendency for the county officials to understate the fees by showing them to be very small. This understatement of fees and the padding of expenditures is used to influence the county

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Act 30, P. A. 1933, Extra Session.

tax allocation board to increase the millage for the county instead of other political localities, as counties and small local units are under the constitutional fifteen-mill tax limitation. These activities are usually financed out of general property taxes, all of which are seldom included in the budget. In estimating expenditures for the next budget year the present year's or the previous year's expenditures are taken into consideration, but an allowance is seldom made for any changes which are likely to affect the financial condition. The budgets usually submitted are ordinarily requests to levy some specified millage tax on property for county purposes. By August of each year, the county knows definitely how much money it will get, so that each department strives to get the most of the apportionment for itself.

In Sanilac and Clinton counties, the chairman of the finance committee calls upon every department in the county to submit its estimates for the next fiscal year. In Berrien county, the finance committee itself makes out a budget for each department for the ensuing year by making a recapitulation of total estimated expenditures for each department. In Baraga, Houghton, and Otsego counties, the finance committees themselves ask each department to submit their estimates. In Eaton county, the budget is prepared by the finance committee itself which is not detailed but very very broad in that a



certain portion of money is placed in a general fund; some money is put in County Social Welfare fund and the rest into the miscellaneous fund. Therefore, it is not definitely known what each department can spend but the Committees on Claims pre-audit every item before they make payments. In all these counties, just mentioned, the Finance Committees use the records of each office for the preceding year as a guide to make out the preliminary budget. In Calhoun, Genesee, Macomb and Gogebic, the county controller or the county auditor give all the essential information for preparing the budget. As stated before, the board of auditors in Oakland county prepares the budget. The preparation of the budget in all the counties studied usually begins about May of each year.

When the budgets are being prepared in Macomb and Genesee counties, the controllers insist that for every item of expenditure, there should be sufficient revenue to cover it. The best estimates of the tax collections and delinquent taxes are shown in Macomb county because it is the only county which shows an allowance for tax losses. It has been found that in Sanilac, Berrien, Clinton, and Baraga counties, the funds were over-drawn. Because Macomb county has accrued several deficits during the depression, it shows in its report some revenues which are provided to eliminate them.

After these budgets have been prepared, they are presented to the board for consideration and adoption only by the committees of the county board of supervisors. In Oakland county, they are presented by the county board of auditors, who acting, in a capacity of an executive, have considered the budgets thoroughly, as well as investigated departments that made requests for certain amounts. The budget documents, as presented, usually consist of the following:

1. The Statement of the Finance Committee or the Budget Committee or of the County Board of Auditors. It states that the members had considered the budget in its entirety and now are submitting it to the board for adoption.
2. The expenditures to be considered for some of the funds, especially General Fund, whose revenues with those of other funds, come from the general source. Eaton county gives a typical example of the budgets prepared by the small counties in Michigan. The following prepared budget for 1939-1940 was shown in the Official Proceedings of their board of supervisors.<sup>8/</sup>

"The exact financial picture could not be determined due to a peculiar set-up of County Finances the first distribution was:

County Officers' Salaries. . . . .	\$25,000.00
Agricultural Extension. . . . .	2,000.00
Support of Insane. . . . .	2,000.00
Hospital. . . . .	3,500.00
Support of Poor . . . . .	9,000.00
Miscellaneous . . . . .	73,023.44
Total. . . . .	<u>\$114,523.44</u>

Then on Saturday the last day of October meeting the \$22,900.00 was voted for Social Welfare. We were informed that a revision of budget was necessary and was as follows:

County Salaries . . . . .	\$ 25,000.00
Agricultural Extension . . . . .	2,000.00
Support of Insane . . . . .	2,000.00
Hospital . . . . .	3,500.00
Support of Poor . . . . .	9,000.00
County Social Welfare. . . . .	22,900.00
Miscellaneous . . . . .	50,123.44
Total . . . . .	<u>\$114,523.44</u>

Adding \$22,900.00 to original budget and taking \$22,900.00 from miscellaneous. However, the \$9,000.00 for support of poor was not taken out, this would make a total of \$31,900.00 for poor and welfare. This is one reason we are not able to determine correctly; another is

that the \$9,000.00 support of poor was not voted, as a matter of record we are unable to find any money appropriated for county use except the \$22,900.00."

The estimated expenditures and the apportionment of tax levy for each township is usually shown, as the tax allocation board had decided what the county levy will be. Macomb county, which makes its officers turn all their fees to the county, usually makes estimates of the amount of fees that will be collected. Gogebic county on the other hand, appropriates a certain amount of money to each department but the fees and refunds which are turned to the county are also used by that department as a supplement to the appropriation.

We will now consider other points of the MFOA Standards. Point 1 - Budget Message, and Point 2 - Budget Summary have been discussed.

With reference to Point 3 - Statement of Actual and Estimated Revenues - Genesee, Macomb and Calhoun county controllers file columns of budget request which contain the following item information: Amount Expended Last Year and Amount Appropriated Last Year. The department head gives his request before the appropriate committee, whereby the committee sees whether an increase or decrease in appropriation is requested. Appropriate committee finally approves the amount it sees fit. The budget figure given by the committee is seldom changed

by the whole county board of supervisors. The same practice is followed in Gogebic, which has an auditor, and in Oakland which has a board of auditors. Clinton, Berrien, Houghton, Otsego, Baraga and Sanilac counties did not have the Statement of Actual and Estimated Revenues.

Regarding Point 4 - Schedules Showing Fixed and Unavoidable Expenditures - it is impossible to find out how much money each county owes. The main reason is the drain obligations, especially in Sanilac, Eaton and Berrien counties. The commitments in Sanilac county are in such bad shape that it is impossible to check what the drain debts really are. The Sanilac county drain commissioner had stated that it would be beneficial to the county if someone made a study of drain finances. In Eaton county, the treasurer admitted that the books of the drain office had checked for the first time in five years. The biggest trouble is that the drain commissioner will issue a drain order which is an accrued debt, but the county treasurer does not know about it until the drain order is presented for payment because he does not receive a carbon copy of the order when issued. Concerning other debts, Macomb, Genesee, Oakland, and Gogebic counties show their complete debt service. Macomb county has so many bond issues and refunding bond issues that it is very difficult to determine what their debt service

actually is. Dr. Cline of the Economics Department, Michigan State College, had stated that even the Michigan Public Debt Commission did not give as complete debt figures as Macomb county controller in his report to the supervisors. All the bond issues of Genesee county had been retired by May, 1941. No county studied has a pension fund nor shows an estimated deficit at the close of the current year.

As has been stated before, Point 5 which deals with Departmental Request forms, is not followed in its entirety. The counties which have a controller, auditor or board of auditors show each department's expenditures for the past year, estimated expenditures for the current year, departmental request and the amount recommended by the budget authority, or the final column shows how much money was actually appropriated.

For Point 6 - Departmental Work Program - it can be stated that only the road commissions have any kind of a departmental work program but this work will not be discussed in this survey. Except for salaries for the Road Department employees, the budget is not followed because their expenditures depend upon the receipts of gasoline and weight tax from the state. Not one county showed in its budget report the work program of the drain commission. Of course, drain departments do not

exist in Gogebic, Houghton, Baraga, and Otsego counties.

As to the Debt Statement which is stated in Point 7 - only Macomb county shows it in its report. Otsego county had made a loan from the local bank to the amount of \$7,000.00, although its debt limit in round figures is somewhere around \$10,000.00. Further questioning among the various county officials had shown that the county would have borrowed the full amount if the local bank would only allow that large a loan. Since it is not known what the actual debts are, it would be too difficult to give the Legal Debt Margin (Debt Limit which is 3% of assessed valuation of the county, minus total debt applicable to Debt Limit).

The Debt Schedule, showing principal and interest requirement by years for existing debt (Point 8), can only be found in the County Audit reports of the Auditor General's Department. Macomb county controller also shows that in his report. As for the new bonds to be issued under the terms of the proposed budget, no county makes a report. One will have to look through the minutes of the board of supervisors before he can really determine it because the issue of bonds has to have the approval of the Michigan Public Debt Commission.

For Point 9, only Macomb county shows Analysis of Tax Delinquencies; its information goes back ten years

previous. One has to read the audit reports for the past ten years to find the tax delinquencies for previous years in other counties.

As for the short-term transactions for the past two years, current year and for the proposed coming year, none of the counties show them. The larger counties would more likely show it if they made any borrowing. Therefore, not much attention was paid to Point 10.

It has been found for Point 11, that there is no actual appropriation ordinance except that the budget is adopted by having motion carried at the meeting of the board of supervisors at October session. As for tax levies made in a county, there is a fifteen-mill tax limitation, which is apportioned among all localities, and sometimes the amount of levy is overruled by Michigan State Tax Commission. Of course, the people in a county may vote the increase in taxes. Usually before the new budget year begins, each county knows what its tax levies will be, and that will be on Personal and Real Property.

Finally, the Schedule of Salary and Wage Rates Applicable to Each Position (Point 12) is shown in the county audit reports of the Auditor General's and in the budget figures of Oakland, Macomb, Calhoun, Berrien, Genesee, Gogebic, Baraga, Houghton and Eaton counties, but in Otsego and Sanilac counties, it is now shown because the officials usually work on fees.



On October 4, 1938, the State Auditor General's Department sent out the mimeographed letters together with blank forms to all county clerks in the state to install a county budget system. This was sent as a part of the Uniform Accounting System set up by the Auditor General under the authority of the Uniform Accounting Act. This was a prescribed budget form of Calhoun county and the Auditor General wanted all other counties to use it. This form was complete in every detail as far as the General, Poor, and Health funds were concerned. The state election took place the following month and the present Auditor General came into office. The county officials were advised that it was not mandatory for them to use this form, and, as a result, only Calhoun county uses this form. If this form were adopted, it would be a step in the right direction for the state supervision of county budgets. The County Audit staff would have power not only to audit the expenditures but also check the proximity of expenditures to the budget figures.

B. Adoption of the Budget.

M.F.O.A. Standards. Careful consideration of each item of the budget should be made by the legislative body. The public and the department heads should be given opportunities to be heard on the tentative budget. The budget is to be enacted into law by an appropriation

STATE OF MICHIGAN  
AUDITOR GENERAL'S DEPARTMENT  
LANSING

October 4, 1938

To All County Clerks:

We enclose herewith Uniform Accounting forms necessary to install a county budget system. We ask that you bring the matter of budget accounting to the attention of the Board of Supervisors at the annual meeting October 10.

If, after a discussion of the matter, it is decided to defer the installation of budget accounting until you have received further information, please do not destroy the enclosed sample forms but retain them for discussion at a subsequent meeting of the Supervisors.

This is a part of the Uniform Accounting system set up by the Auditor General under authority of the Uniform Accounting Act and our auditors will insist on its adoption and practice hereafter.

Yours very truly,

GEORGE T. GUNDRY  
Auditor General.

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Deputy Auditor General

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ordinance, which should show detailed expenditures proposed for each department and these expenditures should be divided into current expenses and capital outlay.

A carefully planned budget should need no changes in appropriations during the fiscal year unless emergencies should arise. Such changes are likely to interfere with orderly financing and for that reason should be avoided.

Actual Standards. The budgets are usually adopted by means of a motion of the chairman of the appropriate committee which considered the budget, and this motion is carried by the vote of the board of supervisors. The boards, now and then before the adoption, may call upon department heads to justify their request. The board of auditors in Oakland county considers the budget and submits it to the board of supervisors for final adoption. The departmental heads may make the final appeal to the board of supervisors for a greater appropriation. As to notices of public hearings on budgets, only those attend who are interested in appropriations. The fifteen-mill tax limitation is the reason for such poor attendance of private individuals. The appropriations to be divided between current expenditures and expenditures for properties and equipment, are not shown in any of the budgets. In the four counties which have a controller, or auditor, the budgets are carefully planned as far as the appropriations are concerned, and once the budgets

are adopted, there is a great attempt to control expenditures because there is someone in position to do so by watching various expenditure records. As stated before, most counties have a contingency reserve which the supervisors hope will meet any emergency which may arise. Since the committee that pre-audits claims seldom pays attention to budgets, orderly financing exists in some counties only by accident. The main consideration is whether there is money in the till.

- C. Budgetary Control. The most important step in the control over execution of budget is the allotment of appropriations. Timeliness of expenditures is one of its problems. The county board or someone designated by it should determine how much of the proposed expenditures should be spent each month, as the flow of revenue and rate of expenditure are not uniform throughout the year.

The procedure is to call for departmental allotments as soon as budget is adopted. The schedules should show monthly allotments, should be revised and approved by budget authority, and, as far as possible, should not exceed the estimated revenue for that month.

The accounting system and procedure play an important part in budgetary control through budgetary accounts. Control accounts for estimated revenues and appropriations are in the General Ledger. Subsidiary accounts for each source of estimated revenue should be carried in a

separate account in the Revenue Ledger. The same procedure should apply for the Appropriations Ledger, that is, a separate subsidiary account is provided in the Appropriation Ledger for each appropriation.

The budget enforcement should be under the supervision of the chief financial officer. He charges the purchase orders to the proper appropriation account at the time orders are issued - "encumbering the appropriations".

Finally, the chief financial officer should prepare quarterly or monthly statements showing the status of budget during the year to show how actual statements compare with budget estimates and to compare the actual expenditures and unliquidated encumbrances with budget estimates. These statements should be studied to determine what action he will take to insure the effective execution of budget plan.

Actual Standards. In Otsego, Sanilac, Houghton, Baraga, Eaton, and Berrien counties, the budget does not seem to be employed to show its true value as a control instrument. In nearly everyone of these counties, except Otsego and Eaton, there is an overdraft in the budget estimates of expenditures. In Macomb, Genesee, Gogebic and Calhoun counties, the budget control rests in the hands of controller or auditor or board of auditors. They approve the requests for purchases, issue purchase

orders and pre-audit all expenditures before they are given to the finance committee of the board of supervisors for approval of payment.

Otsego county and Eaton county admit that they do not have a budget but somehow or other they seem to vote for certain portions of the budget, such as tax levy, salary and wage schedule and the Social Welfare appropriation, which is required by the state. In no county is there an allotment schedule but Macomb and Genesee counties have proven that it is not necessary in many cases. These controllers have proven that reasonableness as to time of expenditures is used in approving them. The accounting system, which plays an important part in budgetary control, is not established in Michigan to show how closely each expenditure or revenue comes to the budget figures because there are no budgetary accounts. The Appropriation Ledger exists only in Calhoun county. The only time one can find out when expenditures are made for equipment and property is when one looks into the latest county audit reports of the Auditor General. No encumbrance system exists in Michigan. Although the financial officers in the counties having a controller or board of auditors do not make any monthly or quarterly statements, it is always easy to obtain these from them. Gogebic county is an exception because it makes monthly, quarterly, semi-annual and

annual statements of expenditures, as well as of revenues. Whenever any of the departments are about to exceed their budget, they are called in by the chief financial officer to show them that they are about to exceed the budget limits. Then the department head may go before the board of supervisors and ask for a change in the appropriation by obtaining an increase in budget figure. In this case, a transfer of funds has to be made between departments (intra-fund transfer) or between funds, if it is legal, or some means of revenue has to be made to balance the increase in appropriation for that department.

