[No. 493]

(SB 1292)

AN ACT to amend 1968 PA 2, entitled "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," by amending sections 1, 2a, 2b, 2c, 2d, 4, 7, 8, 14, 15, 16, 17, 18, 19, and 20 (MCL 141.421, 141.422a, 141.422b, 141.422c, 141.422d, 141.424, 141.427, 141.428, 141.434, 141.435, 141.436, 141.437, 141.438, 141.439, and 141.440), sections 1 and 7 as amended by 1982 PA 451, sections 2b and 4 as amended by 1996 PA 439, section 2d as amended by 1999 PA 142, section 8 as amended by 1996 PA 400, section 15 as amended by 1981 PA 77, and sections 16 and 17 as amended by 1995 PA 41.

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. [M.S.A. 5.3228(21)]

- 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, within 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 within 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 the local unit or provide monthly billings if a contract is not executed.

141.422a Definitions; A, B. [M.S.A. 5.3228(22a)]

- 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.

141.422b Definitions; B to D. [M.S.A. 5.3228(22b)]

- 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.

141.422c Definitions; E to G. [M.S.A. 5.3228(22c)]

- 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.

141.422d Definitions; D to S. [M.S.A. 5.3228(22d)]

- 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.

141.424 Annual financial report; filing extension; unauthorized investments prohibited; "pension" defined. [M.S.A. 5.3228(24)]

- 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) The annual report filed under this section shall be in lieu of the reporting requirements imposed by section 5(2) of chapter III of the municipal finance act, 1943 PA 202, MCL 133.5.
- (4) One copy of the annual financial report required by subsection (1) shall be filed with the state treasurer within 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 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.
- (5) This section does not authorize a local unit to make investments not otherwise authorized by law.
- (6) 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.

141.427 Minimum auditing procedures and standards; form for report of auditing procedures; filing audit report and report of auditing procedures; time for filing; extension. [M.S.A. 5.3228(27)]

- 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 within 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, within 10 days of making the request, inform the governing body in writing of the requested extension.

141.428 Contents of audit report. [M.S.A. 5.3228(28)]

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.

141.434 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. [M.S.A. 5.3228(34)]

- 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.

141.435 Recommended budget; contents; limitation on total estimated expenditures. [M.S.A. 5.3228(35)]

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.

141.436 General appropriations act; requirements; line items not mandated; taxation; limitation on estimated total expenditure. [M.S.A. 5.3228(36)]

- 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, within 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.

141.437 General appropriations act; amendment; reports; recommendations. [M.S.A. 5.3228(37)]

- 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.

141.438 Incurring debts or obligations; dividing appropriations into allotments; expenditures; application or division of money; restrictions on delegation of duties. [M.S.A. 5.3228(38)]

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.

141.439 Expenditure of funds; transfers within appropriations. [M.S.A. 5.3228(39)]

- 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 within limits stated in the act between appropriations without the prior approval of the legislative body.

141.440 Violation; filing; report; review and action by attorney general; civil action for recovery of funds and public property. [M.S.A. 5.3228(40)]

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.

This act is ordered to take immediate effect. Approved January 10, 2001. Filed with Secretary of State January 11, 2001.