A CASE STUDY OF MICHIGAN COUNTY FINANCE DIRECTORS

by

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ABSTRACT

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For local and state governments, generally accepted accounting principles (GAAP) are a widely accepted set of rules, conventions, standards, and procedures for reporting financial information as established by the Federal Accounting Standards Advisory Board. The purpose of this case study was to identify problems in GAAP in Michigan county government agencies and to solicit suggestions from county finance directors on how to solve those problems. Data collection involved interviews with eight county government financial leaders in Michigan. The research will not only determine the apparent lack of guidelines but will also offer suggestions for improved compatibility of the budget and Comprehensive Annual Financial Report (CAFR) along with suggestions for future research. This will be completed through a qualitative case study method design with the assumption being that the CAFRs (dependent variable) will be affected by the independent variables. This will be determined by analyzing the educational background (independent variable) and clear understanding of the requirements of the Michigan County Finance Directors (independent variable). The results of this study will be put through statistical analysis and recommendations will be announced. The goal is to give citizens and elected officials reassurance in the accuracy of their government agencies. It is expected that the budget and CAFR for these counties will not be parallel to each other and it is the hopes of the research to identify these discrepancies and offer solutions for more accountable reporting.

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INTRODUCTION AND STATEMENT OF THE PROBLEM

Introduction to the Study

When comparing financial reports from one agency to another in Michigan, there is a lack of uniformity. One problem is the multitude of mandates, statements, and standards required to produce valid financial reporting of county activities). State and local budgets, for example, are created in accordance with the Governmental Accounting Standards Board (GASB); however, the State government dictates the statutes that mandate how these will be created. Therefore, each state and local government can have different accounting principles behind their budgeting process. Recommendations for local and state governments initiate with generally accepted accounting principles (GAAP). GAAP is a widely accepted set of rules, conventions, standards and procedures for reporting financial information. In 1984, the Financial Accounting Foundation (FAF) produced GASB as the official source of GAAP for state and local governments. GASB is an independent, private-sector, not-for-profit organization that, through an open and thorough due process, establishes and improves standards of financial accounting and reporting for U.S. state and local governments. However, GASB does link to GAAP guidelines. For example, Statement No. 55 of the GASB (Appendix F) sets out The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (March 2009). The objective of this statement is to incorporate the hierarchy of GAAP for State and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. Finally, each State must meet the GASB guidelines and must also meet the guidelines dictated by their own State statutes. This creates not only inconsistencies between governmental agencies but poorly understood and inadequately followed guidelines.

GASB Statement 34, which was issued June 1999, requires State and local governments to begin reporting all financial transactions, including the value of their infrastructure assets, roads, bridges, water and sewer facilities, and dams, in their annual financial reports on an accrual accounting basis. The statement is meant to help users

- Assess the finances of the government in its entirety, including the year's operating results.
- Determine whether the government's overall financial position improved or deteriorated.
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services.
- See the cost of providing services to its citizenry.
- See how the government finances its programs; through user fees and other program revenues versus general tax revenues.
- Understand the extent to which the government has invested in capital assets, including roads, bridges, and other infrastructure assets.
- Make better comparisons between governments.

In short, the new annual reports should give government officials a new and more comprehensive way to demonstrate their stewardship in the long term in addition to the way they currently demonstrate their stewardship in the short term and through the budgetary process (GASB, 1999).

GASB Statement 55, which was issued March 2009, was created to incorporate the hierarchy of GAAP for State and local governments into the GASB authoritative literature (GASB, June 2009, p.100). Statement 55 consists of the sources of accounting principles used in the preparation of financial statements of state and local government entities that are presented in conformity with GAAP and the framework for selecting those principles. However, the budget process is still not covered in the Statement nor is the County Annual Financial Report (CAFR) and budget better aligned.

This study explored how to solve problems in Michigan counties' financial practices as they relate to GAAP, GASB and the Michigan Uniform Budgeting and Accounting Act. If one state, Michigan, does not have consistently followed guidelines for local government agencies, how will individuals understand agencies from State to State or the government as a whole?

This study was based on the Uniform Budgeting and Accounting Act (ACT 2 of 1968). The act covers spending categories of specified units of government. These are normally limited to the expected costs of running the operations involved in these categories through tax income as opposed to describing the status of any government fixed assets or investment wealth. While the CAFR is meant to report the complete overall financial results of both the specific categories, it is also meant to report all other agency departments in the agency. These additional agencies or departments may have their own budgets and separate investment accounts. Their financial holdings are not combined with the general purpose budget that the same government presents to the public.

Statement of the Problem

This study has examined if there is a problem in the State and local government accounting practices in Michigan and, in what areas these problems are located, and solicited participant's suggestions for solving these problems. Some extenuating circumstances are that State and local governments must not only follow GASB and GAAP guidelines but must also follow their own State mandates. In Michigan that mandate is the Uniform Budgeting and Accounting Act – Act 2 of 1968. As stated in the mandate:

> The Uniform Budgeting and Accounting Act (Act 2 of 1968) provides for the formulation and establishment of uniform charts of accounts and reports in local units of government; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from local units of government; to provide for the administration of this act; to prescribe the powers and duties of the State treasurer, the attorney general, the library of Michigan and depository libraries, and other officers and entities; to provide penalties for violation of certain requirements of this act; to provide for meeting the expenses authorized by this act; to provide a uniform budgeting system for local units; and to prohibit deficit spending by a local unit of government.

However, the mandate does not state which accounting method or budgeting style must be used, only the chart of accounts in setting up a local unit and the final reporting requirements.

The financial basis for any organization is the type of accounting method used. The majority of governments use a cash basis method, which is non-GAAP approved for budget reports. A cash basis method is similar to personal finances, such as keeping a checkbook. Cash is recorded when received and expenses are recorded when a check is written. While this is the simplest method it is the most misleading. It does not reflect known but unpaid bills or uncollected assessments. If a county board approved a contract for a psychologist to perform assessments in its mental health agency, the obligation would not show up on the statements until the services have been performed and paid for. As a result, the finance statement would show surpluses when in fact there may be a deficit. The recommended, but not required, accounting method for governmental funds is the modified accrual method, which combines two methods: cash and accrual. In the case of the psychologist the contract would be recorded as an accrual, thus creating an encumbrance when the board approved it and when the expense was paid; it would be moved on the finance statement from the accrual to cash, thus creating a more accurate financial statement. However, encumbrances will have effects on the budget. As clarified in GASB 34, encumbrance accounts are budgetary accounts used to show obligated portions of appropriations. During year-end closing, encumbrances are liquidated and encumbrance account balances are returned to the unappropriated fund balance. Encumbered amounts may be accrued as accounts payable, but only if the goods or services for which the encumbrances were set up and were received by the end of the year. Also, proprietary funds are accounted for on the full accrual basis, similar to a business. Therefore, the accounting method and budgeting style should complement each other. By studying the budgeting and accounting methods used, this analysis would determine if there truly is a problem, the areas in which the problem(s) are located, and the recommended approaches to repair the situation. After the accounting method is determined the budgeting style can be put into place. While there are many budgeting styles to choose from, the budgeting style itself will not have a diverse effect on the financial standings as long as followed properly. However, the accounting method used can make a huge difference in understanding the financial standings of the State or local unit.

Background of the Problem

The stigma associated with government is that its employees are rude and hard to deal with. Customer service in government is often an oxymoron. However, government could shed this reputation by working from the bottom up: offering better customer service, better ways to access government services, and more clear and concise financial reporting. To achieve consistent accounting policies in county government agencies, it is necessary to understand government accountability, the organizations behind accounting principles and policies, and governmental accounting standards and Statements. Although GAAP guidelines are widely considered valid and efficient, their use is optional. It can be assumed that more agencies would adopt GAAP guidelines if their benefits were documented.

Purpose of the Study

The purpose of this study was to determine if there is a problem in accounting practices in Michigan county government agencies, where those problems are located, and how interviewees would solve them.

Limitations

This study was limited by its small sample size and by the fact that it was confined to county governments in a single U.S. state: Michigan. It was also limited by its reliance on interview data, which are necessarily personal and subjective.

Nature of the Study

This was an exploratory case study, which provided a better understanding of the research problem than would either a quantitative or mixed-methods approach. The purpose of a case study design is to understand a situation in greater depth. A case study is especially suitable for learning more about a little-known or poorly understood situation. Data collection for the current study consisted of individual interviews with eight county finance directors in Michigan, supplemented by document analysis.

According to Creswell (2009), when conducting qualitative interviews "the researcher conducts face-to-face interviews with participants, interviews participants by telephone, or engages in focus group interviews, with six to eight interviewees in each group. These interviews involved unstructured and generally open-ended questions that are few in number and intended to elicit views and opinions from the participants" (p.181). Creswell (2005) also stated, "In terms of numbers, rather than selecting a large number of people or sites, the qualitative researcher identifies a small number that will provide in-depth information about each person or site" (p.112). The interviews addressed current budgeting and reporting techniques and knowledge of accounting principles and requirements.

Definitions of Terms

AICPA – American Institute of Certified Public Accountants

Budget – An expression of public policy and financial intent.

CAFR – Comprehensive annual financial report

FAF – Financial Accounting Foundation

FASAB - Federal Accounting Standards Advisory Board

FASB – Financial Accounting Standards Board

GAAP – Generally accepted accounting principles

GAAP SFFAS 36 – Reporting Comprehensive Long-Term Fiscal Projections

(www.gasb.org/st/summary/gstsm36.html)

GAO – Government Accountability Office.

GASB – Governmental Accounting Standards Board.

GASB Statement 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (www.gasb.org/st/summary/gstsm34.html)

GASB Statement 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (Issued 06/04) (www.gasb.org/st/summary/gstsm45.html)

GASB Statement 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 03/09) (www.gasb.org/st/summary/gstsm55.html)

GDP – Gross domestic product

GFOA – Governmental Financial Officers Association

IASB – International Accounting Standards Board

IASC – International Accounting Standards Committee

MEI – Model Employer Initiative

OMB – Office of Management and Budget

RSI - Required supplementary information

SAS – Statement on auditing standards

SEA – Service, efforts and accomplishment

SEC – United States Security and Exchange Commission

SFFAS - Statement of Federal Financial Accounting Standards

Uniform Budgeting and Accounting Act (Act 2 of 1968) – An act to provide for the formulation and establishment of uniform charts of accounts and reports in local units of government; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from local units of government; to provide for the administration of this act; to prescribe the powers and duties of the state treasurer, the attorney general, the library of Michigan and depository libraries, and other officers and entities; to provide penalties for violation of certain requirements of this act; to provide for meeting the expenses authorized by this act; to provide a uniform budgeting system for local units; and to prohibit deficit spending by a local unit of government.

Research Questions

This study explored the following research questions:

1. How do Michigan county finance directors understand and use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting Act?
2. Of the GAAP, GASB and Uniform Budgeting and Accounting Act, which guidelines do the Michigan county finance directors find most useful and which do they find most cumbersome?
3. Of the GAAP, GASB and Uniform Budgeting and Accounting Act guidelines that Michigan county finance directors find cumbersome; how could these become more useful in the budgeting and CAFR processes?

Significance of the Study

Stakeholders without accounting backgrounds have a hard enough time trying to determine the financial habits in their county, let alone when they are not consistently following the necessary requirements. Public accountability is difficult to achieve when the proper policies, statements, and standards are not followed. Taxpayers need to be able to determine how their money is being spent. The study will improve coherency and readability for citizens and politicians alike. It offers suggestions for improved compatibility of the budget and CAFR along with suggestions for future research. Results will help produce more comprehensive and consistent reporting.

Summary

This case study identified problems in Michigan county financial practices relating to GAAP, GASB, and the Michigan Uniform Budgeting and Accounting Act. Data collection was based on document analysis and individual interviews with eight county financial directors. In the following chapter, the relevant literature on government finance and accounting procedures is reviewed. Chapter 3 consists of a description of the study's methods, including design, sample, instrumentation, data collection and analysis, and ethical protections. Chapter 4 presents the results, and Chapter 5 offers conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The purpose of this literature review is to survey research on GAAP, GASB, government budgets, and comprehensive annual financial reports. Governments that budget based on GAAP follow different guidelines than do those that budget strictly on GASB. Budgeting on GAAP does not require a prepared reconciliation between the budgets. However, those governments that do not budget on GAAP are required to reconcile their amounts to GAAP. GASB Statement 34 backs up this requirement of GAAP reconciliations and further requires comparisons in a separate section of the CAFR titled Supplementary Information (2008).

Government Accountability

Government entities are taking a closer look at accountability and oversight. It has always been a joke that dealing with the government is one of the worst things to do. Government workers are often thought of as "paper pushers" or people who do not like to take accountability. However, "being accountable and demonstrating accountability are essential elements of any organization's responsibilities" (Green & Zavada, 2008, p. 17). Green and Zavada noted that Congress directed three main agencies to develop, implement and oversee financial management laws, regulations, and other guidance techniques: the Department of Treasury, the Government Accountability Office, and the Office of Management and Budget.

A way to improve government accountability is to empower employees. An example of this approach is in Ramsey County, Minnesota. Ramsey County believes that happy customers and a good reputation come from happy, empowered employees. Ramsey County created a program to do just this: the Model Employer Initiative (MEI). "The countywide MEI program strives to improve the image of Ramsey County both internally and externally, so the county will be able to better respond to changing demographics" (2002, p.517). This program was developed so that Ramsey County could "be seen as an employer of choice, to have a reputation for promoting a welcoming work environment to all people, to have a reputation for providing and aggressively promoting a respectful work environment, and to provide professional challenges coupled with growth opportunities for all employees" (2002, p.517). MEI is made up of not only Leadership Development but also

> Respectful workplace/workplace violence prevention.
>
> Connections to the community.
>
> Cultural competence.
>
> Recruitment and retention.
>
> Health and safety.
>
> Live/work balance.
>
> Mentoring. (2002, p. 518)

This development program was offered, not required, of full-time employees employed for at least 1 year. MEI took considerable time and effort from the participants, but the program was a success (2002). The employees who participated were enthusiastic about their experiences and held high hopes about the program's long-term impact. Empowering employees gives them the tools they need to correct errors in the system. Employees who feel more invested in the organization will strive to make the outcomes, such as the budget and CAFR, the best that they can be.