- D. Conclusions and Recommendations: No adequate expenditures budget can exist in Michigan counties because of incomplete knowledge of the entire county debt, especially that pertaining to bonded debt and drain orders. The adoption of the county budget as prescribed by the Auditor General in October, 1938, would have been a step in right direction for a uniform and an adequate county budget system in Michigan. Another attempt should be made for budget adoption. An added reason for this would be intended to make the constitutional fifteen-mill tax limitation fully effective.

The fees of county officers are seldom included in the budgets. If they are, the tendency is to give by far lower figures. The new budget system should include

all fees of the county officials. The administrative supervision should rest with the State Auditor General under the County Uniform Accounting Act.

The counties having a controller, auditor, or the board of auditors have a better budget control than those which have decentralized method of accounting. The person to initiate and control budgets in those counties should be the clerk. There should also be budgetary control over the county road departments, whose expenditures are controlled by three county road commissioners, who are elected by the people or appointed by the county board of supervisors.

To give the complete picture of county obligations as well as receivables, is almost an impossible task. The uncollected taxes as well as some debts on bonds and on drain orders should be audited to put into the budgets.

The approved standards as to what the budget document should contain are poorly followed because they show the disposition of tax revenues but omit other revenues such as fees or miscellaneous revenue receipts from delinquent taxes, and from bond or note sale. The Macomb county controller's report has sufficient information to come nearest to the M.F.O.A. standards. Greater interest in county budgets by the public would tend toward higher standards.



The main trouble in all the counties is that the preparation of the budget is not vested in any one person. The Oakland county has a board of auditors, but responsibility in one person is better than in a group of persons. The adoption of the county controller system in all counties whereby the county controller would be appointed by the state through competitive civil service and by the county board of supervisors to prepare and control the budgets would be great improvement. The salary of this controller would be paid partly by the state and partly by the county. His term of office might be about fifteen years and he could not be removed without cause, as he would have the civil service status. Then the counties could adopt the budgetary as well as proprietary accounts in the accounting system. The goal for the adequacy and uniformity of budgets would be nearer than under the present system.

## CHAPTER IV

### THE ACCOUNTING SYSTEM

MFOA Standards. General. Certain fundamental principles of accounting are established and operate in the county for the purpose of recording financial transactions (1) as basis of management, (2) to show fidelity of persons administering county's fund, and (3) as a public record to the interested parties concerning the county's financial condition and operations. This system should be set up on a double-entry basis.

It is highly desirable that the accrual basis, namely, that revenues be accounted for when earned, and expenditures accounted for as soon as the liabilities therefor are incurred be followed instead of the cash basis, that revenues be accounted for only when received in cash, and that expenditures be accounted for as soon as liabilities are incurred of accounting because it enables a more accurate accounting of revenues and expenditures by successive periods. Only those sums of money should be taken up as revenue which are certain of collection within reasonable time. For example, taxes would be recorded as revenues as soon as levied after ample deduction for losses through failure of collection have been made. Expenditures should include all bills incurred for all

purposes, including the operating and maintenance expense, fixed charges, capital outlay, and provision for retirement of debt.

The county's accounting system should be set up and operated in accordance with legal provisions and in such manner that facts required by law may be readily obtainable. The chief financial officer should be acquainted with the legal provisions relating to (1) budgeting, (2) number and kinds of funds to be employed, (3) the organization structure of county, (4) duties of various county employes as specified by law, (5) county revenues, (6) issuance of bonds, (7) auditing, (8) reporting, (9) any others that likely affect the accounting system. It is also the chief financial officer's duty to indicate to the county board the desirable changes in the legal provisions which will result in better accounting system and in better financial management and control.

Actual Standards. Since the adoption of the Uniform Accounting Law by the counties in 1921, the accounting system has been established on a double-entry basis. Such a basis is exemplified in the use made of the columnar journals. The taxes collected under this system are debited to cash and credited to the various funds. In cash expenditures, the affected fund is debited and the cash account is credited. Although the accrual basis is more desirable, the accounting system is maintained on the cash basis. It has been noted

that only a few counties have a personnel of high enough calibre to keep records on the accrual basis. These counties have an auditor, controller, or the board of auditors. Although the board of auditors does not perform any accounting duties, this work is usually delegated to an accountant who is appointed by them.

A truer financial picture could be shown, especially if the expenditures were kept on the accrual basis. Much difficulty might be encountered to keep the revenues on the accrual basis especially in the case of taxes and special assessments, particularly in less populated counties where more than twenty per cent of the lands had been deeded to the state because of unpaid back taxes. The main trouble would be to find an appropriate allowance for the uncollectibles. As far as it can be determined, Macomb county makes some effort to show what allowances are made for uncollectible taxes and special assessments. The accounting system in Michigan counties operates in accordance with law, but the changes are subject to the administrative functions of state supervision under the authority given to the Auditor General. Since cash basis is maintained, the only expenditures listed in the accounting records are those which had been paid in cash. To find the accrued expenditures, one has to go beyond the records by getting all the original evidences such as invoices, purchase orders, or any other available source.

The tax levies and their apportionment among the smaller political units will usually be shown in the proceedings of the board of supervisors. The audits made by the County Uniform Accounting Division of the Auditor General show only the full tax levy. The greatest trouble concerning the taxes receivable is the fact that the tax rolls are made by the township supervisors. Thus, the county treasurer and the chief financial officer do not know what taxes have been paid during the period when the tax collections were made by the township. The tax collections usually begin about December first and continue under the care of the township treasurer until March first. Then all the county portion of the taxes collected are turned to the county treasurer, who gives the Official Receipt for all this money. The moneys collected for smaller localities and schools are kept by the local governments.

The fallacy of expenditures in less populated counties because of the cash basis has been shown before by the fact that many bills are not paid until the new administration comes into some county office. This can be demonstrated by the following example:

A certain department bought about a \$1,000.00 worth of goods but the head of the department had lost out in the election. In order to show that his department had operated very economically, he will not issue the invoices to the chief finance officer (or county clerk) or submit the voucher for payment to the board of supervisors. Naturally, when the new

administration comes into office, they have a \$1,000.00 payment to make, and therefore, the expenditure is made to the succeeding administration instead of the one which accrued the expenditure. It is not uncommon in Michigan counties to have overdrawn funds, especially the Revolving Drain Fund and the General Fund. As has been stated before, and in the strictest sense of word, there is no true budget in the Michigan counties. Number and kinds of funds employed vary among the Michigan counties. The duties of various county officials are specified by law or by the ordinances made by the county board of supervisors. The county revenues vary by source and fund, but will be enumerated in greater detail in some parts of this and the succeeding chapter. The issuance or the refunding of bonds is controlled by the Public Debt Commission of the State of Michigan after the people of county or board of supervisors have voted in favor of the measure to issue or refund bonds. The auditing is in charge of the County Audit Staff of the Auditor General Department, also known as County Uniform Accounting Division. Reporting is to be made by each department at the request of the board of supervisors or some Michigan State Department. As to any laws affecting the accounting system, the state departments might see to it that the counties will conform according to law. This has been especially shown by the creation of the Department of Social Welfare in all the Michigan counties, <sup>1/</sup> which is under the

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Act 280; P. A. 1939

control of the State Department of Social Welfare. As has been stated before, the operation and maintenance of the accounting system in many Michigan counties has not been materially improved in the past twenty years. At that time, Michigan seemed to have led all the other states when it adopted a uniform system of accounting, but now it seems to lag by keeping the same accounting forms, although some improvements have been made in auditing and reporting.

The logical follow-up to a good uniform budget procedure is a uniform accounting procedure. The adoption of uniform budget procedure will facilitate the checking and comparison of appropriations, the accounting procedure carries it a step further by showing the actual results of operations performed under the authority of budget.<sup>2/</sup> The adoption of the uniform budget together with accrual and encumbrance system of expenditures would take some time but the results would warrant it.

#### A. Accounting System

M.F.O.A. Standards. The Records. The financial information is derived from the accounting records, which form the media in which accounting transactions are displayed. Generally, there are three types of records: (1) original evidences which give details concerning accounting transactions, such as invoices and vouchers,

(2) the books of original entry, commonly called journals and registers; and (3) the books of final entry, or ledgers. Every entry should be based upon some original document which should supply the information needed in recording that transaction. For example, tax collections will be evidenced by tax receipts, disbursements, by warrants; and accounts payable, by purchase orders, vendors' invoices and vouchers. Usually, an entry is recorded to the book of original entry and then is posted to the accounts. Even the smallest county must have at least one book of original entry in which transactions will be recorded chronologically. The volume and kinds of transactions should determine the number and kinds of books to be used.

The following books of original entry probably are needed in a county of about 40,000 population: (1) General Journal, for assembling accounting information not recorded in any other book; (2) Cash Receipts Book, for relating all transactions for cash receipts; (3) Voucher Register, for entering all amounts approved for payment; (4) Check Register for recording checks paid out; (5) Payroll Register, used to list names and earnings of all persons employed; (6) Bond and Interest Register, which shows the full legal history of each bond issue and the amount of interest and principal due or sinking fund requirements at various dates; (7) Contract Register, for recording contracts and (8) Purchase Order Register, for recording purchase orders.



Posting the figures into proper accounts in the ledgers is the final step. Of the two types of accounts, the principal accounts are carried in the General Ledger while the subsidiary accounts are contained in subsidiary ledgers. The General Ledger is indispensable as it contains all the accounts from which the balance sheet is prepared. Accounts in subsidiary ledgers support the several controlling accounts. The following are some of the essential subsidiary ledgers. The total account balances in each of these ledgers must agree with the balance of corresponding control account in the General Ledger: .

- (1) Revenue Ledger
- (2) Appropriation Expenditure Ledger
- (3) Tax Rolls
- (4) Bond and Interest Ledger
- (5) Property Ledger
- (6) Other Subsidiary Ledgers (if needed)
  - (a) Detailed Revenue Ledger
  - (b) Detailed Expenditure Ledger
  - (c) Bank Ledger
  - (d) Stores Ledger
  - (e) Investment Ledger
  - (f) Contract Ledger
  - (g) Miscellaneous Accounts Ledger

Actual Standards. The accounting records for some departments are specifically stated in the Manual of Instructions prepared by the Auditor General's Department. These manuals are for the following county offices: Sheriff, Judge of Probate, County Clerk, County Treasurer, and Register of Deeds. The Social Welfare Department has the most restrictions from the State Department of Social Welfare as to the types and kinds of records it should keep. Usually there are no payroll sheets which indicate the cost of labor in any of the counties studied but the individuals, whether they are officials or appointees, are on salary basis. Otsego and Sanilac county officials are kept exclusively on fees, but records are provided for any department which collects any kind of fees.

The recording of an accounting transaction usually begins at the time it takes place. First, the department receipt is usually given to the individual who pays for a particular service. From this original evidence, the posting is made on the Daily Cash Receipts Book of the department. At the end of the day, week, or month, depending upon the size of the counties, the sum of money being collected is taken from the Department Cash Receipts Book and written on the revenue voucher which is taken over to the treasurer. This voucher shows the source of funds. The treasurer gives the department concerned the treasurer's receipt. Then the treasurer, from the carbon

copy of the treasurer's receipts, posts it on his books, known as the Treasurer's Cash Receipt Book. From there it is posted to the General Ledger into dual accounts by debiting the revenues and crediting the funds to which these sums of money belong. The following accounting records are being kept in all the Michigan counties with exceptions as noted:

1. Transfer Voucher which really is a journal for transactions between funds
2. Department Cash Receipts Book
3. Treasurer's Cash Receipts Book
4. Voucher Register
5. Payroll Register is kept only in the highway department although from now on all the local units of government are to keep the records of earnings of all the individuals for the income tax purposes.
6. Warrant Register
7. Bond and Interest Register
8. The Contract Register and the Purchase Order Register could not be found in any of the counties although Macomb, Genesee and Oakland counties issue Purchase Orders. It is very difficult to find the true balance sheet accounts in any of the counties. Usually the counties like to give record of receipts

and disbursements and giving trial balance by indicating what credit amounts from funds for and what amount of money is deposited in some banks.

The following subsidiary ledgers exist in the counties:

1. Tax rolls which are the life blood of all the counties.
2. Bond and Interest Ledger
3. Property Ledger is kept only in Macomb county.
4. The Accounts Payable Ledger is being kept only in Calhoun and Macomb counties.

Since Michigan counties do not have a uniform budget procedure and the records are not kept on the accrual basis, they do not have Revenue Ledger, Appropriation Expenditure Ledger and Detailed Revenue Ledger. Stores Ledger is being kept only by Macomb county which works on the perpetual inventory system in the distribution of supplies. General Ledger takes place of the Bank Ledger, which is kept on the General Ledger books. Investment Ledger is also being kept like the Bank Ledger.

- B. The Accounts. The accounts should be classified according to funds and a chart should be prepared to show all the account titles by the county. By means of code numbers, the classification and posting may be facilitated. Accounts in General Ledger are grouped by funds and each group or fund is complete in itself by having the total

debit and total credit balances of the accounts in each group equal. A manual of instruction describes the nature of accounting transactions with proper debits and credits. Within each fund the accounts should be divided according to whether they go to make the balance sheet or the operating statement. The balance sheet accounts relate to assets, liabilities, reserves, and surplus. The operating accounts relate to revenue accounts which are grouped by source and expenditure accounts which are grouped by function and organization unit.

Actual Standards. The chart of accounts is not prepared in any of the counties, except Macomb and Calhoun. These two counties also use the coded accounts in the general administration of county offices. Only Macomb county uses the coded accounts in its Social Welfare Department. None of the counties studied use coded accounts in the Road Department. Calhoun and Oakland counties use slightly different names of accounts and do not use the uniform records like other counties do, but they get the same results. The manuals of "Standardized System of Fiscal Procedure - Accounting and Reporting for Michigan Counties" for the five offices indicate the source and disposition of cash receipts. These manuals also describe the nature of each account and the transactions to be debited and credited. To be more specific, let us consider court costs in the counties.

Their source is derived from county officers and the justice of the peace courts. The entry receipt is the Treasurer's Departmental Receipt. General Fund is credited and the ultimate disposition is for General Fund purposes. The expenditures are usually grouped by departments if they refer to the General Fund. The classification of cash expenditures is shown in greater detail in Macomb and Calhoun counties.

