

HOUSE BILL No. 5627

March 9, 2004, Introduced by Rep. Ruth Johnson and referred to the Committee on Education.

A bill to amend 1979 PA 94, entitled "The state school aid act of 1979," by amending sections 7 and 18 (MCL 388.1607 and 388.1618), section 7 as amended by 1996 PA 300 and section 18 as amended by 2003 PA 158.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 7. Costs for school operating purposes include all
2 expenditures necessary to carry out the powers **and duties** of the
3 district or intermediate district under **this act or** the revised
4 school code.

5 Sec. 18. (1) Except as provided in another section of this
6 act, each district or other entity shall apply the money received
7 by the district or entity under this act to salaries and other
8 compensation of teachers and other employees, tuition,
9 transportation, lighting, heating, ventilation, water service,

1 the purchase of textbooks which are designated by the board to be
2 used in the schools under the board's charge, other supplies, and
3 any other school operating expenditures defined in section 7.
4 However, not more than 20% of the total amount received by a
5 district under article 2 or intermediate district under article 8
6 may be transferred by the board to either the capital projects
7 fund or to the debt retirement fund for debt service. The money
8 shall not be applied or taken for a purpose other than as
9 provided in this section. The department shall determine the
10 reasonableness of expenditures and may withhold from a recipient
11 of funds under this act the apportionment otherwise due for the
12 fiscal year following the discovery by the department of a
13 violation by the recipient.

14 (2) For the purpose of determining the reasonableness of
15 expenditures and whether a violation of this act has occurred,
16 the department shall require that each district and intermediate
17 district have an audit of the district's or intermediate
18 district's financial and pupil accounting records conducted at
19 least annually at the expense of the district or intermediate
20 district, as applicable, by a certified public accountant or by
21 the intermediate district superintendent, as may be required by
22 the department, or in the case of a district of the first class
23 by a certified public accountant, the intermediate
24 superintendent, or the auditor general of the city. An
25 intermediate district's annual financial audit shall be
26 accompanied by the intermediate district's pupil accounting
27 procedures report **and shall include the information required**

1 **under subsection (6).** A district's or intermediate district's
2 annual financial audit shall include an analysis of the financial
3 and pupil accounting data used as the basis for distribution of
4 state school aid. The pupil accounting records and reports,
5 audits, and management letters are subject to requirements
6 established in the auditing and accounting manuals approved and
7 published by the department. Except as otherwise provided in
8 this subsection, a district shall file the annual financial audit
9 reports with the intermediate district not later than 120 days
10 after the end of each school fiscal year and the intermediate
11 district shall forward the annual financial audit reports for its
12 constituent districts and for the intermediate district, and the
13 pupil accounting procedures report for the pupil membership count
14 day and supplemental count day, to the department not later than
15 November 15 of each year. The annual financial audit reports and
16 pupil accounting procedures reports shall be available to the
17 public in compliance with the freedom of information act, 1976
18 PA 442, MCL 15.231 to 15.246. Not later than December 1 of each
19 year, the department shall notify the state budget director and
20 the legislative appropriations subcommittees responsible for
21 review of the school aid budget of districts and intermediate
22 districts that have not filed an annual financial audit and pupil
23 accounting procedures report required under this section for the
24 school year ending in the immediately preceding fiscal year.

25 (3) By November 15 of each year, each district and
26 intermediate district shall submit to the center, in a manner
27 prescribed by the center, annual comprehensive financial data

1 consistent with accounting manuals and charts of accounts
2 approved and published by the department.

3 (4) By September 30 of each year, each district and
4 intermediate district shall file with the department the special
5 education actual cost report, known as "SE-4096", on a form and
6 in the manner prescribed by the department.

7 (5) By October 7 of each year, each district and intermediate
8 district shall file with the department the transportation
9 expenditure report, known as "SE-4094", on a form and in the
10 manner prescribed by the department.