Another way to improve accountability is to improve the information system. Hjort-Madsen (2007) studied the improvement of information systems planning through enterprise architecture and administrative transformation in government, specifically "how IS (Information Systems) planning innovations are adopted in public sector agencies and how these impact organizational processes and policy" (p. 333). As Carter and Belanger (2005) stated, "Electronic government, or e-government, increases the convenience and accessibility of government services and information to citizens" (p. 5). However, "despite the benefits of e-governments – increased government accountability to citizens, greater public access to information and a more efficient, cost-effective government – the success and acceptance of e-government initiatives, such as online voting and license renewal, are contingent upon citizens' willingness to adopt this innovation" (Carter & Belanger, 2005, p.5). Therefore, Hjort-Madsen (2007) conducted research through a multiple case study of enterprise architecture planning. There were twelve cases in total which were approached with a preliminary theoretical framework derived from the existing literature. Interviews were performed on 21 people from 12 federal agencies and the Office of Management and Budget. Interview questions were based around the adoption of enterprise architecture. Three adoption patterns; accepters, improves and transformers, were identified in the case studies. These help to illustrate that the adoption of a new IS planning innovation does not create administrative or political reforms in itself. As Hjort-Madsen (2007, p.345) States, "All the agencies studied imitate what is perceived as 'best practice' in other agencies due to pressures of social legitimacy and pressures to conform to commonly adopted practices at the macro level, IS planning, is still perceived as a technical exercise in many Federal agencies in the USA, and it is unlikely that the IS planning development in the public sector will resemble the development in the private sector." Hjort-Madsen (2007, p.345) concluded that Administrative and political changes can only be driven by IS planning innovations if the institutional settings allow it; institutions do not just constrain options - they establish the very criteria by which people discover their preferences." However, as Carter and Belanger (2005, p.5) found in their research, "the findings indicate that perceived ease of use, compatibility and trustworthiness are significant predictors of citizen's intention to use an e-government service." With that being said, government needs to stay on top of the technological advances just as much as private sector organizations. The public, and thus the customer, will want ease of access to information in the government just as they would with any organization that they are doing business with.

The Creation of GASB

FASB was created in 1973. The purpose of the board is to set the standards of financial accounting and reporting. FASB was originally created for the private sector. However, government officials saw the success of uniform accounting standards and decided they needed to use such a board with an emphasis on government needs. Therefore, in 1984 GASB was created to do just that. Since then over 50 statements have been issued detailing how s**tate** and localities should report their revenue streams and account for various assets. These **statements** clarified issued from mundane circumstances, such as reporting food stamp revenue to more advanced circumstances such as grant funding. However, in 1999, Statement 34 was issued. This changed the face of GASB completely. Since Statement 34 some professionals along with the GFOA felt that GASB's mission had been completed and thus should be reevaluated. While arguing this debate, the Financial Accounting Foundation (FAF) announced "that GASB has the authority to issue standards on service, efforts and accomplishment (SEA)" (Foltin, 2008, p. 26). This infuriated GFOA and they have called for the disbanding of GASB. In 2005, "unhappy, that GASB was extending its accounting standard mandate into the politics of governmental effectiveness, the Government Finances Officers Association denounced GASB as unneeded. The officers declared that GASB could be disbanded and that they could instead follow the same rules as the private sector" (Rudder, 2010, p. 15).

GASB Statement 34

Long-term financial planning is a relatively new concept for public agencies. As Kavanagh (2007, 18) States; "Long-term financial planning combines financial forecasting with financial strategizing to identify future challenges and opportunities, causes of fiscal imbalances, and strategies to secure financial sustainability." Not only is the current economy hard on the individual person, it is hard on public agencies. Public agencies not only have to look at their current assets and liabilities but they need to look at their future assets and liabilities. Combining long-term financial planning, strategic planning and budgeting forms a full system of planning and evaluation (Kavanagh, 2007, p.18). Kavanagh (2007, p.19) set out to describe how financial planning, which is often primarily sponsored from outside the manager's office – typically by the chief financial officer (CFO) – affects the management of city and county government, the role of the manager, the budget process, and the manager's relationship with the CFO and elected officials" . The involvement of the management team in the financial planning of the public agency helps to maintain not only better communication but more fulfilled involvement by the managers. Research has been completed by the GFOA on six communities of varying sizes. The study found that "a long-term financial plan has profound implications for the manager's role in the local government." (Kavanagh, 2007, 24).

On June 30, 1999, GASB released its biggest Statement yet, Statement 34, which relates to Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As Frank, Gianakis and McCue (2005) State, "In a nutshell, GASB 34 brings a private sector approach to financial reporting for the lion's share of the nation's sub-national general-purpose governments" (p.557). The purpose is to create a clearer picture for the public and the shareholders involved in regards to the financial condition of their municipalities. "Statement 34 called for accrual accounting, which measures not just current assets and liabilities but also long-term assets and liabilities – including infrastructure. In short, 34 was a demand for an inventory of fixed assets and the costs of taking care of them" (Lemov, 2007). Frank, Gianakis and McCue (2005) researched the effects of GASB 34 on 800 counties and 800 cities in the United States. The counties and cities were chosen through a random sample and held a population of 35,000 or greater. The final "results from a companion piece suggest that most respondents do not view GASB 34 implementation as a springboard for greater utilization of advanced management tools and techniques," (Frank et al., 2005, p.569). Concluding that the impact of GASB 34 may not be as profound as initially anticipated. However, the research also confirms "the persistent under forecasting norm in local sector" (Frank et al., 2005, p.569).

Even with previous research stating that the impact was not as profound as anticipated, the release of this Statement began unrest regarding GASB. From a professional standpoint, it marked the completion of GASB's goals. However, GASB decided to take on SEA reporting. GFOA felt that GASB was really stepping out of their boundaries into territory that did not belong to them. GFOA believes that SEA is a waste of money, the reports should be in the budget and that GASB has already addressed these items. GASB, however, feels that SEA is efficient and should be addressed separately. The goal of GASB is to incorporate separate reporting of SEA into their procedures. GASB and GFOA are still currently in debate on the subject and it has been taken to many outside governmental boards. The future of government accounting stands in the balance and this will be a subject matter to keep a finger on.

In comparing GASB Statement 34 to GAAP Statement of Federal Financial Accounting Standards (SFFAS) 36 – Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government one can see similarities however there are some differences as well. SFFAS 36 requires a basic financial Statement in the consolidated financial report (CFR) of the U.S. Government presenting for all the activities of the federal government: that present value of projected receipts and non-interest spending under current policy without change, that shows a relationship of these amounts to projected Gross Domestic Product (GDP), and that changes in the present value of projected receipts and non-interest spending from the prior year. SFFAS 36 also requires a Required Supplementary Information (RSI) section that explains and illustrates the projected trends in: the relationship between receipts and spending, deficits or surpluses, and Treasury debt held by the public as a share of GDP. As well as, possible results using alternative scenarios, and the likely impact of delaying corrective action when a fiscal gap exists. Finally, SFFAS 36 requires disclosures that explain and illustrate: the assumptions underlying the projections, factors influencing trends and significant changes in the projections from period to period.

Establishing GAAP for Governments

The GASB has come under considerable heat in the last decade. The GASB was created in order to standardize State and local governments financial reporting. However, there still remains a considerable gap in this standardization. The Government Financial Officers Association (GFOA), which created GASB, is encouraging but not requiring State governments to mandate GAAP for their local governments (Gauthier, 2007). GFOA has been encouraging this mandate since 1983. Forty plus years is a long time to encourage something that should grossly be a requirement in the eyes of many government accounting personnel. However, some government agencies are filing lawsuits in order to keep out GASB requirements, further encouraging the gap in accounting standards. In Texas for instance, the lawsuit ended in the Texas State legislature to permit, not require compliance with GASB Statement No. 45; Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (Gauthier, 2007). A second insistent was in Connecticut where the legislature approved a bill that was later vetoed by the governor to facilitate the transition to GAAP budgeting with the State controller being able to define GAAP (Gauthier, 2007). The State controller was requesting this change due to the fact that the State of Connecticut requires a balanced budget according to GAAP; however they have not yet done so. This request was made over a decade ago bringing concerns to its citizens that the budget is unbalanceable. While GASB and FASB have tried to establish GAAP guidelines, the International Accounting Standards Board (IASB) has begun to try their luck with standardizing GAAP for governments. The IASB "has found the task of establishing standards on accounting for financial instruments, including derivatives, as challenging as FASB has. While these amendments have brought US GAAP and the IASB accounting rules closer, differences remain. In all likelihood, FASB and the IASB will address the differences in their ongoing short-term convergence project" (Jones, & Venuti, 2005, p. 30). However, now with the implementation of IFRS in process, this convergence may not be necessary. The purpose of IFRS is to have one uniform International set of financial reporting standards. Therefore, the goal is to replace GAAP, GASB, and FASB standards with this uniform policy. Now, whether these institutions is still necessary is yet to be decided but it is the authors opinion that these institutions will be around for some time yet, if not yet to simply help with the implementation and transition period.

Differences Between CAFR and Budget

Public agencies are held to different accounting standards than business enterprises because revenues are obtained in different ways, the budget obligations are different and the propensity for longevity is different. Regardless, public agencies are frequently asked why they cannot use the same reporting procedures as these business enterprises (GASB, 2008, 4)

There are two different accounting boards: GASB and FASB. These boards were created to set a standard in accounting, recognizable nationwide. All public agencies follow GASB. Therefore, the reporting guidelines in any public agency are the same and these reports should be fairly similar between any two agencies. However, many people have asked why GASB reporting standards are different from FASB reporting standards, wherein all business enterprises follow FASB. The simple answer to that question is there are many differences between public agencies and business enterprises.

For individuals outside of government agencies or universities, a CAFR is an unknown term. A CAFR is created in order to conform to the GASB accounting and financial reporting requirements. The purpose of the CAFR is to detail the expenses, assets and liabilities as of the fiscal year end for these organizations. Along with the details of monetary movement, a CAFR provides statistical and economic data for the region of governance. This information provides much data that can be utilized by investors and investment companies. (Klatt, G., 2010). The unfortunate fact, however, according to Groff and Pitman (2004) is that:

> by contrast, governments are not, in general, legally mandated to provide their audited financial Statements (CAFRs) to their citizens who represent their largest group of stakeholders. In fact, the primary users of the CAFR are the Government's bonding

> agents and financial analysts. The primary use of the CAFR is to support the issuance and maintenance of debt securities issued by governments. (p. 21)

In a government setting, a budget details the plans for the income and assets of the coming year. The budget is not required to detail surpluses or deficit's as the CAFR is. It is these surpluses that have come under fire. Many agree that a government should never have a surplus. A government is a nonprofit organization and therefore, should alone bring in enough to pay the necessary expenses and never to make a profit. Therefore, much debate is stirring around what to do with such surpluses, if any. The majority opinion is that any surplus is not government money; it is the money of the citizens that created the surplus. Therefore, the money should be returned to the citizens. There are some funding sources that clearly state in their contracts that any surplus must be returned at year end or that the money can be held for one year and if not spent at that time then returned. The CAFR was created to enable the citizens' power and understanding in their government agency's financial status. If the citizens take time to read the CAFR they should clearly be able to see if a surplus exists and if so in what means.

Implementing and keeping in a budget is not only difficult for businesses to do but it is difficult for government entities as well. Lam, Carver and Miller (2008, October) explained how one City faced this difficulty in bettering themselves financially and what they did to remedy the situation. As Lam, Carver and Miller (2008) state, there are multiple types of budgeting styles. They are; Zero-Based Budgeting. Activity-Based Budgeting and Target Budgeting. The city in question, Prattville, AL, utilized the Target Budget process. "Target Budgeting as a structured approach of allocating resources to activities such that desired service levels are achieved" (Lam, Carver, and Miller, 2008, 40). The conceptual model for Target Budgeting (Lam, Carver, and Miller, 2008, 40) is as follows:

Projected Revenues

↓

Budgeted Expenditures

↕ ↕

Activities Approved

↑

Activities Proposed

Even with all of these budgeting options Prattville had problems. Therefore, the Alabama Productivity Center (the non-profit organization hired by Prattville) implemented a new budgeting process. In this process the Center found that the City had not only budget problems but a control issue. Lam, Carver, and Miller (2008, 41) State that, “because the budget is the primary control device for municipalities, this wasn’t unexpected. Also, because we are dealing with elected officials, politics plays a role in the process”. Therefore, it is imperative to have a well written budget in order to control expenses hence helping to control the CAFR.

GASB Statement 55

GASB Statement 55 was released on March 30, 2009. This Statement is titled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. GASB created this Statement in order to further codify all GAAP for GASB followers (State and local governments) (GASB, 2009). GASB does not suspect that this will result in changes of current practices rather that this will clearly identify the GAAP. The hierarchy categorizes the sources of GAAP in descending order of authority as follows (GASB, 2009);

Officially established accounting principles – GASB Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.

GASB Technical Bulletins and, if specifically made applicable to State and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

AICPA Practice Bulletins if specifically made applicable to State and local governmental entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to State and local governmental entities.

Implementation guides (Q&A's) published by the GASB staff, as well as practices that are widely recognized a prevalent in State and local government.