The General Ledger in the Michigan counties is divided into sections, and each section represents some particular fund and its principal accounts.

The accounts in the Michigan counties are not set up to facilitate the preparation of the balance sheet. The audit reports of the County Audit Staff of Auditor General Department will bring forth the consolidated balance sheet by showing cash accounts in banks and on hand and the impounded bank accounts on the asset side for the assets. The liabilities are seldom shown, but the surplus and reserves are shown for the equities. The audit reports of the County Audit Staff of State Department of Social Welfare for the Social Welfare Departments of counties show only cash receipts and cash disbursements.

The County Audit Staff of the Auditor General Department publishes in its audits the statements of cash revenues and cash expenditures for each county. To achieve this purpose each department has a record of all

its receipts and for what purpose it has been collected. For instance, the county clerk makes the following types of collections: Entry Fee--Law, Entry Fee--Chancery, Judgment Fee, Marriage License, etc. County treasurer makes collections for certification of deeds and permit to change name. Register of Deeds makes collections for recording of mortgages, deeds, lis pendens, and so forth. The Social Welfare Department makes collections on refunds from various individuals who have asked for some kind of welfare assistance, if the latter are able to do so.

The Judge of Probate and the sheriff also have various fees. Now when these collections are made in each department, they are submitted on the revenue voucher to the county treasurer, who in turn places all the moneys into various funds which are prescribed by law. The court costs and fines collected by the sheriff go to the Library Fund, which is a county aid to schools. Most of the other moneys go to the General Fund.

As for the disbursing accounts, they are listed only in the funds in which they are shown. In the General Fund, the departmental expenditures are shown for various purposes, such as salaries, travel, printing and binding, postage and office supplies, and stationery. In the Audit Reports of the County Audit Staff, the break-downs are shown further on welfare and medical assistance and roads and drains. It would have been better if the counties had set up not only the operating statement

accounts, but also the balance sheet accounts. The only balance sheet accounts seen in each fund are usually the credit balances of that fund but it is seldom known to which bank the money of that fund is deposited. If one looks on the Trial Balance of practically any county in Michigan, all he will be able to see is that the total of all debits will equal the total of all credits. The Macomb county controller in his report to the board of supervisors usually gives the break-downs of the bank accounts, in the General Funds, Debt Service Fund, and the Bond Fund. The Calhoun county controller gives in her report some fixed asset accounts and with it she shows some depreciation. The Genesee county controller in his Trial Balance reports gives the total cash accounts in bank and the total credit accounts in each fund but he omits the treasurer's account, the revenue account and the surplus accounts. In the interview he had stated that the tendency of the county accounts is to avoid the dual system of the proprietary accounts, thus avoiding the surplus account and the treasurer's account.

- C. Summary and Recommendations. The fundamental principles of accounting are somewhat followed in the Michigan counties by the use of double-entry system. Although cash basis is used for receipts and expenditures, the use of cash basis for receipts and the accrual basis for



disbursements would show more definitely how well the county fares financially. The pay-as-you-go basis would be brought forward. The financial condition among the less populated counties is very indefinite as far as the revenues are concerned. The allowance for uncollectible taxes would be difficult to determine. The cash basis is strong on the receipts side, but the accrual basis is strong on the disbursement side.

The adoption of the uniform budget system would show more clearly the effectiveness and the comparison of financial operations for any fiscal period among the counties. The accounting system would thus play a more important part in the fiscal operations of the county. The county's accounting system is operated under the County Uniform Accounting Act of 1919. The chief financial officer in the counties using segregated system of accounting cannot be determined. The chief financial officer in other counties is an auditor, controller, or a board of auditors (who have an accountant).

The records in the Michigan counties are adequate as far as the General Government and the Social Welfare departments are concerned. No definite payroll records are being maintained, but the earnings of individuals are usually listed in the Classification Cost Ledger. The General Ledger is adequate; the debit and the credit

side is divided into two parts: (1) cash and (2) transfers. Each county should keep a separate Payroll Register for the U. S. Internal Revenue purposes and for general information.

The greatest improvement would come about if a uniform budget procedure were adopted together with the accrual system of expenditures.

## CHAPTER V

### THE ACCOUNTING SYSTEM (Cont'd.)

#### A. Funds

M.F.O.A. Standards. Being a governmental unit, the county must raise and expend money according to legal provisions. Funds are established to insure the expenditure of money for designated purposes. The system should be so set up so that there can be accountability for funds. In other words, it should be possible at all times to determine from the records the resources, obligations, reserves, and surplus of each fund, as well as revenues and expenditures, and receipts and disbursements of each. It is desirable to have the smallest number of funds consistent with legal provisions. The following funds are recommended:

1. General Fund - used in financing government activities not provided for in another fund or not allocated to specified purposes by law or contractual agreement. Revenues in this fund include property taxes, licenses, fees and penalties. Expenditures of this fund are authorized in the general budget.
2. Special Revenue Fund - revenue derived from specific taxes or other revenue sources,

usually provided by statutes to finance particular activities. The Revenue is earmarked for some governmental activity.

3. Working Capital Fund - established to finance the internal service activities rendered to county's own departments, such as shops and garages, asphalt plants, and central purchases and stores departments. Sometimes it is called a Revolving Fund.
4. Bond Fund - to account for receipt and disbursements of all bonds issued by the county. Such funds account only for the proceeds of bond sales and have nothing whatever to do with the repayment of bonds.
5. Sinking Fund - used to retire the principal only of term bonds and other bonds specified to retire from the fund. It is used to retire principal only, not interest. All bond interest should be handled through General Fund.
6. Trust and Agency Funds. Trust fund accounting - set up to insure the handling of money in accordance with the trust agreement. The accounting for the Agency Funds is to insure the proper handling of collections and the prompt remittance of this money to the party for whom those collections are intended.

These funds are recommended only when there are no legal restrictions regarding the kinds and number of funds to be employed. Each fund must be treated as an independent entity. No inter-fund transfers nor inter-fund loans should be made, unless legally authorized. Such loans must be carried as an asset of the fund lending the money and liability in the fund borrowing the money. Amounts due from other funds should not be offset by the amounts due to other funds and only the difference shown on the balance sheet.

Actual Standards. Most of the counties raise and expend money according to the laws of the State of Michigan and the ordinances of the board of supervisors. Various funds have been set up by the State Auditor General under the County Uniform Accounting Act to insure the receipt and disbursement of resources for the purposes specified. For instance, the court costs and fines collected by the justices of the peace and by the circuit court in the county go to the Library Fund, of which \$750.00 in a small county and \$1500.00 in a larger county go to the Law Library Fund. The bills for most law library books are approved by the circuit judges. Library Fund money is disbursed by the county treasurer once each year to the various school districts as the county aid to schools on the basis of distribution of Primary School money from the state.

As to the accountability of funds, it is seldom possible to determine from the main records the resources, obligations, reserves and surpluses of each fund. Only the total credit balances of each fund (or debit balances of overdrawn funds) are shown in the Trial Balance and in the General Ledger. One can find in the General Ledger the amount of cash receipts and debit transfers of the sums of money in each fund. These books are kept by the county treasurer and the county clerk in the counties using decentralized method of accounting. In the others the controller, or the board of auditors handle the books of the county clerk. In Gogebic county the clerk instead of the auditor keeps the books, and this will be discussed in the latter part of this chapter.

The surpluses and the obligations of the funds can seldom be determined from the records among the Michigan counties. Oakland and Genesee counties will show commitments made from the Social Welfare Funds, because these departments keep their records on the accrual basis, but the reports and statements are made on the cash basis. It is a rule rather than an exception among the Michigan counties to pay salaries out of wrong funds, such as, the road commissioner's salary being paid out of County Road Fund instead of the General Fund as prescribed by law. Very often the audit reports of the County Audit Staff show criticism directed against the counties for making use of such practices.

The number and the kinds of funds among the counties are prescribed by the Auditor General under the County Uniform Accounting Act but some funds may sometimes be added depending upon the whims and fancies of the county officials and the board of supervisors. The funds that are prescribed by law are: General Fund, Social Welfare Fund (formerly Poor Fund), Library Fund, Covert Road Fund, County Road Fund, Covert Road Redemption Fund, Drain Fund, Revolving Drain Fund, Inheritance Tax Fund, Mortgage Tax Fund, State Tax Fund, Delinquent Tax Fund, Primary School Fund, Teachers' Institute Fund, Temporary Relief Fund, Township Fund, City and Village Fund, Escheats Fund and Redemption Fund -- eighteen in number. Many other funds are added among the counties to suit their needs, such as, County Airport Fund (in Gogebic county), County Debt Service Fund (in Macomb county), Fair Fund (in Gogebic and Calhoun counties), Condemnation Fund (in Oakland county), and any other fund which the county board of supervisors sees fit regardless whether or not it follows the proper principles of finance.

Some funds have subsidiary funds listed under them, such as, Social Welfare Fund with Social Welfare - Direct Relief, Social Welfare - General, Maintenance of Farm and Infirmary, Social Welfare Administrative Maintenance of County Farm, and Maintenance of County Infirmary. The recognized assets, liabilities, equities, and overdrawn

funds in the Social Welfare Fund can usually be recognized because the State Department of Social Welfare audits the records of the County Board of Social Welfare in quarterly periods of the year.

The five important funds of a Michigan county will now be discussed:

1. General Fund. The revenues of this fund come out of property and personal taxes of the county, dog licenses, drivers' licenses, county officers' fees and many other sources. The expenditures out of this fund are authorized in the general budget for various bills, payrolls, witness fees and soldier relief orders.
2. Social Welfare Fund. Some of this money is derived from the state as aid to the counties for welfare relief. This is true of the direct relief which is matchable according to the basis set up by the State Department of Social Welfare. This match varies from the 50-50% basis to 100% given by the state depending upon the county's ability to keep its welfare load. The rest of the Social Welfare Fund money is derived by county taxation from the personal taxes and property taxes.
3. County Road Fund. The main source of revenue for this fund is from the gasoline and weight



tax given from the state to the counties according to state law. The Upper Peninsula counties - Gogebic, Houghton and Baraga - levy a tax for snow removal purposes. The disbursements of this fund are usually made by the vouchers issued by the county road commission. Sometimes the county road commissioners' salaries are paid from this fund instead of General Fund, especially if the General Fund in the county is overdrawn or nearly overdrawn.

4. Drain Fund. The sources of revenue are from property taxes and by special assessment while disbursements are made in payment of drain orders and through the vouchers issued by the drain commissioner. A Drain Fund as a rule does not exist in the northern Michigan counties. The greatest confusion exists in those counties which have large drains. Sanilac, Eaton and Berrien counties have the greatest source of worry in this fund because the drain orders and vouchers are issued by the Drain Commissioner without notifying the county treasurer or the county clerk on their issue. The only time the county knows what the obligations are in the Drain Fund is when the drain orders are to be paid.
5. Revolving Drain Fund. This fund is known by the MFOA as a Working Capital Fund and is used as an

advance for work on drains. The orders are issued by the drain commissioner. This fund operates somewhat as follows: Some transfers are made on the books from the General Fund or the Drain Fund to the Revolving Drain Fund to begin work on the drain. Later this money is returned to the original fund after the payments have been made by those who had benefited by the drain. According to the county controllers and county clerks the Revolving Drain Fund has proven to be the "fund that did not revolve" because the legal technicalities involved in receiving money on the unfinished drains have made it impossible.

The following funds are the agency funds in the typical county:

1. City and Village Fund. All funds collected for taxes in the county from the fifteen-mill tax limitation, which are distributed according to relief prescribed by the county board of supervisors on a voucher issued by the county treasurer in payment of the taxes collected.
2. Township Fund. This fund is handled in the same manner as City and Village Fund, except that it goes to the proper townships.
3. Inheritance, Mortgage Tax Escheats and State Tax Funds (All Separate). These funds are

collected from the taxpayers in the county and are disbursed on the vouchers issued by the county treasurer in payment of taxes received.

4. Primary School Fund. This money is received from the state as a state aid to local schools and disbursed as per schedule furnished by the State Superintendent of Public Instruction.

Some of the prevalent funds in the county are: Library Fund (Teachers' Institute Fund which is collected by the county school commissioner to assist the school teachers in instruction) and the Redemption Fund which is distributed to the other funds from the taxes collected as per schedule voted by the county board of supervisors. The County Road Department handles not only the County Road Fund but also the Covert Road Fund and the Covert Road Redemption Fund and all orders are usually issued by the county road commission depending upon the power given them by the county board of supervisors. There may be various other funds existing in the counties. For example, Oakland county has more than one hundred and fifty funds. Too many funds require a greater amount of help and therefore greater expense but they bring out the expenditures in greater detail. Gogebic county will set up some special fund from the General Fund for each year in order to prevent a particular department from drawing out some money for its own purposes. This is

due to the fact that Gogebic county has been in a financial mess since the end of World War I. Tax revenues had dwindled greatly because the mines which were the greatest source of income for the county had shut down. The fund set-up for each year is known as the Special Fund for the year 1940, or Special Fund for the year 1941, or whatever the year may be. By establishing this fund, no county official dared to draw orders because of the name of that fund. A certain sum of money is always put into this fund near the end of the fiscal year in hope of retirement of some bonded debt expenditures due during that particular year.

In most counties, it is seldom possible to determine from the tax levy or the tax collections the amount of money that should go to each fund. The Baraga county treasurer was the only interviewed person who did transfer the collections to the proper funds at the end of each month. Other counties lag behind in this regard and even the audit reports of the County Audit Staff always list some undistributed taxes. Many delinquencies which go back ten years are especially difficult for one to decide as to how much some funds are short because of the uncollected taxes.

Each fund is treated as an independent entity and accounted for separately. Inter-fund transfers are usually made by the audit of the Board of Supervisors

or the County Audit Staff of the Auditor General's Department after auditing the county records. Inter-fund loans are seldom made but it is not unusual for one fund to be overdrawn therefore, indirectly, taking the money away from another fund. The loans between the funds usually do not exist in the counties according to the present set-up and no balance sheets nor operating statements are being made of each fund, therefore, amounts due from other funds are not shown with amounts due to other funds.

B. Accounting Procedure

M.F.O.A. Standards. The adequacy of a county's accounting and financial procedure (required as good financial procedure) will be determined by the extent of control provided over revenues, receipts, expenditures, disbursements, and encumbrances.

Adequate control of revenues includes the assurance that the county receives all the revenue to which it is entitled by having the chief financial officer (1) keep control accounts for amounts due county, (2) be notified by the departments on new revenues accrued to build control accounts, and (3) be informed on the amount of tax roll charged to the collecting officer (or collection agencies).

