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MEMORANDUM

on

TOWNSHIP AUDITS

by Maura K. McKeever

OVERVIEW

Each township with revenue equal to or greater than \$850,000 must perform an audit every year and file the audit and an Annual Financial Report (AFR) with the Illinois Comptroller. A township with revenue of less than \$850,000 must file an Annual Financial Report. The audit must be performed by a licensed CPA. Any CPA performing an audit for a Township must comply with the standards established by the Governmental Accounting Standards Board (GASB). Founded in 1984, the GASB is an independent, not for profit organization. The GASB establishes and improves financial and accounting standards for state and local governments. Basically, the GASB determines generally accepted accounting principles for government entities. A CPA auditing a government entity must comply with these accounting principles.

In addition, the Illinois Comptroller, which serves as the watchdog over governmental accountability, has established advisory guidelines for units of local government to use in their accounting systems. The Local Government Accounting Systems Act, 15 ILCS 425/1, provides as follows:

The State Comptroller shall by rule establish advisory guidelines for systems of accounting for units of local government which shall include all cities, villages, incorporated towns, counties, townships, special purpose districts and any other nonfederal governmental entities not audited by the Auditor General of the State of Illinois. These systems shall follow, to the extent practicable, generally accepted accounting principles.

A governmental unit must, therefore, comply with generally accepted accounting principles when preparing their books and reports. The State Comptroller's office is available to assist local governments in their efforts to comply with the accounting, auditing and reporting requirements. 15 ILCS 425/2. The Local Government Division of the Comptroller's Office was established to assist governmental units with their efforts to

fulfill their mandated fiscal responsibilities to taxpayers. For further information on the Local Government Division, consult the Local Government Division webpage on the Illinois Comptroller's website (www.ioc.state.il.us/Office/LocalGovt).

A Township is required to file an audit within 6 months after the close of each fiscal year. 60 ILCS 80-65; 60 ILCS 80-20. The audit must be prepared in compliance with the Governmental Account Audit Act. A governmental entity can levy an audit tax and use the levied funds to pay for the audit. Competitive bidding is not necessary when selecting a CPA. The type of report that must be prepared depends on whether the township's annual revenue is more than or less than \$850,000, exclusive of road funds. If the township has revenues of \$850,000 or more, the report must be prepared by a CPA. If a township has revenues of less than \$850,000, the report can be prepared by the township auditing committee. In either case, a copy of the report must be filed with the township clerk, the county clerk and the Illinois Comptroller and must be made available for public inspection. In addition to the audit report, a Township with revenues of \$850,000 or more must submit an annual financial report. The audit report must contain a certification of the CPA who performed the audit that the audit complies with generally accepted auditing standards. If the report submitted does not comply with the requirements of the Governmental Account Audit Act, the Illinois Comptroller has the authority to reject the report and require the governmental entity to make the necessary corrections. Alternatively, if the governmental entity does not submit the required report in a timely fashion, the Illinois Comptroller has the authority to retain a certified public accountant to perform the audit. The governmental entity will be responsible for the expense of the audit.

GOVERNMENTAL ACCOUNT AUDIT ACT

The Governmental Account Audit Act, 50 ILCS 310 sets forth the standards for governmental audits. This Act defines a governmental unit as "all municipal corporations in and political subdivisions of this State that appropriate more than \$5,000 for a fiscal year¹, with the amount to increase or decrease by the amount of the Consumer Price Index (CPI) as reported on January 1 of each year, except the following:

(1) School districts;

(2) Cities, villages and incorporated towns subject to the Municipal Auditing Law, as contained in the Municipal Code, and cities that file a report with the Comptroller under section 3.1-35-115 of the Illinois Municipal Code.

There are several other exceptions (Counties with a population of 1,000,000 or more, Counties subject to the County Auditing Law, governmental entities that are required to be audited by the Auditor General). 50 ILCS 310/1.

¹ \$6160 for Fiscal Year 2007

The Act defines "governing body" as "the board or other body or officers having authority to levy taxes, make appropriations, authorize the expenditure of public funds or approve claims for any governmental unit."

50 ILCS 310/2 states that "the governing body of each governmental unit shall cause an audit of the accounts of the unit to be made by a licensed public accountant. Such audit shall be made annually and shall cover the immediately preceding fiscal year. The audit shall include all the accounts and funds of the governmental unit, including the accounts of any officer of the governmental unit who receives fees or handles funds of the unit or who spends money of the unit. The audit shall begin as soon as possible after the close of the last fiscal year to which it pertains, and shall be completed and the audit report filed with the Comptroller within six months after the close of such fiscal year unless an extension of time is granted by the Comptroller in writing. An audit report which fails to meet the requirements of this Act shall be rejected by the Comptroller and returned to the governing body of the governmental unit for corrective action. The licensed public accountant making the audit shall submit not less than 3 copies of the audit report to the governing body of the governmental unit being audited."