The Guidelines of Tomorrow

The International Financial Reporting Standards (IFRS) is the guidelines of tomorrow. Government is pushing to implement IFRS and even issued a concept release in 2000 seeking comments. The major difference between IFRS and GAAP is that U.S. GAAP is "rules based" while IFRS is "principles based" (Derstine & Bremser, 2010, p. 8). In 2002, the IASB and FASB combined forces to create the Norwalk Agreement. The "Norwalk Agreement stated that the two boards agreed, as a matter of high priority to: a) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and IFRS; b) remove other differences between IFRS and U.S. GAAP that will remain at January 1, 2005 through coordination of their future work programs; that is through the mutual undertaking of discrete, substantial projects which both boards would address concurrently; and c) continue progress on the joint projects that they are currently undertaking" (Ghany, K., 2009). Then in November of 2008, the SEC proposed a roadmap towards the requirement of IFRS by U.S. companies. The roadmap contained seven milestones:

Improvements in accounting standards;

The accountability and funding of the IASC Foundation;

The improvement in the ability to use interactive data for IFRS reporting;

Education and training relating to IFRS;

Limited early use of IFRS where this would enhance comparability for U.S. investors;

The anticipated timing of future rulemaking by the SEC; and

The implementation of mandatory use of IFRS by U.S. firms.

In 2011 the SEC plans to review the progress and determine whether to proceed with the implementation date of 2014. If this passes and the global acceptance is of IFRS then the idea of international governmental accounting standards is not completely rejected. The fact is that governmental accounting is connected in its roots and philosophy to financial accounting.

To the corporate world, the expected benefits of IFRS include reporting consistency, enhanced global competition and improved financial reporting transparency. Many countries have already moved to IFRS while others are still examining the effects prior to implementation. Researchers Elaine Henry, Stephen Lin and Ya-Wen Yang evaluated the differences and "found that the calculated difference between shareholders' equity under U.S. GAAP and under IFRS declined from 2004 to 2006" (Bolt-Lee & Smith, p.2009, p.48). Therefore, it can be determined that even though IFRS has not been implemented or mandated yet, companies are starting to address the necessary changes. Bolt-Lee and Smith (2009, p.48) found that, "company's adoption of IFRS creates strong economic benefits in countries with rigid regulation over financial reporting. These benefits include an increase in the stock's market value, an increase in market liquidity, and a lower cost of capital. Companies with major differences between GAAP and IFRS standards show the greatest benefit when supported by a strong regulatory environment." FASB has also hired independent researchers to study the issues surrounding the adoption of IFRS in the United States. The study found many benefits with a few items of negative impact. These items, "suggest that a major impact will be the cost of transition to IFRS. According to research, the benefits to U.S. investors may not exceed costs. Additionally, due to U.S. GAAP's high standards, financial reporting improvements will be minor. Research also suggests that these costs and benefits will vary across firms and will be difficult to trace upon adoption" (Bolt-Lee and Smith (2009, p.51).

So, what does IFRS mean for government entities? According to Khaled Abdel Ghany (2009), "Most of the governmental accounting standards issued by the Governmental Accounting Standards Board GASB are affected, to some extent, by the existing accounting standards for business enterprises. Consequently, if the IFRS becomes the U.S. national accounting standards for listed companies, GASB's future governmental accounting standards would definitely be affected by those new national accounting standards. Therefore, government accountants should be ready and knowledgeable about IFRS, and gain sufficient understanding about the possible impact on governmental accounting standards." The implementation would also create uniform accounting practices and requirements between governmental financial reporting as with public financial reporting.

Research Methods

The current research used a case study design. Much government research has been qualitative. Quantitative methods do allow for in-depth data on procedures performed in the real world. One quantitative study cited in the current research is Frank, Gianakis, and McCue (2005).

Summary

Although GAAP guidelines are valid and efficient, their use is optional, which has created a problem in government financial reporting. It can be assumed that more agencies would adopt GAAP guidelines if their advantages were documented. In the following chapter, the methods are described for a case study of how Michigan county finance directors perceive the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting Act.

CHAPTER THREE

METHODOLOGY

Introduction

The purpose of this case study was to explore state and local accounting practices in Michigan county government agencies. Data collection was based on interviews with eight financial directors, supplemented by document analysis. Interviews were designed to address the study's three research questions:

1. How do Michigan county finance directors understand and use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting Act?

2. Of the GAAP, GASB, and Uniform Budgeting and Accounting Act, which guidelines do the Michigan county finance directors find most useful and which do they find most cumbersome?

3. Of the GAAP, GASB, and Uniform Budgeting and Accounting Act guidelines that Michigan county finance directors find cumbersome, how could these become more useful in the budgeting and CAFR processes?

Research Design

For the current research, a case study design provided a better understanding of the research problem than would either a quantitative or a mixed-methods approach. A qualitative design includes philosophical assumptions as well as data collection and analysis techniques. The primary data were collected through interviews with eight of the 83 Michigan county finance directors. Secondary data consisted of published CAFRs and budgets of these county offices. Secondary data were obtained through county web pages or by a written request to a county office.

The case study method was chosen because it allows one to understand a situation of small numbers in great depth. Open-ended interview questions acknowledged the complexity of GAAP in regards to reporting. The study was based on the assumption that CAFRs (dependent variable) would be affected by the independent variables: educational background and understanding of requirements among participants.

A research design considered but not chosen was a quasi-experimental study, also known as nonequivalent group design, which would accommodate groups that are not equivalent. Originally, the current study was to have been confined to Muskegon County, a medium-sized county in Michigan with a wide variety of municipality sizes, responsibilities, and history. Experience and knowledge in these municipalities would vary greatly, and it was feared that bias in groups could occur, creating a lack of internal validity. A mixed-methods design was also considered. However, the depth of quantitative data would have been overwhelming and unnecessary. It was decided that interviews would allow for deeper understanding of the research problem.

Research Plan

The study began with a review of pertinent research, followed by distribution of consent forms and information regarding the study to participants. The study was guided by considerations for protection from harm, informed consent, right to privacy, honesty with professional colleagues and internal review boards, and professional codes of ethics. The consent form made it clear that participation in the study would be voluntary and confidential and would not create physical or psychological danger. Participants were told they could receive a copy of the study's results upon request. Prior to conducting the study, IRB approval was obtained. Interviews were scheduled by telephone calls.

Procedure Schedule

Step	Detailed description	Duration	Communication
1	Obtain IRB approval to perform research.	Week 1	Via e-mail
2	Distribute information packet to Michigan county financial directors	Week 2	Via mail
3	Await signed consent and begin interviews	Week 3 and 4	Via mail, fax or e-mail
4	Send reminder to participants who have not responded	Week 5	Via mail
5	Perform follow-up phone calls if necessary	Week 6	Via telephone
6	Compile and analyze data	Week 7 and 8	n/a
7	Send thank you letters to participants with results of data collection	Week 9	Via mail
8	Finalize report	Week 10	n/a

Population and Sample

The population for this research was 83 finance directors in Michigan county government agencies. They were identified through their respective county websites, which provided mailing addresses, e-mail addresses, and phone numbers. Financial directors were those individuals in the agency with the most knowledge of the CAFR, budget, and GASB requirements. The population was chosen based on the researcher's experience with Michigan government finance. The researcher lives in Michigan, works for a county agency, and understands how the state produces its data and its expectations regarding budgets and CAFRs. Michigan counties differ in how they control and release funds. Some county services (e.g., Community Mental Health) are based on a capitation payment. Counties receive Medicaid payments reflective of all Medicaid-eligible individuals, whether they used the service or not.

Nonprobability convenience sampling was used to obtain eight participants for the study. Creswell (2005) recommended that "rather than selecting a large number of people or sites, the qualitative researcher identifies a small number that will provide in-depth information about each person or site" (p. 112). Interviews addressed current budgeting and reporting techniques based on knowledge of accounting principles and requirements.

Instrument

Primary data were collected through individual telephone interviews using researcher-designed questions (Appendix B). Questions were pilot tested with eight financial directors in Muskegon County. The purpose of the pilot study was to determine that the language of interview questions was appropriate, instructions were clear, and the time frame to complete the interview was appropriate. Interview questions were based on a matrix of domain topics: budget, CAFR and GASB understanding, perceived recipient understanding, and auditing standards (Appendix A). Internal consistency was used to control validity.

Data Collection and Analysis

Primary data were collected through individual telephone interviews with eight Michigan county finance directors. Data were coded to ensure confidentiality. Interview data were subjected to cross tabulation, which grouped similar answers. Secondary data were CAFRs and budgets from participating counties. The researcher compared income, assets, and liabilities. Statistical analysis enabled the researcher to compare income reported in the budget to that reported in the CAFR, and to analyze assets and liabilities through covariance and coefficient of the correlation.

Data Cleaning

Several steps were performed to assure the accuracy of the data: parsing, standardization, local consistency checks, global consistency check, data transformation, completion of unanswered interview questions or reasoning behind the results, and documenting. During parsing the researcher analyzed the text and a sequence of words will be determined by grammatical structure for clear entry into the results database. Parsing the data allowed the researcher to separate the data based on format, which minimized data blending or not being reported in the correct field or format. For example, name on one line, street address will be on another line, city and State on yet another. Standardization would replace synonyms with standard forms. Standardization would also minimize the risk of reporting errors due to format. Standardization would allow all formats of a word to be changed in order to be equal, such as; St. and Street or Colo, CO and Colorado. Local consistency checks will be performed on the data to determine the accuracy of results; such as the zip code recorded equates to the city and State reported. Global consistency checks will be performed on the data to determine that the data reported during the interviews is consistent with the CAFR and budget. Global consistency will find differences in the same data. For example, if the CAFR States that the Finance Director's e-mail is one address and the interview results determine another the researcher would determine the correct e-mail address and make sure both data elements are consistent. Data transformation will be conducted in order to convert different formats of the same answer to be equal. Data transformation would again make all fields of equal format. However, in data transformation it would change 1 to one or vice versa, so all formats of one are the same. For any unanswered interview question, the researcher will conduct a follow-up phone call to make sure that the question was not inadvertently missed. Documenting of what is performed during this data cleaning phase will finally be performed to record the results of this data cleaning procedure for future reference. The data cleaning process will assure that the data will pass the quality criteria of high quality data. Criteria of high quality data consists of; accuracy, integrity, completeness, validity, consistency, uniformity, density, and uniqueness.

Threats to Validity

Threats to validity can occur in many different forms: internal, external, statistical conclusions, and construct. If the open-ended questionnaire respondents are not completely open and honest about their shortage of knowledge in regards to governmental accounting principles, this will produce a threat to the internal validity of the research. If there is a generalization that all United States county agencies will produce the same responses as Michigan county agencies then this will produce a threat to the external validity of the research. If inaccurate comparisons and analysis of the dependent variables to the independent variables are made than a threat to the statistical conclusion will occur. Finally, if the data are not completely captured through the open-ended questionnaire this will not allow the researcher to accurately test the idea thus producing a threat to the construct validity. In order to decrease these threats many actions will be taken. Such items as a clear and precise cover letter will be presented during the interviews to request open and honest results, no generalization will be made to assume all county agencies in the United States will respond in the same way as Michigan county agencies, the accuracy of comparative analysis will be assured through testing and retesting the data and finally the data needed to fully and accurately test the hypothesis will be assured through a pilot test of the open-ended questionnaire.

Ethical Issues and Protection of Human Subjects

Efforts were taken to protect the rights of the human participants by attending to four considerations: protection from harm, informed consent, right to privacy and honesty with professional colleagues. Protection from harm makes sure that the participants are not exposed to undue physical or psychological harm. Informed Consent makes sure that the participants agree to participant and understand that participation is strictly voluntary. In order to achieve this, a consent form (Appendix D) will be sent to the participants describing the study and requesting a signed consent of agreement. If at any time a participant decided to drop from the study after submitting initial material then they would simply notify the researcher with no ill will. Right to Privacy will be met by guaranteeing that under no circumstances will the research divulge particular participant responses. In order to maintain this privacy all participants will be coded along with the organization in which they are reporting from. The code key will be kept separately from the research and results. Finally, Honesty with Professional Colleagues will be addressed by the report of the findings being complete and honest without misrepresenting what has been completed or intentionally misleading others about the nature of the findings.

In order to guarantee that the researcher fully understands these issues she has been certified (Appendix E) through the Collaborative Institutional Training Initiative. This certification will be approved by Baker College’s Internal Review Board (IRB) prior to conducting the research. It is of the upmost importance to the researcher to maintain and guarantee full protection of the human participants. All research material will be kept for a minimum of five years and will be secured in a location accessible only by the researcher.

Summary

In review of the Methodology, the research has been thoroughly assessed and will be methodically tested prior to the actual research taking place. The research design determined is a qualitative case study. Within this method; eight of 83 county finance directors have been determined to be interviewed. Through the data collection: the data will be cleaned and threats to validity will be minimized. Ethical issues and protection to all human subjects will be attained. In Chapter Four; The Results, the research will be reviewed along with a discussion of the process to obtain these results. The results section will clearly relate the research question to the research and list all analytical equations and explanation of these results.

CHAPTER FOUR

RESULTS

Introduction

The purpose of Chapter 4 is to present the demographics of the interview participants and the results of the data analysis based on the three research questions. Interview participants included daily users (financial officers in the county governmental unit). It was further determined during the interview process of the daily users that the insight of experts in the field (auditors) would be beneficial. Therefore, two separate sets of interviews were conducted. Interviewing was the key method used by the researcher in this qualitative study.

Participant Demographics

Eight Michigan county finance officers and two Michigan auditors were interviewed, giving a participation rate of 9.6% for county offices and 66.7% for Michigan Auditors. As shown in Table 1, all Counties have a population over 10,000 and 25% of those Counties had a population over 100,000. The average longevity of the Chief Financial Officer is 9 ¾ years in their current position. Of those surveyed; 25% were elected into their current position and 75% were appointed.