Adequate control of receipts can be attained by providing (1) proper accounting of all receipts,

(2) prompt or daily deposits of all cash by departments into county treasury and depositories, and (3) prompt transmittal of trust and agency money. A carbon copy deposit slip should be made by the county treasurer (or collection agencies) to the chief financial officer of all money collected from which he can build up a record of cash receipts and establish a control against the treasurer. All cash received the previous day should be deposited intact in the bank the following day only under the public account, and not under any employee's personal bank account. After receiving the independent report from the county treasurer, the chief financial officer should make the monthly reconciliation of total cash in bank with the general ledger cash accounts. Procedure for trust and agency collections should be so devised that the amount collected for each unit can be readily and is properly determined. Prompt transmittal should be made to those units.

Adequate control over expenditures and disbursements requires that they are made according to law, for value received, after authorization by proper authorities. To carry out this objective effectively, the following procedure is recommended.

1. All purchases and contracts should be first approved by the chief financial officer, after he certifies that there is a sufficient balance available in the appropriation covering

the particular purchase. After each approval of such expenditure, the unencumbered appropriation balance should be reduced by the amount involved. The accounting records must be designed in such a manner that one can determine the total amount appropriated for each organization unit or purpose, and the expenditures and unfilled orders or uncompleted contracts chargeable against each appropriation, as well as balance for further appropriation.

2. The chief financial officer should approve bills for payment after he has written evidence that the commodities have actually been received or the services actually performed, that such commodities or services are in accordance with specifications, that the prices charged are those agreed upon, that the expenditure is chargeable against the proper appropriation, and that it is not in excess of such appropriation. Notification of the receipt of commodities and invoices received by departments from vendors should be given to the chief financial officer to carry out this function. These invoices will show quantity, unit price, and total price of commodities billed, when and where delivered, the purchase order number, and the fund and the appropriation account to be

- charged. They should bear the written approval of the official responsible for the expenditure.
3. The approval of claims should be evidenced by a voucher signed by the chief financial officer. The voucher will show, among other facts, the amount due, fund and appropriation account to be charged, purchase order and number, and invoice number.
  4. All payrolls, supported by time sheets, payroll register and other employment reports should be approved by the chief financial officer. These forms will bear such information as names of employees, rates of pay, and funds and appropriation accounts to which they are chargeable.
  5. All payments should be made by check, and all checks should be signed by the persons legally authorized. These checks should be distributed by a person who has taken no other part in preparing the payroll or time sheets. No checks should be issued unless there is sufficient money to the credit of the fund against which the checks are drawn.
  6. The chief financial officer should carefully control all accounting forms and financial stationery, whether pertaining to revenues, receipts, expenditures or disbursements by



having each tax receipt, special assessment receipt, licenses, vouchers, checks, and other similar document assigned a serial number, and by keeping a record of numbers of the documents over to the employees handling them. Only receipts with carbons of the original (not stubs) should be used. Final procedure is to make all payments by check, which are to be signed by the persons legally authorized, and there must be sufficient credit of the fund against which the checks are drawn.

Standardized documents should be put into effect and designed so that minimum amount of re-copying and re-arrangement is necessary when it reaches the chief financial officer or the treasurer. If a report or document, being made on proper forms, is or can be used directly for posting to a ledger, it should contain all the information necessary to permit its use for that purpose without alteration or re-arrangement. Many departmental summaries, such as, reports of stores issued or equipment used, can be planned in size or arrangement so that they can become journal vouchers and be filed with other documents of similar nature.

Actual Standards.<sup>1/</sup> Nearly every county officer is

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Most of this part of the chapter has been copied from the two manuals of Standardized System of Fiscal Procedure, Accounting and Reporting for Counties of Michigan, Office of the County Clerk (pp. 20-22); Office of the Treasurer (pp. 23-24).

involved in the accounting process although some of them play a minor part. This is done by having each office maintain at least the departmental receipt, record of daily receipts, official receipt from the treasurer and the revenue voucher issued by the county official and signed by the treasurer. This is true in the following county offices: Register of Deeds, Judge of Probate, School Commissioner, Mine Inspector (if there is one) and Sheriff. The county treasurer and the county clerk, or controller, or board of auditors, perform the principal bookkeeping and reporting functions in the Michigan county. The county board of supervisors, as the general and supervisory body, also occupies an important position because of its final control of receipts and expenditures.

In the counties with decentralized method of accounting, the somewhat main point of accounting system exists in the county clerk's office alone because he handles many records similar to that of the county treasurer.

The following records which show the flow of receipts exist in the offices of county clerk, county treasurer, register of deeds, judge of probate, county controller, board of social welfare, road commission and any department receiving money or refunds from individuals:

1. Departmental receipt which is printed in duplicate and numbered serially by the

printer, must be given for each item of cash received. The original receipt is tendered to the person making the payment and the duplicate is retained in the receipt book from which the postings are made to the cash receipt book.

2. Cash receipts book. All the department receipts are entered in numerical order in each office under the proper column, giving date and from whom received.
3. Revenue voucher. At the end of the report period which may exist from one day in a large county to one month in the small counties, the total of each column in the cash book of each department is entered in that department's revenue voucher showing the source of revenue and the fund to be credited. The voucher shall be prepared in triplicate, the original copy shall go to the office of county treasurer and the duplicate to the county clerk and the triplicate shall remain with the department. Care is exercised that the carbon copies of all receipts and vouchers are legible and the amounts on the duplicate receipts are reproduced in the correct columns.
4. Official receipt. This receipt which is issued for all moneys received from any county department including the county treasurer is made in triplicate and numbered serially by the printer.

It is issued only after the receipt of the moneys involved and on submission of revenue voucher. The original goes to the department making the remittance and submitting the revenue voucher, the duplicate to the county clerk and triplicate is retained in the office of the county treasurer and serves as a medium for posting to county treasurer's record of daily receipts.

5. Record of daily receipts. All official receipts are entered in numerical order in this record showing the date, receipt number, department received from and to what funds credited. The total amount of receipt is debited to the "county treasurer - debit", and the distribution of receipts collected are credited to the proper funds. The county clerk's record is totaled and balanced at frequent intervals with county treasurer's similar record and the monthly totals are posted to the county treasurer's account in the county ledger.

In addition to the records just mentioned, the following accounting forms also exist in the offices of county clerk and county treasurer:

1. General ledger. It contains a record for each county fund, bank account, investments, county treasurer's account, cash, revenue, disbursements, and any other funds which may be deposited with the county treasurer. The

monthly totals, which are posted to the general ledger, are made from the register of daily receipts, record of warrants paid and the transfer voucher.

2. Transfer voucher. This form is used in place of a commercial journal. Each transfer voucher sheet constitutes a separate journal entry. Columns are provided on the general ledger for entering transfers to or from fund accounts. Transfers into the fund are posted to the credit side of an account while transfers out of the fund are posted to the debit side of the account.

The control over receipts is anything but adequate, especially in the counties where the officers are on a fee basis. It has not been unusual to read in the county audit reports that the county treasurer or some other officer is not using the numbered departmental receipts for some services for which he is paid on fee basis. The officials in smaller counties where they are compensated by fees are very reluctant to issue receipts and to post them on the books. It has been found that the judges of probate in Clinton and Houghton counties, and the sheriffs in Sanilac and Berrien counties, and the register of deeds in Otsego county, did not report their fees for several

years. It has also been criticised in the audit reports that the county officials did not use the serially numbered receipts. The register of deeds in Macomb county, who is on salary basis, has been criticised in the audit reports for re-handling some of the county money and keeping temporarily some of the money in personal account, although that official's honesty is above reproach.

In every county a daily report of county's balances is made on the "Daily Footings" record in the county clerk's office. This form is provided for a daily summary of all cash received, cash paid out, the balance at the beginning of the day and total amount available at the close of the day. It also includes a summary of cash received and the classifications of disbursements by departments as well as to funds. On the other hand, the county treasurer uses another record--Daily Cash and Bank Balances; this form provides space for determination of cash on hand at the beginning of the day and variation in bank balances. The balance of cash on hand at the close of the day is determined by showing the amount on hand at the beginning of each day in the office, the amount on hand at the beginning of each day in the bank, amount of the day's deposit, the total available, the total amount of warrants drawn against the particular bank account and the balance in bank account at the end of the day. The county treasurer also makes a monthly trial balance on the trial balance sheet. This trial balance contains detailed

ledger accounts, explanatory of and subsidiary to, some of the principal general ledger accounts. All subsidiary accounts are reconciled monthly with the general ledger control account. Reconciliations of individual bank balances are made monthly with the general ledger. Outstanding checks and warrants are listed by number and the amount and the total added to the treasurer's balance. All paid warrants are filed in numerical order, and bank reconcilements are retained as a permanent record. The depositories in the State of Michigan are usually determined by the board of supervisors. The decade of 1930-'40 has made many county officials uncertain as to what would be adequate security for county deposits. The impounded bank balances of many counties, such as, Clinton, Sanilac, Macomb, Genesee and Houghton have made many counties distribute the deposits among several banks. The depositories pay interest on public deposits and sometimes the bids are accepted as to what bank will pay the highest rate of interest. In the last few years, the banks have been somewhat reluctant to accept the county deposits because of national economic conditions. As in many states, a Michigan county acts as a tax collecting agency for towns, villages, schools and other districts only after March 1 of each year when the tax delinquencies arise. It is seldom possible to tell from the county tax receipts for what purpose the money should be distributed.

The problem of undistributed taxes is a rule rather than an exception. Of all the counties studied, only the Baraga county treasurer journalizes the tax collections at the end of each month as to what fund the money is to be distributed. The inefficiency of the tax collections by the township treasurer has been explained in Chapter II of this report. The transmitting of state funds to the local units through the counties works very efficiently because the local units certainly keep their eyes on the amount of money due them.

In Macomb, Calhoun and Genesee counties, the county clerk handles only the records of collections for their fees and the deposits with their respective county treasurer. The controllers in these three counties handle all the other records of cash receipts and cash disbursements in place of their county clerks. In Gogebic county, the county auditor has a very peculiar position. He does not handle any records but he is appointed by the board of supervisors to carry on an internal audit in the county from time to time and to make out the reports of total receipts and expenditures in all county funds and of all county departments and semi-departments. In an interview with the former county auditor of Gogebic county, it has been discovered that the auditor does not consider himself to be in the nature of an accountant but that he holds himself the position of being a go-between



for the county board of supervisors and the county officials. Figuratively speaking, he considers himself a "flunky" or a choreboy, but under those circumstances he can act as a watch-dog of county funds.

In Oakland county, the county board of auditors which consists of three members politically elected, appoints a county accountant. This individual, with his subordinates, orders records of all county departments, institutions and the justices of the peace. The board of supervisors also acts as purchasing agent, prepares and executes budgets and approves the disbursements of funds of all departments in the county except the road commission and the social welfare commission. On the other hand, the county controllers in Calhoun, Macomb and Genesee counties make out the reports of cash receipts and disbursements for all departments except the road commission.

Now, attention will be turned to the control of expenditures and disbursements in the Michigan counties. As stated previously, the control of expenditures in Clinton, Sanilac, Otsego, Houghton and Baraga counties is inadequate because many county officials are paid for their services on fee basis; therefore, it is sometimes not definitely known as to what the receipts and expenditures were for county fees. In all the counties in Michigan, the judges of probate are on fee basis and many of them actually refuse to make a report of their fees. The relative merits of expenditures incurred and

disbursements made in accordance with law for value received after authorization by proper authorities, have been discussed in Chapters II and III.

The following purchasing procedure exists among the counties for all departments except roads. In Berrien, Sanilac, Eaton, Otsego, and Baraga counties, the purchases are made by the departments themselves without any purchase order, but the claims are pre-audited before the payment is approved by the board of supervisors or an appointed committee. In Calhoun, Genesee and Macomb counties, the requisition must be made by the department to the controller who advertises for bids, issues purchase orders and reduces the unencumbered appropriation. The controllers themselves present the claims to the county board of supervisors for the approval of payment. In Houghton county, the county clerk, if he sees fit, gives approval to any department to make purchases and presents the claims to the board of supervisors. In Gogebic county, the auditor acts as a purchasing agent and presents claim to the county board, while in Oakland county the board of auditors makes purchases and approves the claims for payment.

In the counties with decentralized method of accounting, the warrants which are serially numbered, are issued by the clerk to the treasurer. Upon the approval of the county board, the treasurer signs the voucher which is

countersigned by the county clerk. The warrant is issued in triplicate by the county clerk, county auditor, or the board of county auditors, as the case may be. These warrants are serially numbered by the printer and designate the name of the bank and the fund on which each is drawn. The original goes to the payee, the second is retained by the office of the county clerk and the third goes to the office of the county treasurer. The warrants are entered on the county treasurer's record of warrants paid in numerical order. At the end of each month, the record of warrants paid is added and the total amounts chargeable to each fund are shown and posted to the debit side of the proper funds in the general ledger and as a credit to the county treasurer. The transfer voucher is used to make corrections whenever the charges have been made to the improper fund by reversing the journalized transactions.

The overdrawn funds show that many times the checks have been issued when there was insufficient money to the credit of the fund against which the checks were issued, therefore, it is natural to assume that the checks were drawn upon other funds or that no attention was paid to the disbursement of money as long as there is some money in the county's till.

In the segregated counties, Oakland and Gogebic counties, the county clerk maintains a classification cost ledger for the county officers and the board of

supervisors, and shows operating expenses of the county government. In Macomb, Genesee and Calhoun counties, the classification cost ledger is kept by the county controller. The ledger is divided into departments by name tabs and the expense is classified within the department by the columnar arrangement on the sheet itself. On the standard sheet, provision is made for date, warrant number, amount of warrant, salaries and numerous well-defined expenses. Sufficient blank columns are provided for any particular sub-division of expense required by the officials or county board of supervisors. A trial balance is taken monthly and aggregate totals of all departments must agree with the total disbursements through the general fund.

The requests to issue a county warrant to meet all expenses except payrolls are made upon the clerk in the segregated counties by board of supervisors, in Gogebic county by the auditor, in Oakland county by the board of auditors and the rest by the county controller. In place of time sheets, the requests to meet the payroll of any department is made by means of a voucher to the county clerk, controller, or board of auditors to issue a county warrant. No time sheets exist in any county departments, except roads, for any employees because they are all on salary basis.

All accounting forms and financial stationery, except warrants, are controlled in various departments. Each tax

receipt, special assessment receipt, license and warrants are serially numbered. The drain orders have a stub, but with other forms, the carbons of the original are used.

All receipts, orders, checks or warrants or other data shall be kept on file by the county clerk until after this material has been checked by an examiner from the Auditor General's Department, after which time they shall be placed in a permanent file.