The Act allows a governmental unit receiving less than \$850,000 in revenue in a fiscal year to file a financial report instead of an audit report. "Any governmental unit receiving revenue of less than \$850,000 for any fiscal year shall, in lieu of complying with the requirements of Section 2 for audits and audit reports, file with the Comptroller a financial report containing information required by the Comptroller. In addition, a governmental unit receiving less than \$850,000 may file with the Comptroller any audit reports which may have been prepared under any other law. Any governmental unit receiving revenue of \$850,000 or more for any fiscal year shall, in addition to complying with the requirements of Section 2 for audits and audit reports, file with the Comptroller the financial report required by this Section. Such financial reports shall be on forms so designed by the Comptroller as not to require professional accounting services for its preparation."

The Act also provides for penalties in the event that a local government does not submit the required report in a timely fashion. Pursuant to 50 ILCS 310/4, if the required report is not submitted within 6 months of the close of the fiscal year "the Comptroller shall notify the governing body of that unit in writing that the report is due and may also grant a 60 day extension for the filing of the audit report. If the required report is not filed within the time specified in such written notice, the Comptroller shall cause an audit to be made by a licensed public accountant, and the governmental unit shall pay to the Comptroller actual compensation and expenses to reimburse him for the cost of preparing or completing such report." 50 ILCS 310/4(a). In addition, the Comptroller has authority to decline to order an audit if he determines that because of a natural disaster or the passage of time, the governmental entity's books are inadequate or unavailable or if he determines that the cost of the audit would impose an unreasonable financial burden on the governmental entity. 50 ILCS 310/4(b).

50 ILCS 310/5 sets forth the standards for the audit reports. "The audit report shall contain statements that conform with generally accepted accounting principles and that set forth, insofar as possible, the financial position and results of financial operations for each fund of the governmental unit. Each audit report shall include only financial information, findings and conclusions that are adequately supported by evidence in the auditor's working papers to demonstrate or prove, when called upon, the basis for the matters reported and their correctness or reasonableness. In connection with this, each governmental unit shall retain the right of inspection of the auditor's working papers and shall make them available to the Comptroller, or his designee, upon request. The audit report shall also contain the professional opinion of the licensed public accountant with respect to the financial statements or, if an opinion cannot be expressed, a declaration that he is unable to express such opinion and an explanation of the reasons he cannot do so. Each audit report shall include the certification of the accountant or accountants making the audit that the audit has been performed in compliance with generally accepted auditing standards."

After the auditor has completed the report, he must file it with the governing body of the unit being audited. The governmental entity is then responsible for making one copy a part of its public record and filing other copies with both the Comptroller as well as the county clerk.

"When the audit is completed, the licensed public accountant making the audit shall make and sign at least 3 copies of the report of the audit and immediately file them with the governmental unit audited. Governmental units receiving revenue of \$850,000 or more for any fiscal year shall immediately make one copy of the audit report and one copy of the financial report required by Section 3 of this Act a part of its public record. Governmental units receiving revenue of less than \$850,000 shall immediately make one copy of the audit report, or one copy of the report authorized by Section 3 of this Act to be filed instead of the audit report, a part of its public record. These copies shall be open to public inspection. In addition, the governmental unit shall file one copy of the report with the Comptroller and with the county clerk of the county in which the principal office of the governmental unit is located. A governmental unit may, in filing its audit report with the Comptroller, transmit with such report any comment or explanation that it wishes to make concerning the report."

The expense of the audit is to be paid by the governmental unit, which has the authority to levy an auditing tax. Contracts with the licensed CPA who will perform the audit may be entered into without competitive bidding. 50 ILCS 310/9.

Failure of the governmental entity to comply with the requirements of the Governmental Audit Act does not impact the legality of any taxes levied by the governmental unit. 50 ILCS 310/10.

The governmental entity is authorized to establish an audit committee to review the audit reports and financial reports as well as any management letters prepared by or on behalf of the governmental unit. 50 ILCS 310/11.

TOWNSHIP CODE

The Township Code also addresses the issue of audits. Specifically, 60 ILCS 80-65 provides that a Township must comply with the Governmental Account Audit Act when preparing the annual audit.

In addition, 60 ILCS 80-20, entitled Independent audit of accounts, provides in pertinent part as follows:

(a) All accounts audited under this Article (and those rejected, if any) shall be delivered with the certificate of the trustees (or a majority of them) to the township clerk, who shall keep them on file for the inspection of any of the inhabitants of the township. They shall also be produced by the township clerk at the next annual meeting and shall be read at the meeting by the clerk.