Table 1

County demographics

ID	Official title used for the CFO position	Years in current position	Elected or appointed position	Population	Square mileage	County established	Current FY budget & CAFR available online
1	County does not have one	7	Elected	21,645	564	1875	No
2	County clerk	22	Elected	14,478	567	1840	Yes
3	Finance & management services director	3	Appointed	170,200	509	1859	Yes
4	Director of administration & finance	5	Appointed	38,520	1170	1843	Yes
5	Finance director	14	Appointed	31,437	468	1853	No
6	Controller	6	Appointed	103,655	576	1837	Yes
7	Administrator/controller	15	Appointed	14,273	558	1818	No
8	Controller	6	Appointed	45,787	507	1829	Yes

Results of Research Question 1

Research Question 1: How do the Michigan County Finance Directors understand and use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting ACT?

The null hypothesis (H0) states that Michigan County Finance Directors do not understand nor use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting Act. The alternative hypothesis (H1) states that Michigan County Finance Directors do understand the GAAP, GASB, and Uniform Budgeting and Accounting Act with recommendations towards it use and effectiveness. In order to determine how the Counties understand and use the guidelines addressed; three interview questions were asked:

- How does your organization meet the guidelines and recommendations of GAAP, GASB, and the Uniform Budgeting and Accounting Act when creating your Budget and CAFR?
- How comprehensible and understandable do you perceive your CAFR and Budget to potential users (i.e., general public, elected officials, financial lenders and media)?
- To what degree do you believe that your county's CAFR relates to your Budget?

As shown in Table 2, the results of the interview questions were as follows; 62.5% of those surveyed relied on their contractual CPA firm or auditor and 12.5% of those surveyed relied on their internal staff to meet the guidelines and recommendations of GAAP, GASB, and the Uniform Budgeting and Accounting Act when creating their Budget and CAFR. 25% of those surveyed did not offer a response to this question.

Table 2

Meeting the guidelines and recommendations

ID	How the Guidelines & Recommendations are Meet
1	With Assistance from our CPAs
2	With Auditors Direction
3	The CAFR is prepared by qualified staff following GAAP & GFOA guidelines. Each year the county submits the CAFR for review by the GFOA through their award program. Prior years comments are considered when preparing subsequent CAFRs.
4	
5	Finance Director knowledge and external auditors
6	
7	We rely on our auditors to review & suggest any changes necessary in order to be in compliance.
8	Development & Compliance (e.g. audit)

As shown in Table 3, when asking whether the CAFR and Budget was understandable for potential users; such as the general public, elected officials, financial leaders and the media; the results were spread across the board in a nice bell curve. The majority being that respondents believe their CAFR and budget was neither incomprehensible nor comprehensible to users at 38%.

Table 3

Comprehensiveness and understandability of your CAFR and budget to potential users

	Very incomprehe nsible	Incomprehe nsible	Neither incomprehe nsible nor comprehensi ble	Comprehen sible	Very comprehen sible
Comprehensiveness and understandability of your CAFR and Budget to potential Users	13%	13%	38%	25%	13%

As shown in Table 4, when inquiring of the degree (relatability) of the county's CAFR to the Budget the results again were spread a bell curve. The majority of the respondents believing that their documents are both; neither relatable nor un-relatable at 38% and relatable at 38%.

Table 4

Degree of believability that the CAFR relates to the budget

	Very un-relatable	Un-relatable	Neither Relatable nor un-relatable	Relatable	Very Relatable
To what degree do you believe that your county's CAFR relates to your Budget?	0%	13%	38%	38%	13%

Based on the three interview questions related to Research Question 1; the majority of County Financial Directors rely on Auditors or contractual Certified Public Accountants to advise them and their county on the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting Act. County Finance Officers still believe that their CAFR and Budget are neither incomprehensible nor comprehensible to potential users. However, the degree that the County Financial Directors believe that their CAFR relates to their Budget is equally relatable and neither relatable nor unrelatable. When utilizing the Chi-Square test for the difference between two proportions; it was determined that the frequency assumption was not met. Therefore, the researcher combined the Very Incomprehensible (Relatable) and

Incomprehensible into one answer and the Very Comprehensible and Comprehensible into one answer those meeting the frequency assumption and allowing an accurate Chi-Square test. As shown in Table 5; once the frequency assumption was met the researcher was able to determine not to reject the null hypothesis of the first research question. Therefore, since $x^2 = 0.47619 < 5.9915$, do not reject the null hypothesis (H_0). There is enough evidence to conclude that there is not a significant difference in the proportion of County Financial Directors who believe their CAFR and Budget are not understandable nor that the degree in which they relate are un-relatable.

Table 5

Understandability and usefulness of guidelines analysis

Chi-Square Test

Observed Frequencies						Calculations	
	Column variable						
	Very Incomprehensible or Incomprehensible	**Neither incomprehensible nor comprehensible**	**Comprehensible or very comprehensible**	**Total**	fo-fe		
Comprehensiveness and understandability of your CAFR and Budget to potential Users	2	3	3	**8**	1	-	(1)
To what degree do you believe that your county's CAFR relates to your Budget?	1	3	4	**8**	(1)	-	1
Total	**3**	**6**	**7**	**16**			

Expected Frequencies							
	Column variable						
	Very Incomprehensible or Incomprehensible	**Neither incomprehensible nor comprehensible**	**Comprehensible or very comprehensible**	Total	(fo-fe)^2/fe		
Comprehensiveness and understandability of your CAFR and Budget to potential Users	1.5	3	3.5	8	0.1667	0.0000	0.0714
To what degree do you believe that your county's CAFR relates to your Budget?	1.5	3	3.5	8	0.1667	0.0000	0.0714
Total	3	6	7	16			

Data	
Level of Significance	**0.05**
Number of Rows	2
Number of Columns	3
Degrees of Freedom	2

Results	
Critical Value	**5.9915**
Chi-Square Test Statistic	**0.476190476**
***p*-Value**	**0.7881**
Do not reject the null hypothesis	

Expected frequency assumption

is met.

Results of Research Question 2

Research Question 2: Of the GAAP, GASB, and Uniform Budgeting and Accounting Act; which guidelines do the Michigan County Finance Directors find most useful and which do they find most cumbersome?

Of the standards recognized by the researcher, as shown in Table 6; the Michigan State Mandate of the Uniform Budgeting and Accounting ACT – Act 2 of 1968 was most useful by 63%. GAAP SFFAS 7 and GASB 45 were the second most useful standards by 50% each. The least useful standard was GAAP SFFAS 36.

Table 6

Usefulness of the standards

Standard	Yes	Sometimes	No	Unsure	Not Answered
GAAP SFFAS 7	50%	25%	25%	0%	0%
GAAP SFFAS 36	25%	25%	38%	0%	13%
GASB Statement 34	38%	38%	13%	0%	13%
GASB Statement 45	50%	13%	25%	0%	13%
GASB Statement 55	25%	50%	13%	0%	13%
Michigan State Mandate of the Uniform Budgeting and Accounting Act - Act 2 of 1968	63%	38%	0%	0%	0%

When asked which of the standards were most useful, without prompts for specific standards, four directors offered a response. Of the responses received; one stated categorizing fund balance, two stated GAAP guidelines while one of these two also mentioned the Uniform Budgeting Act and the final director stated that they did not have a working knowledge of any/all of the guidelines.

When asked which of the standards were most cumbersome or least useful, without prompts for specific standards, only five directors offered a response. Of the responses received; one stated there are no standards which they find cumbersome, one stated the standard on

Inventory was most cumbersome when it first was presented, another stated the Treasury's guidelines for the level of budgetary control at which budgets must be adapted: conflicts with statutory language of the Uniform Budgeting & Accounting Act, one stated GASB has been cumbersome with respect to the evolution of financial reporting which sometimes makes historical comparison difficult for f/s readers to understand, lastly the director who noted in the previous question that they had no working knowledge offered the same response here.

Results of Research Question 3

Research Question 3: Of the GAAP, GASB, and Uniform Budgeting and Accounting Act guidelines that Michigan County Finance Directors find cumbersome; how could they become more useful in the budgeting and CAFR process?

As shown in Table 7, the majority of respondents found the input of accounting professionals to have been utilized during the development of governmental accounting theory and practice, with 63% agreeable. However, when asked if the input of governmental finance specialists was utilized during the development of governmental accounting theory and practice 50% disagreed, with 25% very disagreeable and 25% disagreeable.

Table 7

Adequate input

	Very Disagreeable	Disagreeable	Neither Disagreeable nor Agreeable	Agreeable	Very Agreeable
That there has been adequate input into the development of governmental accounting theory and practice by the accounting profession?	25%	0%	13%	63%	0%
That there has been adequate input into the development of governmental accounting theory and practice by governmental finance specialists?	25%	25%	13%	38%	0%

Finally, when asked how the guidelines in Michigan County agencies could become more useful for the directors in their budgeting and CAFR process, 62.5% of the respondents offered a suggestion or response. One director stated that when new to the field it helps to review all standards with your auditors and also mentioned that large Counties (a population of 10,000 or more) are audited every year. One director stated the difficulties being faced are that the processes are becoming so involved while Counties are all working with limited staff to do the necessary work. Another director stated the difficulties he/she saw were that while financial reporting has continued to evolve; the changing presentation for the reporting entity and specific types of disclosures has made comparison and historical analysis difficult for local governing bodies. Another director stated that he/she believes the budgeting guidelines are fine but more consistency with State & Federal programs would be more helpful in the budgeting process. Lastly, one director stated that they believed the county's budgeting process works very well now.

Auditor Interviews

Two expert opinions were sought out by the researcher through interviews with auditing firms that work with County Government Agencies. As shown in Table 8, the average longevity of the Michigan Auditors surveyed was 15 years. The findings for the data analysis of the Michigan County Financial Directors interviews are presented in the next section.

Table 8

Auditor demographics

ID	Official Title	Years in the Current Position
1	Senior Manager	11
2	Assurance Director	19

The respondents both stated that the majority of county’s that they have worked with make their current FY Budget and CAFR available online. In order to help their customers meet the guidelines and recommendations of GAAP, GASB, and the Uniform Budgeting and Accounting Act one respondent stated that they assist clients in preparing financial Statements including CAFRs in conjunction with the annual audit. They also assist in the preparation of budgets as requested. The other respondent stated that they produce quarterly newsletters which include information on non-profit standards, new pronouncements that are out and they offer an early implementation and educational sessions in regards to new issues through e-mail or phone calls. As shown in Table 9; there was some disagreement between the two respondents in regards to the usefulness of specific standards in creating Budgets and CAFRs, with the exception of GASB Statement 34 and the Uniform Budgeting and Accounting Act.

Table 9

Auditor-usefulness of standards

Standard	Yes	Sometimes	No	Unsure
GAAP SFFAS 7	50%	0%	50%	0%
GAAP SFFAS 36	0%	50%	50%	0%
GASB Statement 34	100%	0%	0%	0%
GASB Statement 45	50%	50%	0%	0%
GASB Statement 55	0%	50%	50%	0%
Michigan State Mandate of the Uniform Budgeting and Accounting Act - Act 2 of 1968	0%	100%	0%	0%

Only one respondent offered which standards they found most useful and least useful. The respondent stated that GAAP and GASB are both most useful with the majority of use coming from GASB. The least useful standard was the Uniform Budgeting Act which the respondent does not pay much attention to. Both respondents agreed that the county's CAFR and budget are relatable. Both respondents also believe that there is adequate input from both accounting professionals and governmental finance specialist in the development of governmental accounting theory and practice. When asked how guidelines could become more useful in budgeting and the CAFR process for Michigan County agencies only one respondent replied. He/she stated that they were not sure, however, the State has a committee; MCGA. When big new pronouncements come out they are posted with the MCGA; which are normally pretty useful. This committee also puts out guidelines through a listserv but the respondent found that it is not regularly utilized.

Summary

In this chapter, interviews of Michigan County Finance Directors and Experts in the field of County Government Finances were reported. Results for research question 1 show that the null hypothesis (H_0) was not rejected and there was enough evidence to conclude that there is not a significant difference in the proportion of County Financial Directors that believe their CAFR and Budget are not understandable nor that the degree in which they relate are un-relatable. The results for research question 2 show the Uniform Budgeting and Accounting Act are most useful for County Finance Directors while GAAP SFFAS 36 was least useful. Finally, the results for research question 3 indicate that governmental finance specialists are not allowed adequate input into the development of governmental accounting theory and practice while accounting professionals are. Results and recommendations will be further developed in Chapter 5 through a look at the Conclusion and Recommendations, Interpretations of the Results and Conclusions, Limitations of the Research, Implications for Theory and Practice, Recommendations for Related Research and Significance of the Study.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

Introduction

The purpose of this study was to explore the relationship between Michigan County Finance Directors and agencies involved in creating the financial rules that they must follow (i.e. GASB, GAAP, and State of Michigan). The premise was that Michigan County Finance Directors received inadequate training in the guidelines of their field. Chapter 1 included a discussion regarding the research study by reviewing the history of financial guidelines in Michigan Governmental Agencies and the policies that must be followed.

Chapter 2 presented literature reviews on Government Accountability, The Creation of GASB and Unrest In, GASB Statement 34, Establishing GAAP for Governments, Differences between the CAFR and the Budget, and GASB Statement 55.

Chapter Three discussed the research methodology; Qualitative Case Study Method. Also discussed; was the interview process and interview questions and how they pertained to the research questions. Furthermore, the population sample, data collection, and data analysis was discussed.