- C. Conclusions and Recommendations: Too many funds exist in the county accounting systems. Of course, there are many set up by law, such as, Library Fund, Drain Fund, Covert Road Redemption Fund and few others which are of minor importance. Oakland county with one hundred and fifty funds makes it not only difficult to keep accounting records, but also requires a lot more help than would be necessary under normal circumstances. Many subsidiary funds exist and are kept as if they were control funds, thus making it almost impossible to compare the resources and funds among the various counties. The State of Michigan has six controlled funds. They are: General Fund, Other Operating and Special Revenue Funds, Trust and Agency Funds, Sinking Funds, Revolving Funds and Suspense Funds. These control funds have fifty-eight subsidiary funds, of which nine were discontinued on

or at June 30, 1940.<sup>2/</sup> There is no reason why the counties could not do likewise by having seven control funds, such as, General Fund, Social Welfare Fund, Road and Drain Fund, Revolving Drain Fund (Working Capital Fund), Bond Fund, Other Operating and Special Revenue Funds, and Trust and Agency Funds. Other Operating and Special Revenue Funds would include such funds which have been set up by law and have to be maintained in the accounting records. The Operating and Special Revenue Funds would include the issuance of all bonds regardless of the department that would benefit from the floating of bonds; it would also have the Sinking Funds listed. The functions of each of the funds could be broken down as follows: Administrative and Operating, Public Works, Welfare and Medical Assistance, Trust and Agency and Debt Retirement. (These functions are now broken down in such manner by the County Audit Staff of the State Auditor General Department).

The county tax bills should state definitely for what purposes the taxes are being paid so that it could be easier to record on the books to which fund they belong. Balance sheet and the operating statements of each fund should be made so that the amounts due from other funds as well as amounts due to other funds

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Brown, Vernon J. Financial Information of the State of Michigan. Volume II, Fiscal year ended June 30, 1940, p. 6.

could readily be determined and eliminate the use of overdrawn funds.

According to the county set-up, the county that operates the most efficiently in accounting procedure is Macomb county with the county controller. Calhoun and Genesee counties also have an efficient system but their reports are not made as complete as in Macomb county.

As a recommendation, the accounting department should be centralized and the head of it should be checked on the merit basis. The state could submit to the county three names of individuals who have passed the merit examinations, one of whom could be chosen by the county board to be the controller. The proportion of his salary would be derived partly from the state and partly from county, depending upon the financial condition of the county. His term of office should be for about fifteen years and he could not be removed from office without cause. In the event of his removal, he could appeal to the proper state department or the courts. This would prevent much political dickering and would give the controller a chance to build up a good department.

The controller, under the new set-up, would make out monthly trial balances, issue bank reconciliation statements, abstracts of receipts, disbursements and transfers and daily balances of funds, and daily cash and bank balances.

## CHAPTER VI

### FINANCIAL REPORTS

MFOA Standards. General. Reporting is the preparation and presentation of summarized and analyzed financial facts concerning the condition and operation of a governmental unit.<sup>1/</sup> It is a summary of the financial operations following the designed budgetary, accounting, and auditing procedure and is used for the proper management and control of public affairs. Two types of financial reports should be recognized:

1. Internal reports which are prepared for administrative officials to guide them in the management and administration of general operations of the county; and
2. External reports which inform the officials as well as the leading citizens of the county that the funds have been properly accounted for and which state the county's financial condition.

Actual Standards. General. The uniform accounting act of 1919, insofar as it applied to counties, provided:<sup>2/</sup>

It shall be the duty of. . . .each county office to make an annual financial report in accordance with forms prescribed by the Auditor General which shall be

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<sup>1</sup> Local Government Accounting--The Secret to Better City and County Management. Knoxville: The University of Tennessee, November, 1940.

<sup>2</sup> Act 71, P. A. 1919; Sec. 4; C. L. 1929, Sec. 302.



uniform for all accounts of the same class. Said reports shall be made. . . . within thirty days after the close of each fiscal year, be filed in the office of the Auditor General and one copy with the Governor, and shall contain an accurate statement in summarized form showing. . . . the amount of collections and receipts from all sources, and their disposition, all accounts due the public treasury but not collected, the amount of expenditures for every purpose and by what authority authorized, the amount of indebtedness. . . . together with such other information as may be required by the Auditor General. The substance of these reports shall be arranged by the Auditor General and published at the expense of the state in an annual volume of comparative statistics, and shall be in such form as shall show the comparative receipts from the various sources of revenues and the comparative costs of the. . . . county government.

Financial reporting by the county officials in Michigan has not been very successful because many county officers let the state auditors gather their own information and submit reports which are somewhat inadequate. In reading the proceedings of the board of supervisors at the end of the fiscal year, the cash receipts and cash disbursements of the General Fund are usually given. Internal reports can seldom be found but the most effective external reports that can be found are those given in the audit reports of the State

Auditor General and these do not give very satisfactory results. It had been necessary to go directly to the county seats to gather some financial and statistical information. The reporting in Michigan counties could be improved greatly if uniform budgets were adopted and budgetary accounting records were set up, thus coordinating the functions of budgeting, accounting, and reporting.

A. Monthly Financial Reports

M.F.O.A. Standards. There are three types of internal financial reports: (1) Department reports, (2) treasurer's reports, and (3) reports issued by the chief financial officer. Only the report of the chief financial officer will be discussed. The latter official should make monthly reports of financial conditions and its financial operations to the county officials and the county board. This data must be prepared promptly if it is to be of greatest use. This information would be of great value to the county board by reporting to them the actual revenue and the estimated revenue, the departmental or agency expenditure as compared to the budgetary appropriations and the financial operation as to whether or not the expenditures exceed the revenues. If the revenues fall short of expectations, the extent to which the county must resort to borrowing money should be determined. Similarly, the county board should also be notified as to whether the county indebtedness is increasing or decreasing, also the

department heads can be informed as to whether they are spending money within their appropriations and how much of the appropriation is still unencumbered and whether the monthly allotments are to be revised. The financial statements to be included in the monthly financial report include:

1. Balance Sheet--prepared for the purpose of showing the financial condition of each fund. A combined balance sheet of all funds may be showing the summarized condition of local government as a whole. Fund assets, liabilities, and the resulting surplus or deficit are to be reflected in the statement.
2. Statement of Revenue - Estimated and Actual--presents comparison between actual and planned operations. The actual revenues received are compared with the estimates shown in the budget. Revenue operations of the General Fund, or Special Revenue Funds, and the Sinking Fund are presented under the statements of this title.
3. Statement of Expenditures Compared with the Appropriations--compares the actual with planned operations. The actual expenditures are compared with the appropriations, and this statement should be prepared for the General

Fund and all the Special Revenue Funds. In order to show the correct expenditure, each period for comparison with the appropriation account, it is necessary to charge expenditures and credit reserve for encumbrances with the estimated value of purchase orders outstanding at the close of the period.

4. Statement of Cash by Fund and Banks--shows for each fund the cash balance at the beginning of the month, receipts, disbursements, cash balance at the end of the month and the amount of cash in various banks.
5. Operating Statements--reflects the revenue and expense involved in conducting certain operations. These statements should show the gross revenue, cost of renting service itemized by types of expenses incurred, including depreciation and equipment used and the net profit or the loss for the month. It should also show, if proper cost accounting system is used, cost per unit.
6. Forecast of Cash Purchase--to ascertain the amount of money that will probably be required in their operations and the amount that will be available at a given period. The statement prepared for this purpose will, with the

addition of the statement title and date, appear somewhat as follows:

<u>Details</u>	<u>Forecast to End of This Month</u>
Estimated cash receipts as per budget .	<u>\$20,000</u>
Revised estimate of receipts. . . . .	19,000
Cash on hand beginning of month . . . .	<u>5,000</u>
Total cash and revised estimate of receipts . .	\$24,000
Revised estimate of disbursements . . .	<u>26,000</u>
Estimated cash balance (end of period .	- 2,000
Estimated loans necessary . . . . .	<u>3,000</u>
Total estimated cash balance (after loans). .	<u>\$ 1,000</u>

7. Statement of Unpaid Taxes--to show amount of taxes levied each year, amount of each levy collected, percentage of each levy collected, amount collected from the beginning of the year to date, total collection of current and back taxes, ratio of current and back taxes to tax levy, accumulated delinquent taxes and ratio of accumulated delinquent taxes to levy for current fiscal period.
8. Statement of Legal Debt Margin--to show the margin in which the county might incur further indebtedness. This statement will list the county's debt limit, and from this figure will

be deducted any indebtedness to which the debt limit is not applicable "i.e. self-supporting debt and sometimes fund accumulations" and total debt to which the debt limit is applicable thus arrived at. The difference between this maximum amount and the amount of debt outstanding to which the limit is applicable will represent the margin in which any county may incur any fund indebtedness. The following is an illustration of such statement (except that the statement title and date will appear at the head of the statement:

Debt Limit		\$200,000
Less--Amount of Debt		
Applicable to Debt		
Limit		
Bonded Debt	\$100,000	
Other Debt	<u>50,000</u>	
Total		\$150,000
Less--Sinking Fund		
Assets	40,000	
Other Deductions		
Allowed by Law	<u>10,000</u>	
Total		<u>\$ 50,000</u>
Total Debt Applicable		
to Debt Limit		<u>100,000</u>
Legal Debt Margin		<u><u>\$100,000</u></u>

Actual Standards. As stated before, the county controller, county auditor, board of auditors, or, in segregated Michigan counties, the county clerk is the chief financial officer. The discussion will center mostly upon his reports and some consideration will be given to the reports of the State Auditor General Department and other county reports.

The monthly financial reports are issued in Gogebic county by the auditor, in Baraga by the clerk, in Genesee and Macomb by the county controller and in Oakland by the board of auditors. Those reports usually show the summary of total receipts and total expenditures of various funds. Of course, the General Fund expenditures are itemized to the greatest extent. These counties are in better position to watch whether the collections are up to expectations, if departments are staying within their appropriations and whether disbursements are out-stripping the receipts. As the counties cannot resort to borrowing without the permission of the Michigan Public Debt Commission, these counties are in many instances able to re-adjust their budgets to meet the new conditions when the receipts are declining. The controller in Calhoun county is always in position to tell the county board of supervisors the financial condition of any department whenever she is asked to do so. In Berrien, Eaton, Otsego, Sanilac and Houghton counties, no internal financial reports could be found. The county clerk in Otsego county had even

stated that no financial report of any kind has been made by him for more than a decade.

There is some interest shown in county reports by the county officials, legislative bodies, civic organizations, investors in Government bonds and the like. Nevertheless, the reports published by the county officials seem to be wholly inadequate as most of them are incomplete and of little value. The idea among the county officials is that any desirable financial information can be found in the records and that these records are shown to everyone. Making of internal audits is an exception rather than a rule. Most of the internal reports are usually given verbally instead of being shown in the form of a written report.

To assist the supervisors, the Macomb county auditor acts as a secretary to certain committees. He acts in an advisory capacity, concerning the matters of finance, budget, and taxes. The preparation of annual tax levy, accumulation of school and township tax from various units and the combination of same for the supervisor's appropriation are among his various duties. In other words, he acts as a "chore-boy" for the supervisors by attending all the important meetings and furnishing them the required financial and statistical information.

Now the attention will be given to the monthly financial report:



1. Balance Sheet. None of the county officers prepare it, although its purpose is to show the financial condition of each county fund. At least a combined balance sheet of all funds should be prepared showing the summarized condition of local government as a whole. Fund assets, liabilities and resulting surplus or deficit, which would be reflected on this statement, would show the true value of each fund. The only time an outsider can realize the seriousness of some fund is when it is overdrawn, thus showing the debit value on the Trial Balance and the General Ledger instead of the credit value. This is not unusual for the Drain Revolving Fund (known as Working Capital Fund by the M.F.O.A.) since this fund is seldom replenished, Old "Poor" Funds (now replaced by the Social Welfare Funds), Road Fund, and Drain Fund. In various counties, the balance sheets would certainly amaze many investors in Government bonds and discourage them to make further investments. The importance of the balance sheet has not been given serious consideration but its preparation for each fund would certainly be a great improvement for the financial reports.
2. Statement of Revenue - Estimated and Actual.  
None of the counties studied use it because none

of them have set up the budgetary accounts in the accounting records. Such monthly statement would certainly not be beneficial to some county officers who understate budgetary receipt of fees and overstate the necessary expenditures because of the fifteen-mill tax limitation whereby there is a struggle between the county and the other localities to receive the highest possible millage.

3. Statement of Expenditures and Encumbrances Compared

With Appropriations. This statement does not exist because of the cash basis of accounting and also because no budgetary accounts exist in the accounting records. In spite of these handicaps, some attempts are made by various county officials to prepare the statement of actual disbursements compared with estimated. The Baraga county clerk prepares the statement of disbursements of General Fund which consists of disbursements to date at the end of every month and the budget appropriation for each particular item; this is for General Fund only. Gogebic county auditor prepares a monthly budget report which consists: (1) Classification of various General Fund items, (2) Social Welfare Fund classifications, (3) Road and Park Commission Expenditures, and (4) The Grand View Hospital Receipts and Disbursements. This report further shows the appropriation for

the fiscal year, the expenses paid during the month, expenses to date, balance at the end of the month (which is the remainder of the balance of the appropriation for the fiscal year minus the expenses to date), refunds and income and balance plus income. For example, the total of General Fund Report is illustrated:

GOGEBIC COUNTY BUDGET REPORT FOR FEBRUARY, 1940  
FIFTH MONTH OF THE NEW FISCAL YEAR

<u>Classi- fication</u>	<u>Appropriation for fiscal yr. 1939-1940</u>	<u>Expenses paid in February</u>	<u>Expenses to date 2/29/40</u>
Total General Fund	\$166,510.08	\$10,233.90	\$35,391.89
	<u>Balance February 29, 1940</u>	<u>Refunds and Income</u>	<u>Balance Plus Income</u>
	\$101,118.19	\$5,843.99	\$106,962.18

The Macomb county auditor keeps the record for himself as to the actual expenditures compared with the budgetary appropriations. However, whenever any department is reaching the limits of its appropriations, the department head concerned is notified to appear before the county board of supervisors to make a plea for an increase in appropriation. The Calhoun county auditor only keeps the records of appropriations and the actual disbursements but whenever any department is able to run over

the limits of its appropriations, she notifies the department head and hereafter tries to stop further payments. Of course, the county board of supervisors can overrule her because it approves all payments.