(b) In townships that receive revenue of \$850,000 or more during any fiscal year, exclusive of road funds, the township board shall have the accounts and all records of the township thoroughly audited by a certified public accountant within 6 months after the close of each fiscal year. The board shall have a copy of the accountant's report and recommendations filed with the township clerk and another copy filed with the county clerk for public inspection.

(c) In townships that receive revenue of less than \$850,000 during any fiscal year, exclusive of road funds, the township board shall have the accounts and all records of the township audited and inspected by an independent auditing committee composed of 3 township electors chosen by the board. The audit shall be completed within 6 months after the close of each fiscal year. A copy of the auditing committee's report and recommendations shall be filed with the township clerk and another copy shall be filed with the county clerk for public inspection. The auditing committee shall not contain any member of the township board or any person related to a trustee. Members of the auditing committee shall be proficient in accounting principles and practices and shall be compensated at a rate determined by the township board but not to exceed \$50 per day. In addition to the audit requirements imposed by law, in townships subject to this subsection, the township board shall have the accounts and all records of the township thoroughly audited by a certified public accountant within 6 months after (i) the end of each term of office of the township supervisor and (ii) a vacancy occurs in the office of township supervisor. A copy of the accountant's report and recommendations shall be filed with the township clerk and another copy shall be filed with the county clerk for public inspection.

MUNICIPAL CODE

The Municipal Code also imposes auditing requirements. Specifically, 65 ILCS 5/8 et seq, entitled Audit of Accounts, is also known as the Municipal Auditing Law.

65 ILCS 5/8-8-3 provides in pertinent part as follows:

The corporate authorities of each municipality coming under the provisions of this Division 8 shall cause an audit of the funds and accounts of the municipality to be made by an accountant or accountants employed by such municipality

The accounts and funds of each municipality having population of 800 or more or having a bonded debt or owning or operating any type of public utility shall be audited annually. The audit herein required shall include all of the accounts and funds of the municipality. Such audit shall be begun as soon as possible after the close of the fiscal year, and shall be completed and the report submitted within 6 months after the close of such fiscal year, unless an extension of time shall be granted by the Comptroller in writing. The accountant or accountants making the audit shall submit not less than 2 copies of the audit report to the corporate authorities of the municipality being audited. Municipalities not operating utilities may cause audits of the accounts of the municipality to be made more often than herein provided, by an accountant or accountants. The audit report of such audit when filed with the Comptroller together with an audit report covering the remainder of the period for which an audit report is required to be filed shall satisfy the requirements of this section.

Municipalities of less than 800 population which do not own or operate public utilities and do not have bonded debt, shall file annually with the Comptroller a financial report containing information required by the Comptroller. Such annual financial report shall be on forms devised by the Comptroller in such manner as not to require professional accounting services for its preparation.

In addition to any audit report required, all municipalities, except municipalities of less than 800 populations which do not own or operate public utilities and do not have bonded debt, shall file annually with the Comptroller a supplemental report on forms devised and approved by the Comptroller.

65 ILCS 5/8-8-4 sets forth the penalties for overdue reports. Much like the provision for an overdue township report, the Municipal Code authorizes the Comptroller to retain an outside accountant to prepare the report, at the municipality's expense.

65 ILCS 5/8-8-5 contains the standards for the municipal audit. Specifically, "the audit shall be completed in accordance with generally accepted auditing standards. Reporting on the financial positions and results of financial operations for each fund of the municipality shall be in accordance with generally accepted accounting principles, insofar as possible. Each audit report shall only contain financial information, findings and conclusions that are adequately supported by evidence in the auditor's working papers to demonstrate or prove, when called upon, the basis for the matters reported and their correctness or reasonableness....." 65 ILCS 5/8-8-6 further requires that the audit report contain "the certification of the accountant or accountants making the audit

that the audit has been performed in compliance with generally accepted auditing standards.”

CONCLUSION

The vast majority of governmental entities must file an Annual Financial Report with the Illinois Comptroller. This includes townships, municipalities, villages, and incorporated towns. Certain entities that must file detailed financial reports with other governmental entities, for example school districts and drainage districts, are exempt from this requirement. In addition, Townships with revenue of \$850,000 or more must file an audit report with the Illinois Comptroller. Similarly, municipalities with a population over 800 or who own or operate a public utility or who have bonded debt must file an audit report with the Illinois Comptroller. The audit report must be prepared by a CPA who certifies that the report was prepared in compliance with generally accepted auditing standards. Copies of a township’s Annual Financial Report and audit report are also filed with the township clerk and the county clerk and must be available for public inspection. Likewise, copies of a municipality’s Annual Financial Report and audit report are also filed with the municipal authorities and must be available for public inspection.