Chapter 4 presented the results for the study. The key results of the study for research question 1 resulted in a null hypothesis (H_0) that was not rejected and there was enough evidence to conclude that there is not a significant difference in the proportion of County Financial Directors that believe their CAFR and Budget are not understandable nor that the degree in which they relate are un-relatable. Research question 2 concluded that the Uniform Budgeting and Accounting Act are most useful for County Finance Directors while GAAP SFFAS 36 was least useful. Finally, research question 3 showed that governmental finance specialists are not allowed adequate input into the development of governmental accounting theory and practice while accounting professionals are.

Interpretation of the Results and Conclusions

Research Question 1: How do the Michigan County Finance Directors understand and use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting ACT?

Results indicate that Michigan County Finance Directors rely heavily on their Auditors to inform them of changes, additions, and deletions of any guidelines, as well as verification that all guidelines are being adhered to and meet. In this regard, Michigan County Finance Directors did not feel confident that they could completely understand all of the necessary guidelines and requirements. However, the expert interviewees (auditors which work contractually for Michigan County Finance Directors) feel strongly that they do understand all guidelines and adequately education their customers.

Potential users of the County Annual Financial Reports and Budgets (i.e., general public, elected officials, financial lenders, and media) may have a difficult time understanding these reports. As shown in figure 1, directors are at odds as to whether the general public can comprehend and understand their CAFR and Budget.

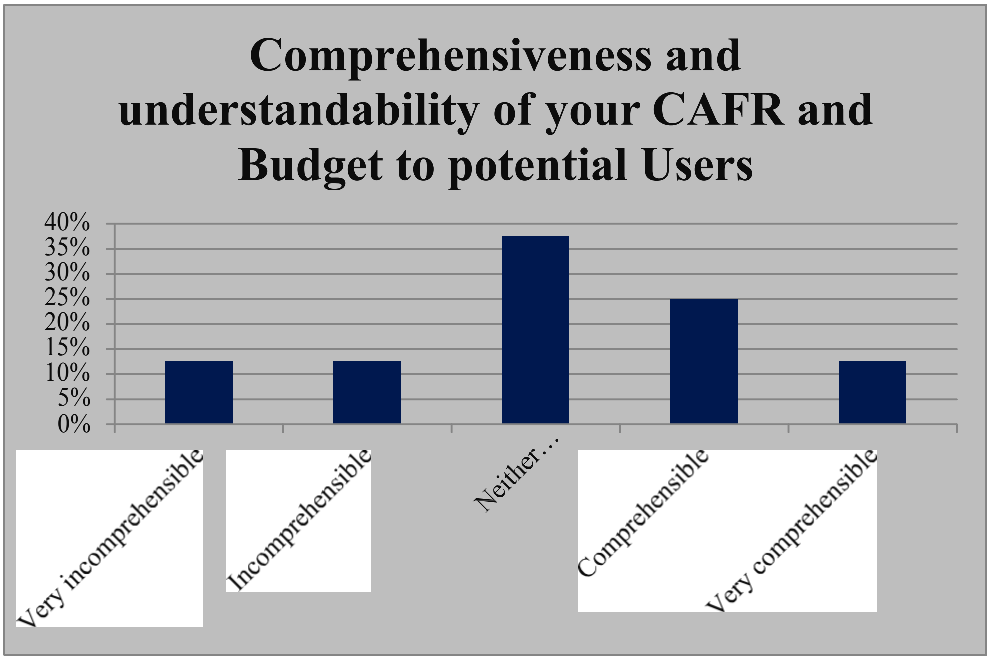

Figure 1 ***Comprehensiveness and understandability of your CAFR and budget to potential users***

Due to the mixed results in regards to the comprehensiveness and understandability; it goes without reason that more work is needed to either educate the public or make the reports more understandable to the general public.

The degree to which the CAFR relates to the Budget ranged from neither un-relatable nor relatable to relatable. There are still County Budgets being created that do not relate well to the corresponding CAFR. However, for the majority of County Finance Directors; their budget does relate to their CAFR.

Results determined that Michigan County Finance Directors understand and use the guidelines of GAAP, GASB, and the Uniform Budgeting and Accounting ACT through the assistance of contractual support (CPA firms and/or Auditors). Further development does need to go into creating reports that are understandable to all users and some assistance is needed to relate all Michigan County Budgets to their corresponding CAFRs. The conclusion for this research question is that assistance through expert Governmental contractual support is imperative to create fluid documents from county agency to county agency of the like.

Research Question 2: Of the GAAP, GASB, and Uniform Budgeting and Accounting Act; which guidelines do the Michigan County Finance Directors find most useful and which do they find most cumbersome?

Results indicate that Michigan County Finance Directors for the Michigan State Mandate of the Uniform Budgeting and Accounting Act – Act 2 of 1968 to be the most useful to their work. Guidance that Directors also found useful in their work were; categorizing of fund balance and the Generally Accepted Accounting Principles.

When asked what standards the Directors found least useful or most cumbersome; the majority agreed that GAAP SFFAS 36 was least useful. More so, it was found that some Directors have difficulty with the Treasury's guidelines for the level of budgetary control needed when creating the budget. The Treasury's guidelines seem to conflict with the statutory language found in the Uniform Budgeting and Accounting Act; creating further confusion for Directors. It was also noted that GASB has been found to be cumbersome, especially in respect to the evolution of financial reporting. With the changes and updates occurring in the financial reporting area; historical comparison could be difficult to make and/or understand.

Research Question 3: Of the GAAP, GASB, and Uniform Budgeting and Accounting Act guidelines that Michigan County Finance Directors find cumbersome; how could they become more useful in the budgeting and CAFR process?

Results indicate that governmental finance specialists are to have more input into the development of governmental accounting theory and practice. Results further show that accounting professionals, and thus contractual auditors and CPAs are allowed adequate input in the same areas. This would further emphasize the dependability and trustworthiness that Directors have with their auditors to keep them informed and up to date on all future requirements or changes.

Limitations

Limitations to the findings are in the areas of sample size and timing issues. There are 83 County Government Offices in Michigan. Letters were mailed to all 83 offices in order to obtain permission to complete an interview with the Finance Director. 8 interviews were thus completed. While these 8 counties did cover both the lower and upper peninsulas; the largest county had a population of 170,200 and the smallest county had a population of 14,273. The median population for Michigan is 38,543 while the average population is 122,364. In the study; the 8 counties had a median population of 34,979 but only an average of 54,999. In regards to the timing issues; the researcher was attempting to complete interviews during year end and audit season for the counties. Unfortunately, for the researcher, the majority of county agencies run their reporting based on a fiscal year (October 1st through September 30th). Therefore, the months of October through November is crunch time to close their fiscal year and the months of December and January is generally the time auditors come in to verify and complete their audits based on the fiscal year end. Finally, due to the low response rate; there leaves a large level of uncertainty. Thus assumptions could only be made but nothing was truly proven; leaving a large opportunity for future research and development.

Implications for Theory and Practice

The initial theory of the researcher when beginning this process was that there was an apparent lack of uniformity in governmental reporting and budgeting from one Michigan County agency to the next. However, based on interviews and the results of research question one; the null hypothesis (H_0) cannot be rejected. Therefore, the implications have proven that uniformity and consistency does exist from agency to agency. However, further research found through research questions two and three; that while the County Financial Directors do not always know the necessary guidelines and standards, nor are offered adequate input into these guidelines and standards, the county's contractual audit or CPA firms do know the guidelines and standards very well. Auditors and CPA firms for government agencies not only know these standards but are offered multiple opportunities to offer input into the creation of them and provide education and informative sessions for their clients.

Practice can therefore be improved upon in the educational realm and collaboration of the multiple standard boards. There appears to be issues in following guidelines from GAAP, GASB, and the State of Michigan; which can sometimes conflict with one another. However, great strides have been occurring in the last five years to update and create better fluidity in these. In regards to education; it is imperative for government agencies to contract with an Audit firm or CPA firm that is very knowledgeable and active in governmental finance reporting. Along with that, agencies should not just rely on these firms but they should also take great advantage of the bulletins, e-mails, and educational sessions that they are offering.

Recommendations for Further Research

Recommendations for related research are in the area of the sample size; thus to expand the study to a larger number of county agencies. Another recommendation would be to further investigate the Ballotpedia web site; which offers a grading mechanism for all county agencies. This sight evaluates the websites of the agencies to determine if the following items are posted for public consumption; budget, meetings, elected officials, administrative officials, permits and zoning, audits, contracts, lobbying, public records, and local taxes. The idea is to determine how visible and accommodating the agencies are to the general public. Of the eight agencies that were interviewed, the scores varied from an A- to a D-. Only one of these agencies obtained higher than a C. A final recommendation would be to interview or survey the public or citizens. While this research, the researcher and the interviewees made assumptions regarding the understandability of Government Finance reports by the public; no individual from the public was actually interviewed. The public was not the purpose of this research but rather the Financial Officers in the Counties themselves.

Significance of the Study

The study could have a potential impact on new County Finance Directors and Auditors or CPA firms. The majority of issues and concerns come from new (longevity of five years or less) directors. Therefore, excellent and informative training opportunities are needed by the new directors. Also, it helps significantly to have a mentor system in place for them. Knowledge and longevity of seasoned staff (longevity of six years or greater) are excellent benefits to other agencies. Furthermore, it is imperative for auditors and CPA firms to realize and understand the great demand placed on their firms. Communication needs to be consistent and open.

Concluding Statement

The researcher chose the topic of County Financial reporting and conducted this study because of the unfailing issues that she witnesses when new staff enters the profession of County Government Finance. From her history; it is very rare for county finance staff to have previous experience in governmental accounting and the training given is generally from their peers. She also found complications when comparing the CAFR to the budget.

The study revealed that there was no significant difference between the CAFR and budget. However, the study did reveal that County Finance directors do not feel confident in their knowledge of the necessary standards and guidelines but rely heavily on their contractual Audit and/or CPA firms. Finally, it was determined that governmental finance specialists do not have adequate input into the development and practice of governmental accounting theory. Although, this points the researcher back to the reliance that directors have with their auditors and CPA firms; the auditors and CPA firms felt they did have adequate input into the development and practice of the theories.

The researcher is very thankful to all of the participants and participated in some excellent conversations regarding their needs and thoughts. It would be the final recommendation of the researcher to advise directors to utilize their auditors and CPAs extensively; take full advantage of any training, seminars, informational sessions and their listservs (e-mail bulletins). This is significant for the researcher and for the general public to make the understandability of where our tax dollars are going and how they are being managed more fluent and comprehensible.

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APPENDIX A: MATRIX OF DOMAIN TOPICS

	THEMES		
TOPIC	STANDARDS	UNDERSTANDING	RECIPIENT/CUSTOMER UNDERSTANDING
GASB			
CAFR			
BUDGET			

APPENDIX B: INTERVIEW QUESTIONS: FINANCIAL DIRECTORS

NOTE ON CONFIDENTIALITY: Your responses to this open-ended questionnaire will be treated as confidential and data will not be recorded or referenced to your name. All data will be treated in the aggregate or aggregated with counties of certain categories. We hope this will allow you the opportunity to express your thoughts completely.

E-mail address to send courtesy summary of this study. ______________________

1. What county do you work for? ______________________________________

2. Is the current FY Budget and CAFR available online? ______________________________

3. What is the official title used for the CFO position? ______________________________

4. How many years have you been in this position? ________________________________

5. Is this position: Elected ☐ Appointed ☐ Contractual ☐

6. How does your organization meet the guidelines and recommendations of GAAP, GASB and the Uniform Budgeting and Accounting Act when creating your Budget and CAFR? __________

____

____

7. Do you find the guidelines of the following useful when creating your Budget and CAFR?

GAAP SFFAS 7 – Accounting for Revenue and Other Financing Sources?

Yes Sometimes No Unsure

GAAP SFFAS 36 – Reporting Comprehensive Long-Term Fiscal Projections?

Yes Sometimes No Unsure

GASB Statement 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments?

Yes Sometimes No Unsure

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions?

Yes Sometimes No Unsure

GASB Statement 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments?

Yes Sometimes No Unsure

Michigan State Mandate of the Uniform Budgeting and Accounting Act – Act 2 of 1968?

Yes Sometimes No Unsure

8. How comprehensible and understandable do you perceive your CAFR and Budget to potential users (i.e., general public, elected officials, financial lenders and media)?

Very incomprehensible Incomprehensible Neither incomprehensible nor comprehensible Comprehensible Very comprehensible

9. Which guidelines in the GAAP, GASB and the Uniform Budgeting and Accounting Act do you find most useful? ____

____

____

10. Which guidelines in the GAAP, GASB and the Uniform Budgeting and Accounting Act do you find most cumbersome or least useful? ______________________________

___

___

11. To what degree do you believe that your county's CAFR relates to your county's Budget?

Very un-relatable Un-relatable Neither relatable nor un-relatable

Relatable Very relatable

12. Given your knowledge of the evolution of governmental accounting and financial reporting over the last century do you agree:

a. That there has been adequate input into the development of governmental accounting theory and practice by the accounting profession?

Very disagreeable Disagreeable Neither disagreeable nor agreeable

Agreeable Very agreeable

b. That there has been adequate input into the development of governmental accounting theory and practice by governmental finance specialists?

Very disagreeable Disagreeable Neither disagreeable nor agreeable

Agreeable Very agreeable

13. How could guidelines in Michigan County agencies become more useful for you in your budgeting and CAFR processes?___

___

___

___

We wish to thank you again for your participation in this study. Please feel free to include any additional comments or make suggestions for future research.

APPENDIX C: INTERVIEW QUESTIONS OF EXPERTS IN THE FIELD OF GOVERNMENT ACCOUNTING

NOTE ON CONFIDENTIALITY: Your responses to these interview questions will be treated as confidential and data will not be recorded or referenced to your name. All data will be treated in the aggregate or aggregated with counties of certain categories. We hope this will allow you the opportunity to express your thoughts completely.