4. Statement of Cash By Funds and Banks. Some counties use it only to a limited degree. The Standardized System of Fiscal Procedure, Accounting and Reporting for counties of Michigan for the Office of County Clerk, and the Office of County Treasurer prescribes the Daily Footings, which is a daily record provided for a daily summary of all cash received, all cash paid out, the balance at the beginning of the day, total available and balance at the close of the day. It also includes a summary of cash received and classification of disbursements by departments as well as to funds. In most instances, this statement is usually made monthly instead of daily because it would require too much clerical help in many counties to make daily statements. As each county has many funds, it is somewhat impractical to provide a separate bank account for each fund, therefore, one has to work into General Ledger to find what amounts of cash are in various banks. The

General Ledger in the Michigan counties shows for each fund the debit and credit balances, receipts, debit transfers, disbursements, credit transfers and debit or credit balance. Some counties will usually show totals at the end of each month but in Eaton county it has been found that many times the figures were not totaled at the end of each month, and the county officials were awaiting the arrival of the state auditors to total the records for them. The county with a controller, auditor, or board of auditors can readily give a statement of cash by funds and banks if called upon to do so.

5. Statement of Operations. This is the same as the Profit and Loss Statement of a business enterprise; it reflects the revenue and expense involved in conducting certain operations. It is replaced in the Michigan counties by a Summary Statement of Receipts and Disbursements. The road commission and the drain commissioner should issue such monthly reports in the Michigan counties, but they could not be found in any of the counties examined. The inter-fund transfers between Road Fund and other funds, makes it somewhat complicated the revenues and expenditures to prepare any kind of statement of operations. So far the accounting records of

various county road commissions have been either not detailed enough to too detailed, but in no instance were they uniform in maintaining accounts or columns. Uniform Accounting--Forms and Procedure for Michigan County Road Commissioners was issued during December, 1941, but in no instance was there an attempt made to prescribe the system of monthly reporting.

6. Forecast of Cash Position is not used as a part of the monthly report, but it is made once in a great while in some of the larger counties, when the occasion arises.
7. Statement of Unpaid Taxes. Only Macomb county makes some attempt to meet this condition. Macomb county controller gives out tax history of general taxes in his annual report but not in the monthly report. If necessary, he can report to the supervisors the condition of unpaid taxes.
8. Statement of Legal Debt Margin. None of the counties make a monthly report but some of the larger counties with auditor, controller, or board of auditors, can meet this condition if such occasion arises. Macomb county controller's annual report states the Legal Debt Limit, which is three per cent of the assessed valuation, and the total of all the county obligations to show

to what amount the county can accumulate the obligations.

The Trial Balance made by the county clerk and county treasurer is usually the only monthly statement that can readily be found in the records of the Michigan counties. In Oakland county, the county board of auditors are furnished every ten days with Statement Fund Balances, together with the receipts and disbursements, and a copy of Trial Balance is sent monthly to the Auditor General. The State Department of Social Welfare requires every county to furnish the following reports which are: Monthly Financial Report of Direct Relief Funds and Funds Other Than Direct Relief Controlled by the Department of Social Welfare (in reality, it is a statement of cash on hand at the beginning of the month, the credits, the debits, the cash on hand at the end of month, accounts payable at the end of the month and the unobligated cash balance at the end of the month, which is the cash on hand minus the accounts payable at the end of the month), Monthly Report of Direct Relief Program, which among others contains the financial obligations incurred for the Direct Relief Fund, Monthly Liquidation Report of ERA Funds (Receipts, Disbursements, Outstanding Commitments) Fund Balances of ERA Funds by County Department of Social Welfare.

The inter-office or internal reports required of county officials include the revenue voucher, which is a source of revenue receipts of all offices or semi-offices.

Many counties usually publish at the end of each meeting of the supervisors or finance committees the statement which includes the names and amounts of all claims allowed and disallowed. These publications are either made in the local newspapers or in the proceedings of the county board of supervisors. Under the present system, the counties are required to make to the Auditor General some reports of General County finances but there is such laxity in these reports that they do not appear to be of any great value because of lack of uniformity.

Nearly every county official makes some report, such as the prosecuting attorney, sheriff, county agricultural agent, the county school commissioner, county nurse and any other county official whose expenditures are paid out of General Fund; they report all their activities throughout the various periods of the year. The dates and the periods of reporting differ among the officials and from that on which the fiscal year of the county is based. One can realize the complexity of the reporting situation because no true costs of any kind can well be determined.

B. The Annual Financial Report.

M.F.O.A. Standards. The annual financial report should be prepared promptly at the close of the fiscal period for use by administrative officials, legislative bodies and the public. Its main purpose is to inform the persons directly or indirectly connected with the administration of the county's affairs that the funds



have been properly accounted for and of the financial condition of the county. Where an independent order is not made immediately after the close of the year, the annual financial statements should be prepared by the chief financial officer.

The report should be divided into two sections, a financial section and a statistical section. Where the independent auditor's report is made a part or is issued as a county financial report, it will also be necessary to insert the auditor's letter of transmittal and the auditor's certificate. These will appear at the beginning of the report, and will be followed by the financial statements and the statistical tables respectively.

The financial section will contain the following statements:

1. Balance Sheet--prepared to show the financial condition of each fund used by the county government.
2. Statements Analyzing Surplus--prepared for the revenue funds (i.e., for the General Fund and for any Special Revenue Fund) and for any funds which are used to finance the activity of a business character, such as Working Capital Fund. Such statements should show the opening balance of surplus, additions to surplus during the year,

deductions therefrom, and arrive at the balance of surplus at the end of the year. Surplus statements are not usually included in the monthly reports but are a very necessary part of the annual report. Should the liabilities of a fund exceed the assets, surplus becomes negative and is called deficit.

3. Statement of Revenue--Estimated and Actual-- prepared for each revenue fund. This statement has the following columns: Revenue Source, Estimated Revenue for Year, Actual Revenue for Year, and Excess or Deficiency of Estimated over Actual.
4. Statement of Expenditures and Encumbrances-- prepared for each revenue fund and has somewhat the following column headings: Function and Organizational Unit, Appropriations, Expenditures, Unencumbered Balance Encumbrances and Encumbered Balance.
5. Statement of Expenditures--Classified by Fund, Function, and Character-- prepared with the following column headings: Function and Organizational Unit, Total, Current Expenses, Capital Outlays and Debt Service.
6. Statement of Expenditures--Classified by Fund, Function and Object-- prepared with the following

column headings: Function and Organizational Unit, Total Cost, Personal Service, Contractual Services and Equipment.

7. Operating Statements--similar to monthly operating statements except the information is thoroughly shown for an early period.
8. Statements of Cash Receipts and Disbursements--prepared for all funds operating on a strictly cash basis. Special Assessment Funds, Bond Funds, Sinking Funds and Trust and Agency Funds form the group for which the statements and expenditure should be prepared. A separate statement should be prepared for each fund showing balance of cash at the beginning of the period, receipts classified by source, disbursements listed by objects and cash balance at the end of the period.
9. Statements Showing Changes in Fund Balances--vary with each Special Fund and are therefore discussed individually.
  - a. Bond Funds. A statement should be prepared analyzing the balance to the credit of each bond fund. Such statement will show for each bond fund the date of authorization, amount of bonds authorized, total expenditures and encumbrances chargeable against such authorizations and the

unencumbered balance.

b. Sinking Funds. The analysis of the Sinking Fund reserve is significant as this reserve represents the amount of resources which the fund should have accumulated for bonds to be retired at maturity. The statement will show the opening balance of the reserve actuarial requirements (i.e., the amount which should be added to the fund during the year, the amount which should have been deducted because of retirements and the balance of reserve at the end of the fiscal year).

c. Trust and Agency Funds. This statement will exhibit the fund balance of each Trust and Agency Fund at the beginning of the period, the nature of additions to such balances and deductions therefrom, and arrive at the balance at the close of the fiscal period.

10. Statement of Changes of Fixed Assets--this statement classifies assets by functions and organization unit and show for each function and department the fixed assets at the beginning of the year, additions to assets, deductions therefrom, and the balance at the end of the year.

11. Bonded Debt Statement--will appear somewhat with the following column headings: Description, Rate of Interest, Date of Issue, Date of Maturity, Bonds Authorized, Bonds Issued, Bonds Outstanding, Sinking Fund Required, Sinking Fund Actual and Sinking Fund Excess or Deficiency.
12. Summary Statement of Cash Receipts and Disbursements--will exhibit for each fund group or group of related funds, the cash balance at the beginning of the fiscal year and cash receipts and disbursements (including inter-fund transfers) during the year and the cash balance at the end of the year.

The essential statistical tables to be included in the annual financial report are as follows:

1. Assessed Value and Estimated True Value of All Taxable Property--will show the assessed value and the estimated true value of each type of taxable property, such as, real property, personal property and other property, for a period of ten fiscal years.
2. Statement of Tax Levies and Tax Collections--will show amount of taxes levied each year, amount of each levy collected, percentage of each levy collected, collection of back taxes from the beginning of year to date, total collection of current and back taxes, ratio

of current and back taxes to tax levy, accumulated delinquent taxes, and ratio of accumulated delinquent taxes to levy for current fiscal year.

3. Bonded Debt--Ratio and Per Capita--will show ratio of net general bonded debt to assessed value and net bonded debt per capita for ten fiscal periods. This statement will have the following column headings: Year, Population, Assessed Value, Gross Bonded Debt Less Sinking Funds, Net Bonded Debt, Ratio of Bonded Debt to Assessed Value and Net Bonded Debt Per Capita.
4. Debt Statement--will show the margin in which the county might incur further indebtedness. This statement is similar to the Monthly Statement of Legal Debt Margin except that the information is shown at the end of the year.
5. Debt Service Charges--prepared as a separate table for each bonded debt outstanding (i.e., General Bonds, Special Assessment Bonds and Utility Bonds) showing Debt Service Charges for the succeeding twenty years on the basis of bonded debt outstanding at the statement date. In the case of Serial Bonds, the debt service charges represent the amount of principal and interest due each year. In case of Sinking Fund Bonds, they represent the amount which should be added annually to the fund plus annual interest charges.

Actual Standards. The annual financial report is usually prepared by the County Audit Staff of the Auditor General's Department from one month to eleven months after the close of the fiscal year. The other county financial reports are those issued by some of the departments which consist of receipts by source, disbursements by function of each department. The county treasurer usually gives the statement of receipts by funds with debit transfers, and corrections, the cash disbursements with credit transfers and corrections, and the debit or credit balances. Sometimes he gives the Trial Balance for the end of the year, the Statement of General Fund Receipts and Disbursements and General Fund Summary of Receipts. The county clerk gives the General Fund Summary of Disbursements by departments only. The drain commissioners make reports on the drain orders issued for various drains and their amounts. The county road commission usually gives the classification of receipts and classification of disbursements of the County Road Fund; no two reports have shown any uniformity among the counties studied. The Social Welfare Department makes the Summary of Cash Receipts and debit transfers of each subsidiary fund and disbursements for hospitalization, farm, infirmary, administrative expense and direct relief. All these schedules and statements are made to the county board of supervisors at the meeting which follows the end of the fiscal year. Some of them also

include the schedule of officers' bonds in their reports. The County Audit Staff of the Auditor General Department also publishes this schedule.

Now the discussion will be concerned with the financial sections of the annual report.

1. Balance Sheets. This statement should be prepared for each fund and exists in Macomb and Oakland counties. The Macomb county auditor prepares the combined balance sheet of all funds as of the end of the calendar year in which the assets, liabilities, reserves and surplus are shown by individual funds and in toto. The amounts due to and the amounts due from other funds are shown but their differences are not set forth on the balance sheet. The county board of auditors in Oakland county does not publish the balance sheet statements in the local newspapers but the information can readily be received by any individual who goes and asks for it. Therefore, not much comment can be made to evaluate as to what type of balance sheet is issued in that county. The county treasurers of Sanilac, Berrien, Otsego, Clinton, Baraga and Houghton counties publish the Trial Balances of all funds as of the end of the fiscal year. The Gogebic county auditor and the controllers in Calhoun and Genesee



counties also publish the Trial Balance as of the end of the fiscal year. The County Audit Staff of the Auditor General Department publishes in its annual audit report the concise finance condition of the county for the period that it audited, which usually is a year, but not necessarily the fiscal year. It contains the Recognized Assets--All Funds, which is the Total Available Cash--All Funds and Impounded Bank Funds. On the credit side, it shows the liabilities and fund equities. It consists of (1) Fund Equities--Local Units of Government, (2) Special Fund Equities (3) Sinking Funds--For Bond Retirement, (4) Undistributed Tax Collection Funds, (5) Vouchers Payable (these have been shown in the audit reports of Calhoun county) and five other liabilities. Finally, the credit side also shows the Funds Overdrawn, which represent the amounts overdrawn by some funds. The Genesee county road commission, in its annual report for each calendar year to the board of supervisors publishes a balance sheet, which is usually given ten months later.

2. Statement Analyzing Surplus. The purpose of it is to show whether surplus has increased or decreased during the period and to account for the factors which brought about it which cannot be found in the reports of the Michigan

county. Only the statements showing the balance in each fund at the beginning of the period, the actual receipts, the actual disbursements and the final balance of the General Fund will usually be shown in any of the reports. The county road commissions in all the counties publish the balances of the County Road Fund at the beginning of the fiscal year, the receipts from the state, county and local sources, the disbursements by objects, and the final balances. The other departments are not too eager to give out what the actual fees in comparison to the estimated fees have been in the county because of the fact that the officials always wish to understate the amount of fees collected and overstate the necessary expenses of the department. Another point to consider is the fact that not many county officials know what the meaning of surplus is. Most county treasurers know that surplus plus the revenue account is equal to the disbursement plus the county treasurer's account.

3. Statement of Revenue--Actual and Estimated. This section is shown most effectively in the audit reports of the County Audit Staff as far as the tax levy is concerned and the actual collections. The percentage of it is always given. The Macomb county auditor gives the best report on

the actual collections as compared with the tax levies by also giving the estimates for the taxes to be uncollected. The tax history of general taxes for the years 1938-1939 inclusive given by the Macomb county auditor in his report, dated February 10, 1941 to the members of the board of supervisors. In it he gives not only the levy for the particular year but also the delinquency at the end of the first year with its percentage, delinquency as of December 31, 1939 with the percentage of delinquency, delinquency as of December 31, 1940 with the percentage of delinquency and the estimated loss of property deeded to the state. This statement of unpaid taxes should also be included in the Statement of Revenue--Estimated and Actual. It is most difficult for the counties to estimate the state grants for relief and for the maintenance of roads. The tax collections are most difficult to estimate in the northern Michigan counties and the upper peninsula counties because more than twenty per cent of the land has already been deeded to the state.