11 (6) The audit of an intermediate district's financial records
12 required under subsection (2) shall include an examination of all
13 records relating to salaries, benefits, or other compensation for
14 intermediate district personnel; contracts entered into by the
15 intermediate district; travel by intermediate district board
16 members or employees; expenditures from millage revenue and bond
17 proceeds; costs and expenditures for capital improvements; and
18 any other records necessary to prepare the audit report. The
19 audit report submitted to the department under subsection (2) as
20 a result of the audit shall include detailed descriptions of all
21 of the following:

22 (a) For each intermediate district administrator, the total
23 value of salary, fringe benefits, and any other compensation
24 provided to the administrator and the value of each component
25 part of the compensation package provided to the administrator.

26 (b) Each sole source contract entered into by the
27 intermediate district during the audit period, if any. The

1 department shall prescribe a definition of sole source contract
2 for this purpose.

3 (c) Each contract entered into by the intermediate district
4 during the audit period with an entity in which a board member or
5 school administrator of the intermediate district, or a family
6 member of a board member or school administrator of the
7 intermediate district, has a pecuniary interest, if any.

8 (d) Each modification made during the audit period to an
9 existing contract if the modification resulted in an additional
10 financial obligation to the intermediate district in excess of
11 \$20,000.00 and was not competitively bid.

12 (e) The intermediate district's travel guidelines and
13 practices and the costs and purposes of all travel by
14 intermediate district board members or employees during the audit
15 period that was paid in whole or part from intermediate district
16 funds.

17 (f) Each purchase of real property during the audit period.

18 (g) Costs incurred during the audit period for fiber optic
19 equipment, computer hardware, computer software, and other
20 technology.

21 (h) For each new construction, renovation, or other capital
22 improvement project involving real property owned or under the
23 control of the intermediate district that was begun, completed,
24 or in progress during the audit period, the projected and actual
25 costs of the project and the source of all funds expended for the
26 project.

27 (i) For any type of millage levied by the intermediate

1 district, all expenditures from the millage revenue during the
2 audit period.

3 (j) For all bonds issued by the intermediate district, all
4 expenditures from the bond proceeds during the audit period.

5 (k) The amount and percentage of the intermediate district's
6 budget that is spent on each of the following:

7 (i) Administration costs.

8 (ii) Capital improvements described in subdivisions (f), (g),
9 and (h).

10 (iii) Maintenance of the capital improvements described in
11 subparagraph (ii).

12 (iv) Public relations, surveys, polling, lobbying, and
13 attorneys, either directly or indirectly.

14 (v) Direct services to pupils.

15 (7) ~~-(6)-~~ Not later than July 1, 1999, the department shall
16 approve and publish pupil accounting and pupil auditing manuals.
17 The department shall review those manuals at least annually and
18 shall periodically update those manuals to reflect changes in
19 this act. The pupil accounting manuals in effect for the 1996-97
20 school year, including subsequent revisions issued by the
21 superintendent, shall be the interim manuals in effect until new
22 manuals are approved and published. However, the clarification
23 of class-by-class accounting provided in the department's April
24 15, 1998 memorandum on pupil accounting procedures shall be
25 excluded from the interim manuals.

26 (8) ~~-(7)-~~ If a district that is a public school academy
27 purchases property using money received under this act, the

1 public school academy shall retain ownership of the property
2 unless the public school academy sells the property at fair
3 market value.

4 **(9)** ~~-(8)-~~ If a district or intermediate district does not
5 comply with subsection (2), (3), (4), or (5), the department
6 shall withhold all state school aid due to the district or
7 intermediate district under this act, beginning with the next
8 payment due to the district or intermediate district, until the
9 district or intermediate district complies with subsections (2),
10 (3), (4), and (5). If the district or intermediate district does
11 not comply with subsections (2), (3), (4), and (5) by the end of
12 the fiscal year, the district or intermediate district forfeits
13 the amount withheld.