E-mail address to send courtesy summary of this study. **bkvnc@aol.com____**

1. What Agency do you work for? ____
2. What is your official title? ____
3. Do you find that the majority of county's that you have worked with make their current FY Budget and CAFR available online? __________________________________
4. How many years have you been in this position? ____________________________
5. How does your organization help your customers meet the guidelines and recommendations of GAAP, GASB and the Uniform Budgeting and Accounting Act when creating their Budget and CAFR? ___________________________________

   ____

   ____

   ____

6. Do you find the guidelines of the following useful when helping to create Budgets and CAFRs?

   GAAP SFFAS 7 – Accounting for Revenue and Other Financing Sources?

   Yes Sometimes No Unsure

   GAAP SFFAS 36 – Reporting Comprehensive Long-Term Fiscal Projections?

Yes Sometimes No Unsure

GASB Statement 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments?

Yes Sometimes No Unsure

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions?

Yes Sometimes No Unsure

GASB Statement 55 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments?

Yes Sometimes No Unsure

Michigan State Mandate of the Uniform Budgeting and Accounting Act – Act 2 of 1968?

Yes Sometimes No Unsure

7. How comprehensible and understandable do you perceive your CAFR and Budget to potential users (i.e., general public, elected officials, financial lenders and media)?

Very incomprehensible Incomprehensible Neither incomprehensible nor comprehensible Comprehensible Very comprehensible

8. Which guidelines in the GAAP, GASB and the Uniform Budgeting and Accounting Act do you find most useful? ____

____

____

____

9. Which guidelines in the GAAP, GASB and the Uniform Budgeting and Accounting Act do you find most cumbersome or least useful? ____________________________________

____

____

____

10. To what degree do you believe that county's CAFRs relate to their Budgets?

Very un-relatable Un-relatable Neither relatable nor un-relatable

Relatable Very relatable

11. Given your knowledge of the evolution of governmental accounting and financial reporting over the last century do you agree:

a. That there has been adequate input into the development of governmental accounting theory and practice by the accounting profession?

Very disagreeable Disagreeable Neither disagreeable nor agreeable

Agreeable Very agreeable

b. That there has been adequate input into the development of governmental accounting theory and practice by governmental finance specialists?

Very disagreeable Disagreeable Neither disagreeable nor

agreeable Agreeable Very agreeable

12. How could guidelines in Michigan County agencies become more useful in budgeting and CAFR processes?____

____

____

We wish to thank you again for your participation in this study. Please feel free to include any additional comments or make suggestions for future research.

APPENDIX D: HUMAN SUBJECTS RESEARCH CONSENT FORM

You are being asked to participate in a study investigating Accounting Principles involved in the Governmental Budgets and Comprehensive Annual Financial Reports.

Research interest is in regards to the principles that your organization currently follows along with future principles that you may follow in accordance with the International Financial Standards Reporting guidelines.

If you agree to participate, you will complete an open-ended questionnaire that consists of both open ended questions as well as minimal check box questions (i.e. yes/no or strongly agree, agree, etc.). In addition, the researcher will be studying your organizations web page and obtaining a copy of the most current CAFR as well as published Budget. To ensure anonymity, the research will assign a generic code to your responses, thus omitting your name in the research. The code assignments will be kept in a separate, locked location only accessible by the researcher.

Although all studies have some degree of risk, the potential in this investigation is minimal. You will not incur any costs as a result of your participation in this study.

Your participation is voluntary. If at any time during this study you wish to withdraw your participation, you are free to do so without prejudice.

If you have any questions prior to your participation or at any time during the study, please do not hesitate to contact me.

AUTHORIATION: I have read the above and understand the nature of this study. I understand that by agreeing to participate in this study I have not waived any legal or human right and that I may contact the researcher at any time. I agree to participate in this study. I understand that I may refuse to participate or I may withdraw from the study at any time without prejudice. I also understand that if I have any concerns about my treatment during the study, I can contact the Chair of the Internal Review Board at Baker College for Graduate Studies (800-469-3165) at any time.

Participant:__________________________________

Signature:___________________________________ Date:______________

Researcher: Brandy Carlson

Signature:___________________________________ Date:______________

APPENDIX E: HUMAN RESEARCH CURRICULUM COMPLETION REPORT

CITI Collaborative Institutional Training Initiative

Human Research Curriculum Completion Report

Printed on 8/10/2010

Learner: Brandy Carlson (username: bkvnc)

Institution: Baker College

Contact Information 3917 Michael Street

Muskegon, MI 49444 United States

Department: DBA

Phone: 231-733-0424

Email: bkvnc@aol.com

Social/Behavioral Investigators:

Stage 1. Basic Course Passed on 08/10/10 (Ref # 4598776)

Required Modules	**Date Completed**	
Belmont Report and CITI Course Introduction	06/29/10	3/3 (100%)
Students in Research - SBR	07/05/10	8/10 (80%)

History and Ethical Principles - SBR	07/06/10	4/4 (100%)	
Defining Research with Human Subjects - SBR	07/12/10	4/5 (80%)	
The Regulations and The Social and Behavioral Sciences - SBR	07/13/10	5/5 (100%)	
Assessing Risk in Social and Behavioral Sciences - SBR	07/19/10	5/5 (100%)	
Informed Consent - SBR	07/20/10	5/5 (100%)	
Privacy and Confidentiality - SBR	07/26/10	3/3 (100%)	
Research with Children - SBR	07/30/10	4/4 (100%)	
Research in Public Elementary and Secondary Schools - SBR	07/30/10	4/4 (100%)	
Internet Research - SBR	08/03/10	4/4 (100%)	
HIPAA and Human Subjects Research	08/03/10	2/2	

		(100%)
Workers as Research Subjects-A Vulnerable Population	08/04/10	4/4 (100%)
Conflicts of Interest in Research Involving Human Subjects	08/10/10	2/2 (100%)
Baker College	08/10/10	no quiz

or this Completion Report to be valid, the learner listed above must be affiliated ith a CITI participating institution. Falsified information and unauthorized use of CITI course site is unethical, and may be considered scientific misconduct by r institution.

aul Braunschweiger Ph.D.

rofessor, University of Miami

ctor Office of Research Education

ITI Course Coordinator

Return

APPENDIX F: GASB STATEMENT NO. 55

Statement No. 55 of the Governmental Accounting Standards Board

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

March 2009

otherwise, without the prior written permission of the Governmental Accounting Standards Board.

Summary

The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial Statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

The GASB is responsible for establishing GAAP for State and local governments. However, the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles , rather than in the authoritative literature of the GASB.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for State and local governments so that they derive from a single source. The Board concluded that the GAAP hierarchy should reside in the accounting literature established by the GASB and is issuing this Statement to accomplish that objective.

This Statement will make it easier for preparers of State and local government financial Statements to identify and apply all relevant guidance. The Board does not expect that this Statement will result in a change in current practice.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all State and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Introduction

1. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial Statements of State and local governmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy).

Standards of Governmental Accounting and Financial Reporting

Scope and Applicability of This Statement

2. This Statement applies to the financial Statements of all State and local governments that are presented in conformity with GAAP.

The Hierarchy of Generally Accepted Accounting Principles

3. The GAAP hierarchy governs what constitutes GAAP for all State and local governmental entities. It lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:

a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.[1]

[1] Category (a) standards are the subject of Rule 203 of the AICPA's *Code of Professional Conduct,* and this Statement does not affect the application of that rule.

b. GASB Technical Bulletins and, if specifically made applicable to State and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared[2] by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

[2] Such pronouncements specifically made applicable to State and local governments are presumed to have been cleared by the GASB unless the pronouncement indicates otherwise.

c. AICPA Practice Bulletins if specifically made applicable to State and local governmental entities and cleared[3] by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to State and local governmental entities.[4]

[3] See footnote 2.

[4] As of the date of this Statement, the GASB had not organized such a group.

d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in State and local government.

4. If the accounting treatment for a transaction or other event is not specified by a pronouncement in category (a), a governmental entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or other event, the governmental entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.

5. If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should consider accounting principles for similar transactions or other events in categories

(a)–(d) and may consider other accounting literature. A governmental entity should not follow the accounting treatment specified in accounting principles for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

6. Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (a)–(d) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to State and local governmental entities by the GASB; Financial Accounting Standards Board Concepts Statements; Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board, or pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category.

Effective Date

7. The requirements in this Statement are effective upon its issuance.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

Robert H. Attmore, *Chairman*

Michael D. Belsky

William W. Holder

Jan I. Sylvis

Marcia L. Taylor

Richard C. Tracy

James M. Williams

Appendix A: Background

8. Representatives of the AICPA have requested that the U.S. accounting standards setters consider adopting certain guidance for accounting and financial reporting issues that now resides only in the AICPA's professional auditing literature. In response to this request, a project was added to the GASB's research agenda in late 2007. After conducting research on the subject matter to identify relevant issues, the project was added to the GASB's current technical agenda

in April 2008. The GAAP hierarchy applicable to governments was originally intended to be in the scope of that broader project. A separate project was established in July 2008 to assist the Board in its efforts to work with FASAB on GAAP hierarchy-related issues.

9. In August 2008, the Board issued an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Board received 35 responses to the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B: Basis for Conclusions

10. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

11. At the beginning of its deliberations leading to this Statement, the Board evaluated two approaches. One approach considered was to adopt the GAAP hierarchy essentially as it currently exists in the AICPA's auditing literature. The other approach considered was to reexamine the hierarchy levels to assess whether the standards-setting process and the governmental financial reporting environment have sufficiently evolved since the establishment

of the hierarchy to warrant reconsideration or reconfiguration of certain aspects of the structure. The Board recognized that taking the first approach would not significantly affect practice but the latter approach, involving redeliberation, *could* have resulted in changes in practice. The Board concluded that the transition from the audit literature to the accounting and financial reporting standards should be as undisruptive as possible; therefore, the first approach was taken.

12. The Board believes that incorporation of the GAAP hierarchy into the GASB's authoritative literature would more clearly convey that financial Statement preparers are responsible for selecting the appropriate sources of the principles to be used when preparing financial Statements that are presented in conformity with GAAP. The structure presented in this Statement generally carries forward the hierarchy included in Appendix C, "Background Information on Governmental Accounting Standards," in Volume I of the GASB's *Original Pronouncements*. The Board believes that relocating the hierarchy generally "as is" would have the least effect on current practice. If the Board decides it is appropriate to reexamine the existing levels of the hierarchy to consider elevating certain sources (Implementation Guides or Concepts Statements, for example), or combining categories to provide for fewer levels, it would do so as a separate future initiative.

Exposure Draft

13. As discussed in paragraph 9, an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* was issued for public comment in August 2008. Respondents generally supported the provision to incorporate the GAAP hierarchy

into GASB literature.

14. A number of respondents, however, were concerned with the position of Implementation Guides as category (d) literature in the hierarchy. Those respondents suggested that Implementation Guides should be elevated to a higher category, and some also commented that additional due process procedures should be added before the issuance of a Guide. The Board considered the respondents' comments regarding placement in the hierarchy; however, the Board ultimately concluded that the goal of this project is to bring into GASB standards the AICPA literature essentially as it currently exists, as discussed in paragraph 12. Therefore, the Board concluded that reconsideration of Implementation Guides as other than category(d), or changes to due process, was beyond the intended scope of this Statement.

15. Some respondents to the Exposure Draft expressed concern that category (a) no longer included the reference to "AICPA and FASB pronouncements specifically made applicable to State and local governmental entities by GASB Statements or Interpretations" as stated in the AICPA literature. After considering those comments, the Board concluded that a specific reference to those pronouncements is unnecessary because those AICPA and FASB pronouncements are already included in category (a) in "GASB Statements and Interpretations." The modification to the AICPA presentation does not exclude those specific sources but rather avoids the redundancy that existed in category (a).

16. In addition to the issues discussed in paragraphs 14 and 15, the Board considered a variety of other editorial comments and suggestions made by respondents.

Appendix C: Codification Instructions

17. The section that follows updates the June 30, 2008, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Create new section as follows:]

THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES **SECTION 1000**

Source: GASB Statement 55

.101–.104 [GASB Statement 55, ¶3–¶6, including footnotes 1, 2, and 3; omit footnote 4.]

APPENDIX G: UNIFORM BUDGETING AND ACCOUNTING ACT

UNIFORM BUDGETING AND ACCOUNTING ACT
Act 2 of 1968

AN ACT to provide for the formulation and establishment of uniform charts of accounts and reports in local units of government; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from local units of government; to provide for the administration of this act; to prescribe the powers and duties of the State treasurer, the attorney general, the library of Michigan and depository libraries, and other officers and entities; to provide penalties for violation of certain requirements of this act; to provide for meeting the expenses authorized by this act; to provide a uniform budgeting system for local units; and to prohibit deficit spending by a local unit of government.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1996, Act 401, Eff. Dec. 18, 1996.

The People of the State of Michigan enact:

141.421 Uniform charts of accounts for local units; design; conformity to uniform standards; maintenance of local unit accounts; publication of standard operating procedures and forms; assistance, advice, or instruction; inadequacy of local unit; report; services of certified public accountant or State treasurer; expenses; payment; contract; monthly billings.

Sec. 1. (1) The State treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government. Such chart of accounts shall conform as nearly as practicable to the uniform standards as set forth by the governmental accounting standards board or by a successor organization that establishes national generally accepted accounting standards and is determined acceptable to the State treasurer. The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts. The State treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting.

(2) A local unit may request the State treasurer to provide assistance, advice, or instruction in establishing or maintaining the uniform chart of accounts required by subsection (1).

(3) The State treasurer may provide assistance, advice, or instruction to a local unit to establish or maintain the uniform chart of accounts required by subsection (1) based on information from 1 or more of the following sources:

(a) Disclosure by the certified public accountant or the department of treasury in an audit report required by section 5 or 6 that the local unit has failed to establish or maintain the uniform chart of accounts required by subsection (1).