4. Statement of Expenditures and Encumbrances Compared With Appropriations, is fully used in the counties which make any attempt to utilize it. In the counties having a controller, auditor,

or board of auditors, where the budgets have been used more effectively, the General Fund disbursements are shown together with the estimated. As far as the unexpended balance, encumbrances and unencumbered balance are concerned, they do not exist because of the lack of budgetary accounts. The Baraga county clerk at the end of the year shows the actual disbursements of the General Fund together with the budget figure. No inkling of statement of expenditures compared with appropriations exists in Otsego, Clinton, Sanilac, Eaton and Berrien counties. Houghton county gives only the actual total figures spent for each department together with the total budgeted figure.

5. Statement of Expenditures--Classified by Fund,  
and

6. Function and Character, and Statement of Expenditures--Classified by Fund, Function and Object. They are well illustrated by the Summary of Disbursements--County Government Disbursements and the Summary of General Fund Disbursements--Administrative and Operating Expenses. The Summary of Disbursements--County Government Function Disbursement--is shown by having a work sheet of the following columns: Name of Fund, Total Administrative and Operating Expense, Highway, Welfare and Medical Assistance,

Parks and Airport, Teachers' Institute, Bond Retirement (with columns applied on debt and interest), Miscellaneous, Total County Functions, and Trust and Agency Disbursements.<sup>3/</sup> Summary of General Fund Disbursements--Administrative and Operating, has a work sheet for the following columns: Department, Total Expenditures, Salaries of County Officers, Other Renumeration, Printing and Stationery, Travel, Capital Additions and Repairs (none as capital outlay by the M.F.O.A.), Utilities (illustrated as light, heat, water and supplies), Other Department Expense, Administrative and Operating Expense, Welfare and Medical Assistance and Trust and Agency Disbursements. The controllers in Macomb, Calhoun and Genesee, the auditor in Gogebic, the clerks in Berrien, Clinton, Sanilac, Baraga and Houghton, publish a Record of Disbursements from the Classification Cost Ledger according to County Uniform Accounting System.

The clerk in Otsego county has not made a single financial report for the last twelve years. The clerk in Eaton county also does not publish a financial report but depends entirely

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Brown, Vernon J. Report of Audit--County of Marquette--September 1, 1939 to September 30, 1940. p. 14.

upon the report from the Auditor General Department. The Gogebic county auditor shows expenditures on a classified monthly basis, thereby being able to meet somewhat the condition of allotment of appropriation for any particular appropriation. The State Department of Social Welfare issues a quarterly financial report of Receipts and Expenditures, and Vouchers Payable for Direct Relief, Social Welfare Other Than Direct Relief, Administrative Expenditures, County Infirmary Expenditures and Farm Expenditures. They are classified by object and character.

7. Statement of Operations. As it is reflected in the reports of each county road commission, these reports are anything but uniform because every county road commission had a different accounting set-up as to classification and as to the procedure. At this writing, March, 1942, no reports have been issued by the County Road Department since the publication of the manual by the Auditor General Department for the county road commissioners. The drain commissioners publish various types of reports which are anything but financial and uniform. The registers of deeds, who are on salary instead of fee basis usually like to publish the Statement of

Receipts and Expenditures by their department with the provision that their department made a profit. In the estimation of many interested parties, this is not fair because the register of deeds office is really the income producing department for the county. The county health units, hospitals, probation officers, semi-departments and even the sheriff's office sometimes make a Statement of Operations, good or bad, but in no county studied does the Judge of Probate give a Statement of Operations. Oakland county board of auditors prepares Statement of Fund Operations, and Operation Cost of all county institutions.

8. Statement of Cash Receipts and Disbursements Prepared for Bond Funds, Sinking Funds and Trust and Agency Funds. Only Macomb county prepares such a statement for Bond Funds but not for Trust and Agency Funds. Of course, all counties may give an Abstract of Funds which show the balances and overdrafts at the beginning of the fiscal year. The cash receipts and debit transfers, the cash disbursements and credit transfers, and the balances and overdrafts at the end of the year. The Statement of Bonds for any county may be obtained from the Michigan Public Debt Commission. The

Macomb county controller publishes a Schedule of General Obligations as well as the Schedule of General County Bonds. Nearly every road commission has issued bonds and, although progress for retirement has been made, the reports of cash receipts and disbursements are very difficult to find.

9. Statements Showing Changes in Fund Balances. None of the counties have issued them but one would have to rely upon the Abstract of Funds or look into the General Ledger of each county to find what inter-fund transfers as well as receipts and disbursements have been made.
10. Statement of Changes and Fixed Assets. None of the counties prepare it but Macomb county auditor prepares a Schedule of Furniture Paid Out of Appropriations for every county department.
11. Bonded Debt Statement. This statement can always be obtained from the Michigan Public Debt Commission in Lansing, Michigan. It is very difficult to find the Schedule of Bonds in any of the county road commissions which have issued several bonds and some progress for their retirement has been paid. The Macomb county auditor publishes a Schedule of County Bonds. The Auditor General Department sometimes has the statement in its audits and it would be a great



improvement in the financial reports to include that in the audits. In Oakland, the board of auditors prepares the Statement of Bonded Indebtedness. In Gogebic, the auditor prepared such statement only for one fiscal year and that is for the one ending September 30, 1939.

12. Summary Statement of Cash Receipts and Disbursements. Again one would have to refer to the Abstract of Funds to find the inter-fund transfers and the General Ledger Over Actual Cash Receipts and Disbursements.

Now the discussion will be concerned with the statistical section which deals with the statistical tables to be included in an annual report:

1. Assessed Value and Estimated True Value of All Taxable Property for Ten Fiscal Periods. This table does not exist in its entirety in the Michigan counties as no true value could be determined due to the fact that no assessor's office exists for the county nor for the State of Michigan. The assessed value of all taxable property for one fiscal period can be found in the proceedings of the county board of supervisors, and in the reports of the Gogebic county auditor and of the controllers in Calhoun and Genesee counties. The Macomb county auditor gives a statement of assessed valuation

for four years and it is the total assessed valuation.

2. Statement of Tax Levies and Collections. This appears in toto in the audit reports of the Auditor General Department. All the counties show this statement in the proceedings of the board of supervisors and in the minutes of the county tax allocation board. The county board of auditors in Oakland and the auditor in Gogebic give a report for their county of the apportionment of taxes. The Macomb county auditor gives in his report the statement of tax history in general taxes for the years 1928 to 1939 inclusive. This consists of General Fund Tax Levies for each of those years. The delinquency at the end of the first year with its percentage of delinquency, delinquency as of December 31, 1939 with percentage of delinquency, delinquency as of December 31, 1940 with percentage of delinquency and the estimated loss of property deeded to state. He also gives the statement of total taxes levied at large for the last four years, the per capita of taxes levied during those years and the tax rate on valuation per thousand dollars for the four years. The Gogebic county auditor has made a comparative statement of tax rates per thousand dollars valuation for the

past ten years.

3. Bonded Debt--Ratio and Per Capita. As this statement is to show the ratio of net general bonded debt to assessed value and the net bonded per capita for the ten fiscal periods, none of the counties have gathered this information. The Macomb county auditor comes nearest to making such a report by showing in his report the Total Counties at Large Obligations, Percentage of Valuation, Total of All Debts and the Percentage of all Valuation.
4. Debt Statement. This is a Statement of Legal Debt Margin. The constitutional debt limit in Michigan counties is three per cent of the assessed valuation. Only one county issues a statement that could somewhat meet this requirement and that is Macomb. The report of this controller shows for the last four years not only the total assessed valuation but also the constitutional debt limit and the total county at large obligation with the percentage of valuation.
5. Debt Service Charges. In the examination of various reports of the counties, only Macomb county gives a schedule of general county bonds together with the estimated interests for the coming year. One would have to seek the reports of the Michigan Public Debt Commission to find

what the total bonds and interest are for any year.

Gogebic county auditor and the Macomb county controller publish charts as to the General Fund expenditures for the fiscal year. Macomb county controller also includes the charts for assessed valuation and tax rates, levies compared with delinquency and the monies received from the state. These counties thereby try to make some better showing than the M.F.O.A. Standards approved.

- C. Conclusions and Recommendations. Sound accounting, reporting, and auditing are very essential in their relationship to the success of the county finance. No function of public accounts is more important than the production of regular and comprehensive reports.<sup>4/</sup> The complicated maze of overlapping fiscal and reporting years which is encountered when studying the administration of county government, makes it impossible to compute functional costs. It is apparent that no comparison between the activities and the cost of various county offices based on the same twelve-month period is possible.<sup>5/</sup>

Uniform reporting does not exist in the Michigan counties. Although the Audit Report of Auditor General

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<sup>4</sup>  
Morey, Lloyd. Introduction to Governmental Accounting.  
New York: Wiley, 1936. p. 12.

<sup>5</sup>  
Bromage, Arthur W. and Reed, Thomas H. op. cit. p. 50.

Department is uniform for the counties, the audit periods are different.

Prompt publishing of the information and the gathered data which could easily be available from the accounting forms, and which could closely follow the form prescribed for the budget with eventual reporting of work done, is to be recommended.

Most of the county financial statements in Michigan are inadequate from the standpoint of the interested citizen and investor. The statements in Michigan must present a more complete picture of county finance. A balance sheet together with Statement of Receipts and Disbursements would be a great improvement. Too many supporting schedules are asked by the M.F.O.A. for the monthly and annual reports for Michigan counties under the present set-up. To a layman a brief summary of tax rates, bonded indebtedness, revenues by sources, and expenditures by objects and organizational units, and the net cash balance or deficit in the Treasury will be sufficient.

To accomplish all the objectives of adequate reporting as prescribed by M.F.O.A., a good budgetary system should be set up in Michigan counties together with a centralized accounting department as recommended in Chapter V of this report. These reports could be

made uniform among the counties. Many statistical phases could be added to the report to show per capita costs of county, per capita net debt of county, per capita net receipts and disbursements, and other interesting phases. The fiscal periods as well as reporting periods should be uniform so that the costs could be compared.

## CHAPTER VII

### POST-AUDITING

- A. MFOA Standards. General. A post-audit is an examination made after transactions to be audited have taken place and have been recorded. In most instances, an independent post-auditing procedure is determined by state requirements. Forty states provide for the audit of counties or selected county offices. In many cases, the examination is performed by the state officials or the state prescribes the procedure to be followed. In general, wherever legal provisions with reference to independent post-auditing exists, such provisions will govern.

The external or post-audit should be performed at least once a year. The object of external audit is to verify the financial condition of the county at the close of the fiscal period; to determine what revenues of the county have been for the period; to determine whether expenditures have been made in accordance with law; the detection and prevention of fraud; and the detection of errors in principle or calculation.

Several important factors must be kept in mind in engaging the services of the auditor. Primary

consideration should be given to the qualifications of the auditor to perform a county audit, and the audit contracts should not be awarded on competitive bid basis. A clear understanding should be reached between the county and its auditor before the latter begins his work. This understanding should be contained in a written contract or agreement prepared in duplicate, one copy being kept by the county and the other given to the auditor. The document should contain the following points:

1. To whom the auditor is responsible and to whom the report is to be submitted.
2. The kind of audit to be performed--whether it is to be the detailed audit, balance sheet audit or a cash audit. A detailed audit is one in which the examination extends to the verification, usually by test checks of the details of all the checks of account, including subsidiary records and all supporting vouchers, as to arithmetical accuracy, complete accountability, and clearness of accounting principle. A balance sheet audit consists of verification of a given date of the assets, liabilities, surplus and all reserve accounts of dating as incidental thereto, such examination of the operations as may be necessary to ascertain that the



financial condition of the county is correctly stated. It does not include the seeking of all receipts or all details of revenues and expenditures. A cash audit is one limited to the verification of cash transactions for a stated period, for the purpose of determining that all cash has been brought into account and that all disbursements are properly authorized and vouched for. It is concerned with the sources of receipts and the nature of disbursements only to substantiate their accuracy. Such an audit establishes the accountability of the persons charged with the responsibility for cash.

3. The procedure to be followed in auditing the accounts if a cash audit is to be performed, the procedure should be limited to a complete inquiry of all the cash transactions or to one involving some of them.
4. The assistance and equipment the county is to furnish the auditor. Suitable office or desk space should be provided for all books, files, documents, etc., and should be made easily accessible. Books and records should be arranged as to facilitate the work of the auditor. Trial balances of control and subsidiary accounts should be supplied.

5. The period to be covered by the audit and provision for extended investigation, if some unexpected matter requiring further examination turns up.
6. The time the audit is to begin and when it is to be finished.
7. The audit report is to be turned in on the number of copies desired.
8. Who is to prepare the financial statements. The financial statements may be prepared by the auditor directly or they may be prepared by the chief financial officer and verified by the auditor.
9. Compensation, i. e. basis of compensation and terms of payment. The result of the auditor's investigation should be made in the form of a report which should include the letter of transmittal, the auditor's certificate and financial and statistical statements.

Actual Standards. Michigan counties have a uniform audit conducted annually by the Auditor General Department under the County Uniform Accounting Act of 1919. In many respects, the plan has been operating rather successfully but the details are still to be worked out, such as, the frequency or amount of time elapsing between audits, which seems in most cases more than a year.<sup>1/</sup> The legal

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Miller, Loren K., op. cit. pp. 54.

provisions with reference to this annual audit is under the control of the Auditor General. The financial condition of a county at the close of a fiscal period was first shown in the audit reports of February 26, 1941 when the first "streamlined" audit was made of a Michigan county (Marquette). The Recognized Assets--All Funds, which consists of Total Available Cash--All Funds and Impounded Bank Funds, together with Liabilities and Fund Equities, and Funds Overdrawn (if they exist) are shown. The receipts by source, together with the expenditures by object, are displayed, and the detection of errors in principle or calculation are brought out in those reports with some explanatory comments. The most frequent cash shortages in the counties can be found in the audit of the delinquent taxes since the county treasurer collects all the delinquent taxes and makes returns to the State Auditor General. The local units must file a statement of delinquent taxes with the treasurer. The shortages used to be found when the Auditor General advertised sale of property due to delinquent taxes and the several taxpayers could produce the receipts for taxes paid. Many special audits have been made of some county officials whenever and wherever the cash shortages could be found. In 1932, Oramel B. Fuller, who was the Auditor General since the adoption of the County Uniform Act was defeated at the polls. In 1933, a new Auditor General, John K. Stack, Jr.,

took office. He felt that the County Audit Staff of twelve members was not competent and replaced them with six appointees of his own. A huge shortage in connection with tax collections was discovered in Jackson county but, due to inexperience the new appointees could not cope with the situation. One of the former members of the County Audit Staff was rehired to help in this audit work. By June of that year, the Auditor General felt that a certified public accounting firm could do a better job of post-auditing from the standpoint of cost to the state than the auditors who would be on the state payroll. He awarded an auditing contract to a firm of certified public accountants (Lawrence Scudder and Company), the low bidder. The qualifications of this accounting firm are nationally recognized to be of high calibre. This contract covered a general audit of all counties in the state. The firm made an ordinary commercial type of audits, unsatisfactory in view of the needs for the system of improvements as well as for verification of records. It was also very difficult for the auditing firm to reach some understanding with the county officials before the former began its work. Political and human element would usually be brought by some county officers against the auditors because many county officials were reluctant to improve their accounting records. Since Lawrence Scudder and Company was the lowest bidder, it did not work well as a private

organization cannot afford to put too much time in its auditing if it is to make a profit for itself. In 1935, John J. O'Hara became the new Auditor General and he rehired nearly all the former members of the County Audit Staff under the late Oramel B. Fuller. In 1937, another Auditor General, George Gundry, took office. He removed all the assistants and replaced them with his own men. Only the heads of the department were removed. In 1941, the present Auditor General, Vernon J. Brown, decided to improve the audits by hiring a public accountant, Richard C. Shepler (formerly connected with the Lawrence Scudder and Company) as the supervising auditor. The audits are now "streamlined" so as to give the total of funds and accounts instead of showing exhaustive detail.