(b) Disclosure by the department of treasury in a special examination report that the local unit has failed to establish or maintain the uniform chart of accounts required by subsection (1).

(c) Disclosure in an audit report issued under section 5 or 6 that the records of the local unit are not auditable because the local unit has failed to establish or maintain the uniform chart of accounts required by subsection (1).

(d) Disclosure from another State agency.

(e) Department of treasury records indicate that the audit required under section 5 has not been performed or filed and is delinquent, and that the local unit is subject to the provisions of section 21 of the Glenn Steil State revenue sharing act of 1971, 1971 PA 140, MCL 141.921.

(4) The State treasurer, in performing the services under subsection (2) or (3), may make a determination that the local unit cannot adequately establish or maintain the uniform chart of accounts without additional assistance, advice, or instruction from the State treasurer. The State treasurer shall submit a written report of the findings and recommendations to the governing body of the local unit. The local unit shall retain, in 90 days after receipt of this report, the services of a certified public accountant or the State treasurer to perform the needed additional services and shall notify, by resolution of the governing body, the State treasurer of such action. Upon failure of the local unit to respond in the 90-day period, the State treasurer

shall perform the necessary services to adequately establish or maintain the uniform chart of accounts.

(5) The State treasurer shall charge reasonable and necessary expenses, including per diem and travel expenses, to the local unit for services performed pursuant to subsections (2), (3), and (4), and the local unit shall make payment to the State treasurer for these expenses. The State treasurer shall execute a contract with

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1982, Act 451, Imd. Eff. Dec. 30, 1982;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

141.421a Short title.

Sec. 1a. This act shall be known and may be cited as the "uniform budgeting and accounting act".

History: Add. 1978, Act 621, Eff. Apr. 1, 1980.

141.422 Meanings of words and phrases.

Sec. 2. For the purposes of this act, the words and phrases defined in sections 2a to 2d have the meanings ascribed to them in those sections.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1978, Act 621, Eff. Apr. 1, 1980.

141.422a Definitions; A, B.

Sec. 2a. (1) "Administrative officer" means an individual employed or otherwise engaged by a local unit to supervise a budgetary center.

(2) "Allotment" means a portion of an appropriation which may be expended or encumbered during a certain period of time.

(3) "Appropriation" means an authorization granted by a legislative body to incur obligations and to expend public funds for a stated purpose.

(4) "Budget" means a plan of financial operation for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing the expenditures. Budget does not include any of the following:

(a) A fund for which the local unit acts as a trustee or agent.

(b) An internal service fund.

(c) An enterprise fund.

(d) A capital project fund.

(e) A debt service fund.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

141.422b Definitions; B to D.

Sec. 2b. (1) "Budgetary center" means a general operating department of a local unit or any other department, institution, court, board, commission, agency, office, program, activity, or function to which money is appropriated by the local unit.

(2) "Capital outlay" means a disbursement of money which results in the acquisition of, or addition to, fixed assets.

(3) "Chief administrative officer" means any of the following:

(a) The manager of a village or, if a village does not employ a manager, the president of the village.

(b) The city manager of a city or, if a city does not employ a city manager, the mayor of the city.

(c) The superintendent of a local school district or, if the school district does not have a superintendent, the person having general administrative control of the school district.

(d) The superintendent of an intermediate school district or, if the school district does not have a superintendent, the person having general administrative control of the school district.

(e) The manager of a township or, if the township does not employ a manager, the supervisor of the township.

(f) The elected county executive or appointed county manager of a county; or if the county has not adopted an optional unified form of county government, the controller of the county appointed pursuant to section 13b of 1851 PA 156, MCL 46.13b; or if the county has not appointed a controller, an individual designated by the county board of commissioners of the county.

(g) The official granted general administrative control of an authority or organization of government established by law that may expend funds of the authority or organization.

(h) A person granted general administrative control of the public school academy by the board of directors of a public school academy established under part 6a of the revised school code, 1976 PA 451, MCL 380.501 to 380.507, or other person designated by the board of directors of the public school academy.

(4) "Deficit" means an excess of liabilities and reserves of a fund over its assets.

(5) "Derivative instrument or product" means either of the following:

(a) A contract or convertible security that changes in value in concert with a related or underlying security, future, or other instrument or index; or that obtains much of its value from price movements in a related or underlying security, future, or other instrument or index; or both.

(b) A contract or security, such as an option, forward, swap, warrant, or a debt instrument with 1 or more options, forwards, swaps, or warrants embedded in it or attached to it, the value of which contract or security is determined in whole or in part by the price of 1 or more underlying instruments or markets.

(6) "Derivative instrument or product" does not mean a fund created pursuant to the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, or section 1223 of the revised school code, 1976 PA 451, MCL 380.1223.

(7) "Disbursement" means a payment in cash.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1996, Act 402, Imd. Eff. Oct. 21, 1996;—Am. 1996, Act 439, Imd. Eff. Dec. 18, 1996;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

141.422c Definitions; E to G.

Sec. 2c. (1) "Expenditure" means the cost of goods delivered or services rendered, whether paid or unpaid, including expenses, debt retirement not reported as a liability of the fund from which retired, or capital outlay.

(2) "General appropriations act" means the budget as adopted by the legislative body or as otherwise given legal effect pursuant to a charter provision in effect on the effective date of this section.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

141.422d Definitions; D to S.

Sec. 2d. (1) "Depository library" means a depository library designated under section 10 of the library of Michigan act, 1982 PA 540, MCL 397.20.

(2) "Legislative body" means any of the following:

(a) The council, commission, or other entity vested with the legislative power of a village.

(b) The council or other entity vested with the legislative power of a city.

(c) The board of education of a local school district.

(d) The board of education of an intermediate school district.

(e) The township board of a township.

(f) The county board of commissioners of a county.

(g) The board of county road commissioners of a county.

(h) The board of directors of a public school academy established under part 6a of the revised school code, 1976 PA 451, MCL 380.501 to 380.507.

(i) The official body to which is granted general governing powers over an authority or organization of government established by law that may expend funds of the authority or organization. As used in this act, legislative body does not include an intermunicipality committee established under 1957 PA 200, MCL 123.631 to 123.637.

(3) "Library of Michigan" means the library of Michigan created under section 3 of the library of Michigan act, 1982 PA 540, MCL 397.13.

(4) "Local unit" does not include an intermunicipality committee established under 1957 PA 200, MCL 123.631 to 123.637. Except as used in sections 14 to 20a, local unit means a village, city, or township or an authority or commission established by a county, village, city, or township resolution, motion, ordinance, or charter. As used in sections 14 to 20a, local unit means any of the following:

(a) A village.

(b) A city.

(c) A school district.

(d) An intermediate school district.

(e) A public school academy established under part 6a of the revised school code, 1976 PA 451, MCL 380.501 to 380.507.

(f) A township.

(g) A county.

(h) A county road commission.

(i) An authority or organization of government established by law that may expend funds of the authority or organization.

(5) "Revenue" means an addition to the assets of a fund that does not increase a liability, does not represent the recovery of an expenditure, does not represent the cancellation of a liability without a corresponding increase in any other liability or a decrease in assets, and does not represent a contribution of fund capital in enterprise or in internal service funds.

(6) "Surplus" means an excess of the assets of a fund over its liabilities and reserves.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1981, Act 78, Imd. Eff. June 30, 1981;—Am. 1996, Act 401, Eff. Dec. 18,

141.423 Publication; hearings.

Sec. 3. The State treasurer, before the adoption of a uniform chart of accounts, shall provide for advance publication and for hearings thereon with an advisory committee selected by the State treasurer from the local units and from other interested or concerned groups. The uniform chart of accounts, when finally adopted, shall be published and made readily available to all interested persons.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

141.424 Annual financial report; contents; filing; extension; unauthorized investments prohibited; "pension" defined.

Sec. 4. (1) The chief administrative officer of each local unit shall make an annual financial report (local unit fiscal report) which shall be uniform for all local units of the same class.

(2) The annual financial report shall contain for each fiscal year, all of the following:

(a) An accurate Statement in summarized form, showing the amount of all revenues from all sources, the amount of expenditures for each purpose, the amount of indebtedness, the fund balances at the close of each fiscal year, and any other information as may be required by law.

(b) A Statement indicating whether there are derivative instruments or products in the local unit's nonpension investment portfolio at fiscal year end.

(c) If the Statement under subdivision (b) is affirmative, an accurate schedule reporting the cost and fiscal year end market value of derivative instruments or products in the local unit's nonpension investment portfolio at fiscal year end. The information required under this subdivision shall be reported both on an aggregate basis and itemized by issuer and type of derivative instrument or product.

(d) A Statement indicating whether there are derivative instruments or products in the local unit's pension investment portfolio at fiscal year end. Investments of defined contribution plans and deferred compensation plans that are chosen by the employee participating in the plan shall be excluded from the information reported under this subdivision.

(e) If the Statement under subdivision (d) is affirmative, an accurate schedule reporting the cost and fiscal year end market value of derivative instruments or products in the local unit's pension investment portfolio at fiscal year end. The information required under this subdivision shall be reported both on an aggregate basis and itemized by issuer and type of derivative instrument or product. Investments of defined contribution plans and deferred compensation plans that are chosen by the employee participating in the plan shall be excluded from the information reported under this subdivision.

(3) One copy of the annual financial report required by subsection (1) shall be filed with the State treasurer in 6 months after the end of the fiscal year of the local unit. The State treasurer shall prescribe the forms to be used by local units for preparation of the financial reports. The State treasurer may require that an annual financial report by the pension system for any defined benefit plan of the local unit be submitted in electronic format after timely notice by the State treasurer. The chief administrative officer of a local unit may request an extension of the filing date from the State treasurer, and the State treasurer may grant the request for reasonable cause. If the local unit of government requests an extension of the filing deadline, then the local unit of government must provide to the department of treasury the unadjusted year end trial balance reports, in a form and manner as prescribed by the department of treasury, to the department of treasury at the time the local unit of government requests the extension. The department of treasury shall post these unadjusted year end trial reports on the department's internet website if the extension is granted.

(4) This section does not authorize a local unit to make investments not otherwise authorized by law.

(5) For purposes of this section, "pension" includes a public employee health care fund as defined in the public employee health care investment fund act, 1999 PA 149, MCL 38.1211 to 38.1216.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1982, Act 451, Imd. Eff. Dec. 30, 1982;—Am. 1983, Act 36, Imd. Eff. May 10, 1983;—Am. 1996, Act 439, Imd. Eff. Dec. 18, 1996;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001;—Am. 2002, Act 250, Imd. Eff. May 1, 2002;—Am. 2002, Act 729, Imd. Eff. Dec. 30, 2002.

141.424a Failure of local unit to report investments in derivative instruments or products.

Sec. 4a. (1) If a local unit fails to report investments in derivative instruments or products as required by section 4, the State treasurer may determine that the local unit cannot report the investments without assistance, advice, or instruction from the State treasurer. The State treasurer shall submit a written Statement of the findings and recommendations to the legislative body of the local unit. In 90 days after receipt of this Statement, the local unit shall retain a certified public accountant or the State treasurer to report the investments in the manner required in section 4 and shall notify, by resolution of the legislative body, the State treasurer of the action. Upon failure of the local unit to respond in the 90-day period, the State treasurer shall report the investments.

(2) The State treasurer shall charge reasonable and necessary expenses, including per diem and travel expenses, to the local unit for services performed pursuant to subsection (1) and the local unit shall pay the State treasurer for these expenses. For payment of the expenses, the State treasurer shall either execute a contract with the local unit or bill the local unit on a monthly basis.

History: Add. 1996, Act 400, Eff. Dec. 18, 1996.

Schedule of derivative instruments and products; filing copies; Library of Michigan and depository libraries as depositories; retention of annual report by local unit.

Sec. 4b. (1) The State treasurer shall promptly file with the library of Michigan copies of a schedule of derivative instruments and products described in section 4(2)(c) or (e) and obtained under section 4 or section 4a. The treasurer shall file a sufficient number of copies to deposit 1 copy in the library of Michigan and 1 copy in each depository library.

(2) The library of Michigan and depository libraries shall serve as depositories for schedules of derivative instruments and products described in section 4(2)(c) or (e) in the manner required by sections 9 and 10 of the library of Michigan act, Act No. 540 of the Public Acts of 1982, being sections 397.19 and 397.20 of the Michigan Compiled Laws. The library of Michigan and each depository library shall promptly make a schedule of derivative instruments and products described in section 4(2)(c) or (e) available to the public.

(3) A local unit shall obtain and retain a copy of an annual financial report submitted under this act. A local unit or the State treasurer shall make an annual financial report prepared, owned, used, in the possession of, or retained by the local unit or State treasurer available for public inspection under the freedom of information act, Act No. 442 of the Public Acts of 1976, being sections 15.231 to 15.246 of the Michigan Compiled Laws.

History: Add. 1996, Act 401, Eff. Dec. 18, 1996.

Compiler's note: For transfer of powers and duties of library of Michigan and State librarian, except pertaining to services for blind and physically handicapped and those related to census data functions, to department of education, see E.R.O. No. 2009-26, compiled at MCL 399.752.

Local units; audits.

Sec. 5. (1) A local unit having a population of less than 4,000 shall obtain an audit of its financial records, accounts, and procedures not less frequently than biennially. However, if any audit under this subsection discloses a material deviation by the local unit from generally accepted accounting practices or from applicable rules and regulations of a State department or agency or discloses any fiscal irregularity, defalcation, misfeasance, nonfeasance, or malfeasance, the department of treasury may require an audit to be conducted in the next year.

(2) A local unit having a population of 4,000 or more shall obtain an annual audit of its financial records, accounts, and procedures.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1996, Act 146, Imd. Eff. Mar. 25, 1996.

Certified public accountants; cost.

Sec. 6. Local units may retain certified public accountants to perform such audits. If any unit fails to provide for an audit, the State treasurer shall either conduct the audit or appoint a certified public accountant to perform it. The entire cost of any such audits will be borne by the local unit.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

Minimum auditing procedures and standards; form for report of auditing procedures; filing audit report and report of auditing procedures; time for filing; extension.

Sec. 7. (1) The State treasurer shall prescribe minimum auditing procedures and standards and these shall conform as nearly as practicable to generally accepted auditing standards established by the American institute of certified public accountants.

(2) A report of the auditing procedures applied in each audit shall be prepared on a form provided for this purpose by the State treasurer. The State treasurer may require that the audit report, or the report of auditing procedures, or both, that are required by this subsection to be filed with the State treasurer be filed in an electronic format prescribed by the State treasurer.

(3) One copy of every audit report and 1 copy of the report of auditing procedures applied shall be filed with the State treasurer.

(4) The copy of the audit report and the copy of the report of auditing procedures applied required by subsection (3) shall be filed with the State treasurer in 6 months after the end of the fiscal year of a local unit for which an audit has been performed pursuant to section 5. The chief administrative officer of a local unit may request an extension of the filing date from the State treasurer, and the State treasurer may grant the request for reasonable cause. A chief administrative officer who requests an extension under this subsection shall, in 10 days of making the request, inform the governing body in writing of the requested extension.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1982, Act 451, Imd. Eff. Dec. 30, 1982;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Contents of audit report.

Sec. 8. Every audit report shall do all of the following:

(a) State that the audit has been conducted in accordance with generally accepted auditing standards and with the standards prescribed by the State treasurer.

(b) State that financial Statements in such reports have been prepared in accordance with generally accepted accounting principles and with applicable rules and regulations of any State department or agency. Any deviations from such principles, rules, or regulations shall be described.

(c) Disclose any material deviations by the local unit from generally accepted accounting practices or from applicable rules and regulations of any State department or agency.

(d) Disclose any fiscal irregularities, including but not limited to any deviations from the requirements of section 4; defalcations; misfeasance; nonfeasance; or malfeasance that came to the auditor's attention.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1996, Act 400, Eff. Dec. 18, 1996;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Public inspection of audit reports.

Sec. 9. All audit reports submitted under this act shall be made available for public inspection.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

Orders and subpoenas.

Sec. 10. In connection with any audit and examination conducted under the provisions of this act, the State treasurer, or a deputy State treasurer, may issue subpoenas, direct the service thereof by any police officer, and compel the attendance and testimony of witnesses, may administer oaths and examine such persons as may be necessary, and may compel the production of books and papers. The orders and subpoenas issued by the State treasurer or by a deputy State treasurer, in pursuance of the authority in them vested by provisions of this section, may be enforced upon their application to any circuit court by proceedings in contempt therein, as provided by law.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

Violations of act.

Sec. 11. If any audit or investigation conducted under this act discloses statutory violations on the part of any officer, employee or board of any local unit, a copy of such report shall be filed with the attorney general who shall review the report and cause to be instituted such proceeding against such officer, employee or board as he deems necessary. The attorney general, in 60 days after receipt of the report, may institute criminal proceedings as he deems necessary against such officer or employee, or direct that the criminal proceedings be instituted by the prosecuting attorney of the county in which the offense was committed. The attorney general or the prosecuting attorney shall institute civil action in any court of competent jurisdiction for the recovery of any public moneys, disclosed by any examination to have been illegally expended or collected and not accounted for; also for the recovery of any public property disclosed to have been converted and misappropriated.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

Verification of transactions.

Sec. 12. (1) For purposes of verifying any transactions disclosed by an audit or investigation, any person or firm authorized to conduct an audit under this act may ascertain the deposits, payments, withdrawals and balances on deposit in any bank account or with any contractor or with any other person having dealings with the local unit.

(2) A bank, contractor or person shall not be held liable for making available any of the information required under this act.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968.

Scope of examiner's authority; production of records; divulging confidential information.

Sec. 13. (1) Notwithstanding the confidentiality provisions of any tax laws, any authorized employee of the State treasurer, certified public accountant or firm of certified public accountants conducting an audit under this act shall have access to and authority to examine all books, accounts, reports, vouchers, correspondence files and other records, bank accounts and moneys or other property of any local unit excepting any records which were obtained from the United States internal revenue service under the federal State cooperative exchange agreement.

(2) An officer of a local unit upon demand of persons authorized under this act, shall produce all books, accounts, reports, vouchers, correspondence files and other records, bank accounts and moneys or other property of the local unit under audit or investigation and shall truthfully answer all questions related thereto.

(3) The liabilities and penalties provided by all specific confidentiality statutes for divulging confidential information shall be applicable to all persons authorized to make an audit under this act.

History: 1968, Act 2, Imd. Eff. Feb. 20, 1968;—Am. 1971, Act 91, Eff. Mar. 30, 1972.

Budget; preparation, presentation, and control of expenditures; information; transmitting recommended budget to legislative body; suggested general appropriations act; consideration of recommended budget; furnishing information to legislative body; public hearing.

Sec. 14. (1) Unless otherwise provided by law, charter, resolution, or ordinance, the chief administrative officer shall have final responsibility for budget preparation, presentation of the budget to the legislative body, and the control of expenditures under the budget and the general appropriations act.

(2) Unless another person is designated by charter, the chief administrative officer in each local unit shall prepare the recommended annual budget for the ensuing fiscal year in the manner provided in sections 15 to 20a. The budgetary centers of the local unit shall provide to the chief administrative officer information which the chief administrative officer considers necessary and essential to the preparation of a budget for the ensuing fiscal period for presentation to the local unit's legislative body. Each administrative officer or employee of a budgetary center shall comply promptly with a request for information which the chief administrative officer makes.

(3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of section 16.

(4) The recommended budget transmitted by the chief administrative officer shall be considered by the legislative body.

(5) The chief administrative officer shall furnish to the legislative body information the legislative body requires for proper consideration of the recommended budget. Before final passage of a general appropriations act by the legislative body, a public hearing shall be held as required by 1963 (2nd Ex Sess) PA 43, MCL 141.411 to 141.415, and the open meetings act, 1976 PA 267, MCL 15.261 to 15.275.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Recommended budget; contents; limitation on total estimated expenditures.

Sec. 15. (1) The recommended budget shall include at least the following:

(a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.

(b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.

(c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.

(d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.

(e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.

(f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.

(g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

(2) The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1981, Act 77, Imd. Eff. June 30, 1981;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

General appropriations act; requirements; line items not mandated; taxation; limitation on estimated total expenditure.

Sec. 16. (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.

(2) The general appropriations act shall set forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied. The amendatory act that added this subsection shall be known and may be cited as “the truth in budgeting act”.

(3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a Statement of estimated revenues, by source, in each fund for the ensuing fiscal year.

(4) The general appropriations act shall be consistent with uniform charts of accounts prescribed by the State treasurer or, for local school districts and intermediate school districts, by the State board of education.

(5) This act shall not be interpreted to mandate the development or adoption by a local unit of a line-item budget or line-item general appropriations act.

(6) The legislative body shall determine the amount of money to be raised by taxation necessary to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, shall order that money to be raised by taxation, in statutory and charter limitations, and shall cause the money raised by taxation to be paid into the funds of the local unit.

(7) Except as otherwise permitted by section 102 of the State school aid act of 1979, 1979 PA 94, MCL 388.1702, or by other law, the legislative body shall not adopt a general appropriations act or an amendment to that act which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1981, Act 77, Imd. Eff. June 30, 1981;—Am. 1981, Act 78, Imd. Eff. June 30, 1981;—Am. 1995, Act 41, Imd. Eff. May 22, 1995;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

General appropriations act; amendment; reports; recommendations.

Sec. 17. (1) Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative

officer or fiscal officer provide it with periodic reports on the financial condition of the local unit.
(2) If, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, the chief administrative officer or fiscal officer shall present to the legislative body recommendations which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year. The recommendations shall include proposals for reducing appropriations from the fund for budgetary centers in a manner that would cause the total of appropriations to not be greater than the total of revised estimated revenues of the fund, or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. The recommendations shall recognize the requirements of State law and the provisions of collective bargaining agreements.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 1981, Act 77, Imd. Eff. June 30, 1981;—Am. 1995, Act 41, Imd. Eff. May 22, 1995;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Incurring debts or obligations; dividing appropriations into allotments; expenditures; application or division of money; restrictions on delegation of duties.

Sec. 18. (1) A member of the legislative body, chief administrative officer, administrative officer, or employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit unless the debt or obligation is permitted by law.

(2) The chief administrative officer may cause the appropriations made by the legislative body for the local unit and its budgetary centers to be divided into allotments if the allotments are based upon the periodic requirements of the local unit and its budgetary centers.

(3) Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.

(4) No duties shall be delegated to the chief administrative officer that diminish any charter or statutory responsibilities of an elected or appointed official.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Expenditure of funds; transfers in appropriations.

Sec. 19. (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.

(2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers in limits stated in the act between appropriations without the prior approval of the legislative body.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

Violation; filing; report; review and action by attorney general; civil action for recovery of funds and public property.

Sec. 20. A violation of sections 17 to 19 by the chief administrative officer, an administrative officer, employee, or member of the legislative body of the local unit disclosed in an audit of the financial records and accounts of the local unit in the absence of reasonable procedures in use by the local unit to detect such violations shall be filed with the State treasurer and reported by the State treasurer to the attorney general. For local and intermediate school districts, the report of a violation shall be filed with the State superintendent of public instruction instead of the State treasurer. The attorney general shall review the report and initiate appropriate action against the chief administrative officer, fiscal officer, administrative officer, employee, or member of the legislative body. For the use and benefit of the local unit, the attorney general or prosecuting attorney may institute a civil action in a court of competent jurisdiction for the recovery of funds of a local unit, disclosed by an examination to have been illegally expended or collected as a result of malfeasance and not accounted for as provided in sections 17 to 19, and for the recovery of public property disclosed to have been converted or misappropriated.

History: Add. 1978, Act 621, Eff. Apr. 1, 1980;—Am. 2000, Act 493, Imd. Eff. Jan. 11, 2001.

141.440a Manuals, forms, and operating procedures; training and educational programs.

Sec. 20a. (1) The department of treasury shall publish suggested manuals, forms, and operating procedures which may be used by local units in complying with this act. These manuals, forms, and procedures shall be designed to account for the various kinds and sizes of local units, except that the suggested manuals, forms, and operating procedures which may be used by intermediate school districts and local school districts shall be developed by the superintendent of public instruction and shall be promulgated by the superintendent of public instruction pursuant to Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.315 of the Michigan Compiled Laws.

(2) The suggested manuals, forms, and operating procedures described in subsection (1) shall be developed by an advisory committee selected by the department of treasury composed of persons from the department of education, other interested State agencies, local units, associations of local units, and other interested or concerned groups.

(3) The department of treasury shall provide or cooperate in the provision of training and educational programs to assist local units to comply with this act.

History: Add. 1978, Act 621, Eff. Apr. 1, 1979.

CURRICULUM VITAE

Carlson, Brandy

3917 Michael Street, Muskegon, MI 49444 (231)733-0424

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Objective

To obtain a challenging yet exciting position in which I can make a difference in an organization.

Employment

- MENTAL HEALTH COMPTROLLER (2014-Present)
  County of Muskegon - Community Mental Health
  Claims and Billing Supervisor, Accounts Payable, Accounts Receivable and General Ledger. Completion of Encounter Reporting. Set-up, programming, development and maintenance of the Avatar financial system. All accounting for a partner organization, consisting of payroll, accounts payable and accounts receivable. Coordination and Collaboration with outside agencies. Financial assistance to Lakeshore Regional Partnership. Corporate Compliance Officer.
- MENTAL HEALTH CLAIMS SUPERVISOR (2011-2014)
  County of Muskegon - Community Mental Health
  Claims and Billing Supervisor, Accounts Payable, Accounts Receivable and General Ledger. Completion of Encounter Reporting. Set-up, programming, development and maintenance of the Avatar financial system. All accounting for a partner organization, consisting of payroll, accounts payable and accounts receivable. Coordination and Collaboration with outside agencies.
- ADMINISTRATIVE ANALYST (2008-2011)
  County of Muskegon - Community Mental Health
  Claims and Billing Supervisor, Accounts Payable, Accounts Receivable and General Ledger. Completion of Medicaid Encounter Reporting. Set-up, programming, development and maintenance of the Avatar financial system.
- ACCOUNTANT I (2005-2008)
  County of Muskegon - Community Mental Health *Muskegon, MI*
  Claims Supervisor, back-up to Payroll, Accounts Payable, Accounts Receivable and General Ledger. I complete external audits, run activity reports and complete many reports for the State of Michigan. I am also on the Core team for CMH's new internal program. This entails set-up, programming and development of the Avatar finance system.

Education

- DOCTORATE OF BUSINESS ADMINISTRATION (FINANCE) (2014)
  Baker College of Graduate Studies
- MASTERS OF BUSINESS ADMINISTRATION (FINANCE) (2005)
  Baker College of Graduate Studies
- BACHELORS OF BUSINESS ADMINISTRATION (2001)
  Baker College On-Line

Volunteer Experience

- Parent to Parent Program (Helen Devos Children's Hospital) (2001-Present)
- West Michigan Pine and Dunes Girl Scouts (2004-Present)
- Fruitport Band Parents Present (2013-Present)

References

- Eduardo Bedoya, Muskegon CC, Director of Research and Grants (231) 777-0332
- Carol Vennema, Helen Devos Children's Hospital, RN (231) 720-2227
- Judy Cohen, CMHS of Muskegon County, Network Manager (231) 724-6055