The evidence of patronage in the selection of state auditors can well be demonstrated by the very high turnover of personnel with the change of party in the office of the Auditor General. Usually two auditors travel together--one senior, who is experienced, and one junior, who possesses little or no experience. For the years, 1938 and 1939, these traveling auditors were put in the classified service under the Civil Service Act. Later they were removed from the merit system by the adoption of the so-called "Ripper Acts" of 1939. However, the auditors were blanketed into the classified lists by the provisions of the constitutional amendment passed by

the voters in November, 1940. Only after selection of competent men by competitive examinations will there be an improvement in the personnel of the County Audit Staff.

Since 1939, the State Department of Social Welfare has been auditing quarterly (i.e. as of March 31, June 30, September 30, and December 31 of each year) the County Department of Social Welfare in each county. This examination is made for the similar period in every county so that the comparison can be made. Some of these auditors are former members of the County Audit Staff of the Auditor General and know what audits are made by the latter department. At this writing, plans are under way whereby all the auditing of the counties will be done in the Auditor General Department.

These auditors of the Auditor General Department and the State Department of Social Welfare are responsible only to their supervising auditor in Lansing. Whenever any complaints are to be made by the county officials, these grievances must be made directly to the Auditor General. The same procedure is made concerning the auditors of the State Department of Social Welfare whereby the county officials can make to the Department of Social Welfare. The unification of this entire County Audit Staff under the Auditor General Department will bring some improvement since a clearer understanding can always be reached under one supervision.



As to the kind of audits, the problem faced by the county auditors or examiners is to first ascertain whether or not all moneys have been accounted for, both from the standpoint of receipts and disbursements, their application to and expenditure from accounts as provided by statute. The next objective is portraying the financial condition and operations of the county in a form which is concise by giving the Recognized Assets--All Funds and Liabilities and Fund Equities.

Only what is shown on the departmental receipts, department vouchers and county warrants is indicated in the audit reports. The explanatory comments usually will show whether the expenditures have been made in accordance with law and the errors in principle or calculation. Once in a great while, the detection of fraud will be demonstrated in the audit reports and the bonding companies will be obligated to pay up the losses.

The procedure is limited to a complete inquiry of all possible cash transactions as far as all, except one, county offices are concerned. The State Department of Social Welfare audits indicate what checking and verification of records has actually been made and the condition and accuracy of records. Not only the cash audit is made but also a detailed audit due to the fact that the County Department of Social Welfare maintains a vouchers payable record.



When the State Auditors come to a county they are to be furnished with suitable office or desk space for all books, files, documents and other necessary data. Since the pre-numbered system of receipts and disbursements are used, this arrangement facilitates the work of the auditors.

The period to be covered by the auditor varies from three months to as much as fourteen months' duration because the present Auditor General felt that the orders should be made on a calendar year basis. This plan has not been so successful because some audits would be made as late as eleven or twelve months after the end of the calendar year. As has been stated before, the State Department of Social Welfare makes quarterly audits for each year, thereby making it easy to compile audits for a fiscal or the calendar year by adding any of the four successive quarters. The counties themselves do not have uniform fiscal years but most of them have the fiscal year ending September 30. A quarterly audit for all departments in every county would be a great improvement over an audit made annually. The period to be covered by the audit will depend not only by the size of the counties and transactions that have been made in the county, but also upon some matters which may require further investigation such as the detection of fraud.

The financial statements themselves are prepared directly by the auditors and approved by the supervising

audits of the Auditor General Department. The expense of auditing is borne by the state and since the auditors are on the payroll of the Auditor General Department, the results of the auditors' investigations are made in the form of a report which include the letter of transmittal with explanatory comments for each department, balance sheet, summary of fund operations, summary of receipts, summary of disbursements, analysis of inter-fund transfers, and various schedules. These schedules contain the following information:

1. Summary of General Fund Disbursements.
2. Analysis-Other Departmental Expense.
3. Summary of County Road Fund Disbursements.
4. Summary of County Park Fund Disbursements.
5. Summary of 1939 Tax Levy and Disposition.
6. County Officers' Bonds.
7. Authorized County Officers' Salaries.
8. Outstanding Bonded Indebtedness.

The following newspaper article will give some idea of the criticism made by the county examiners against the counties which are managed poorly from the accounting and financial standpoint:<sup>2/</sup>

"Examiners of the State Auditor General's office have criticised Lenawee county

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Detroit Free Press, (Detroit), October 21, 1941,  
pp. 13 - Column 3.

officials sharply for negligence in handling county business in a report now being considered by the board of supervisors. The auditors said overdrafts were commonplace, that petty cash was handled loosely, that funds collected by various officers were not deposited promptly with the county treasurer, that practices followed in handling dog licenses were not businesslike, that drain taxes were not spread according to law and that the bonds of some county officers, including a \$100,000 Treasurer's Bond, were not in accordance with the law.

The auditors made recommendations to correct the defects. No evidence of dishonesty was reported."

Oakland county does a little more in the form of post-auditing than any other county. Being a larger county and having some financial resources, it is the only one that audits the accounts of the Justices of the Peace. This is done once a year and according to Oakland county officials, some defalcations were found and the recovery of funds and prosecution of the offenders were facilitated. Most of the other counties are too small and have too limited resources to make such an examination. Perhaps the best solution would be to have the state agency with authority make, without advance notice, audits of counties as well as other local Governmental units. The mere existence of

such an agency, with the possibility of an audit at any time, should serve to prevent defalcation.

- B. Conclusions and Recommendations. Michigan is one of the forty states which provide for the audit of counties or selected county offices. The State Department of Social Welfare audits the records of the County Department of Social Welfare every three months. The Auditor General Department audits the rest of the county departments and semi-departments somewhat annually. Some audits are for as short a period as three months and as long a period as fourteen months, because it was the plan of the Auditor General Department to audit the county records for the calendar year. This has not been successful because some audits would be as late as eleven months after the end of the calendar year.

At this writing, it has been contemplated to have the County Audit Staff of the State Department of Social Welfare unified under the authority of the Auditor General.

The awarding of auditing contracts to some firm of certified public accountants, which is the lowest bidder does not and did not work well if a private concern is out to make a profit for itself.

Some political patronage had been displayed by the turnover of the personnel of county examiners. The

present County Audit Staff has been blanketed in under the Constitutional Civil Service Amendment adopted in November, 1940. This process of having the county examiners receive a full Civil Service status without competitive examination has not improved the personnel. It is recommended that the staff of county examiners be unified under one head as proposed. It is also recommended that the audits be made of all the county offices for every three months instead of various auditing periods. In that way, the records could be consolidated for the fiscal period of the state which ends on June 30, for the fiscal period of the county which in most instances ends on September 30, and for the calendar year. This can be done by consolidating the statements of any of the four successive quarters.

It is also proposed that the county examiners be appointed on the basis of merit by means of a competitive Civil Service examination with an adequate salary to attract a higher class of people and to have high calibered County Audit Staff.

The most frequent cash shortages have been found in the audit of delinquent taxes. It is proposed that every receipt be serially numbered when the payment is made to the county treasurer--the original to be given to the taxpayer, the duplicate remaining with the treasurer, and the third copy to be turned over to the



county clerk. The post-audits could quickly disclose the misappropriation of money and thus facilitate a recovery of the funds and the prosecution of the offenders.

As Oakland is the only county that examines the accounting records of the local Justices of the Peace, and as most of the other counties cannot afford to do likewise, it is suggested that the County Audit Staff also examine the records of the local Justices since many defalcations had been found.

The "streamlining" of audits has been a great improvement over the very detailed reports on the examinations made in the Michigan counties. The summary of various transactions that took place during the fiscal period is sufficient as an average man is not so well disposed to read any of the audit reports in great detail.

## CHAPTER VIII

### CONCLUSIONS AND RECOMMENDATIONS

The administrative "headlessness" of county government as illustrated by the accounting and financial practices, reveals that the counties still remain the "dark continent" of American politics. The counties themselves must undertake as a self-imposed task the coordination and improvement of their accounting methods and procedures.

While Michigan's County Uniform Accounting Act was considered one of the best in the nation when it was passed in 1920, few improvements have taken place since that time. This lack of improvements, together with the failure on the part of many counties to avail themselves sufficiently of the provisions of the 1920 act, has resulted in a number of practices which, in our opinion, require analysis and correction. These have been discussed in some detail in the earlier chapters of this study. They will be summarized in concise fashion in our closing chapter.

Centralized Assessments. The annual tax levy is determined by the County Board of Supervisors, after which it is sent to the assessed units to be spread. The township supervisor is charged with the task of assessing all property



liable to taxation in his township. Centralized assessment by professionally trained employees of a state bureau or department would undoubtedly result in improved assessment practices since their work would be scientifically and impartially carried out.

Uniform Purchasing. From the standpoints of accounting and budgetary control, purchasing for the several county activities should be centralized and should conform to uniform procedures. Where decentralized purchasing was observed in certain of the counties studied varying degrees of efficiency and economy occurred.

Complete Accounting for Fees. While it should be the policy in all counties to require the various county offices to turn over to the County Treasurer daily, weekly, or monthly the receipts from their statutory services, this was not followed in all instances. Some county officers, whose compensation consists partly or wholly in the form of fees, refuse to post such fees in their cash receipts book or to report in the public records the fees retained by them. It is suggested that all such fees be paid to the County Treasurer and that he in turn disburse the money for the maintenance of fee officers in accordance with proper authorization. Centralization of accounting duties and their separation from treasury duties cannot be urged too strongly.

Budgeting. Complete budgets do not exist in the Michigan counties studied, nor has administrative supervision over



estimated receipts and disbursements been provided by the state. The counties having a controller, auditor, or board of auditors, have most nearly achieved a condition of budget control. The budget procedures of the Chief Financial Officer should embrace budgetary control of the Road Department.

The approved standards of the Municipal Finance Officers' Association as to what the budget document should contain are poorly followed by the Michigan counties studied which usually show only the disposition of tax revenues and omit entirely on consideration of revenues such as miscellaneous revenue from the payment of delinquent taxes or from the sale of county bonds or notes. Again, it should be noted that each county should charge a single person with budget making authority.

County Controller. The establishment of the office of county controller is recommended. He should be appointed by the County Board of Supervisors from a list of the three highest certified by the State Civil Service Commission as the result of a competitive examination. His duties would include the preparation and administration of the county budget. His salary would be paid partly by the state and partly by the county. His term of office should be 10-15 years, and because of his civil service status, he could not be removed without cause. Such an officer should

help each county to realize much more fully its goal of an adequate, useful budget.

While Michigan counties keep their books on a double entry basis, inadequate fund accounting exists in many of them. Failure to finance themselves on a "pay as you go" basis is partly attributable to their failure to adopt the accrual basis for disbursements. Such a basis, when employed, would encumber the fund when the expenditure is proposed and would reduce its balance when a liability is incurred rather than when it is liquidated.

Multiplicity of Funds. Too many funds exist in every county, many of them being set up by law. In Oakland county, for example, with one hundred and fifty funds, it is not only difficult to carry out accurate fund accounting, but it is necessary to employ the services of more persons than should be the case. The State of Michigan has in recent years reduced the number of its controlled funds to six, and there seems no reason why Michigan's counties would not find a similar number adequate for their needs.

The county tax bills should state definitely the purpose for which taxes are being paid. This would make easier the accounting for the amount of collections due to each fund.

Balance sheet and operating statement of each fund should be prepared so that the amounts due from other funds



as well as amounts due to other funds can readily be ascertained rather than showing, as at present, overdrawn funds.

Coordination of Fiscal and Reporting Periods. No function of the governmental accountant is more important than that of the preparation of regular and comprehensive reports. Costs by functions are almost impossible to determine because of the complications resulting from overlapping fiscal and reporting years. Uniform reporting among the counties is out of the question. Although the audit report of the Auditor General's department is uniform for the counties, the periods covered are different.

Prompt publication of the information and data gathered by the use of standardized forms, and closely following the prescribed practices of sound governmental budgeting is to be recommended. The layman will derive satisfaction from a brief summary of tax rates, bonded indebtedness, revenues by source and expenditures by object, and the organizational units and net cash balance, or deficit, in the county treasury. Fiscal periods, as well as reporting periods, should be uniform for purposes of useful comparisons. The State Department of Social Welfare audits the records of the county departments of Social Welfare every three months, but the Auditor General's department audits the rest of the county departments at from three to fourteen month intervals.

Conclusions. While Michigan is one of forty states which provides for periodic audits of county and county office accounts, several defects were observed in connection with these audits. The practice of awarding the auditing contract to the lowest bidder does not insure the most competent audit. Political patronage often expressed itself in a high turnover of the examining personnel. Today the county audit staff is blanketed under the constitutional civil service amendment. A three-month audit period should be adopted for all counties. Thus audit reports will be co-terminous with the fiscal period and, it is hoped, the calendar year.

The county examiners should be appointed on a merit basis through a competitive civil service examination with salaries adequate to attract a thoroughly competent county audit staff.

It is proposed that every receipt be numbered serially when payment is made to the county treasurer--the original to be given the taxpayer, the duplicate being retained by the treasurer, while the third copy is turned over to the county clerk. The post-audits would then quickly disclose any misappropriation of money and thus facilitate recovery of the funds and the prosecution of the offender.

Just as the Oakland county board of auditors audits the records of the local justices of the peace, it is





suggested that the county audit staff also examine the records of the local justices since many defalcations have been found.

Finally, audit reports should be "streamlined" while at the same time developing a frank, informative approach to the average citizen who, at best, gives audit reports a negligible amount of his attention.



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