

**SUBSTITUTE FOR  
HOUSE BILL NO. 5686**

A bill to amend 1979 PA 94, entitled  
"The state school aid act of 1979,"  
by amending section 18 (MCL 388.1618), as amended by 2021 PA 48.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 18. (1) Except as provided in another section of this  
2 article, each district or other entity shall apply the money  
3 received by the district or entity under this article to salaries  
4 and other compensation of teachers and other employees, tuition,  
5 transportation, lighting, heating, ventilation, water service, the  
6 purchase of textbooks, other supplies, and any other school  
7 operating expenditures defined in section 7. However, not more than  
8 20% of the total amount received by a district under sections 22a  
9 and 22b or received by an intermediate district under section 81

1 may be transferred by the board to either the capital projects fund  
2 or to the debt retirement fund for debt service. A district or  
3 other entity shall not apply or take the money for a purpose other  
4 than as provided in this section. The department shall determine  
5 the reasonableness of expenditures and may withhold from a  
6 recipient of funds under this article the apportionment otherwise  
7 due upon a violation by the recipient. A district must not be  
8 prohibited or limited from using funds appropriated or allocated  
9 under this article that are permitted for use for noninstructional  
10 services to contract or subcontract with an intermediate district,  
11 third party, or vendor for the noninstructional services.

12 (2) A district or intermediate district shall adopt an annual  
13 budget in a manner that complies with the uniform budgeting and  
14 accounting act, 1968 PA 2, MCL 141.421 to 141.440a. Within 15 days  
15 after a district board adopts its annual operating budget for the  
16 following school fiscal year, or after a district board adopts a  
17 subsequent revision to that budget, the district shall make all of  
18 the following available through a link on its website homepage, or  
19 may make the information available through a link on its  
20 intermediate district's website homepage, in a form and manner  
21 prescribed by the department:

22 (a) The annual operating budget and subsequent budget  
23 revisions.

24 (b) Using data that have already been collected and submitted  
25 to the department, a summary of district expenditures for the most  
26 recent fiscal year for which they are available, expressed in the  
27 following 2 visual displays:

28 (i) A chart of personnel expenditures, broken into the  
29 following subcategories:

1 (A) Salaries and wages.

2 (B) Employee benefit costs, including, but not limited to,  
3 medical, dental, vision, life, disability, and long-term care  
4 benefits.

5 (C) Retirement benefit costs.

6 (D) All other personnel costs.

7 (ii) A chart of all district expenditures, broken into the  
8 following subcategories:

9 (A) Instruction.

10 (B) Support services.

11 (C) Business and administration.

12 (D) Operations and maintenance.

13 (c) Links to all of the following:

14 (i) The current collective bargaining agreement for each  
15 bargaining unit.

16 (ii) Each health care benefits plan, including, but not limited  
17 to, medical, dental, vision, disability, long-term care, or any  
18 other type of benefits that would constitute health care services,  
19 offered to any bargaining unit or employee in the district.

20 (iii) The audit report of the financial audit conducted under  
21 subsection (4) for the most recent fiscal year for which it is  
22 available.

23 (iv) The bids required under section 5 of the public employees  
24 health benefit act, 2007 PA 106, MCL 124.75.

25 (v) The district's written policy governing procurement of  
26 supplies, materials, and equipment.

27 (vi) The district's written policy establishing specific  
28 categories of reimbursable expenses, as described in section  
29 1254(2) of the revised school code, MCL 380.1254.

1           (vii) Either the district's accounts payable check register for  
2 the most recent school fiscal year or a statement of the total  
3 amount of expenses incurred by board members or employees of the  
4 district that were reimbursed by the district for the most recent  
5 school fiscal year.

6           (d) The total salary and a description and cost of each fringe  
7 benefit included in the compensation package for the superintendent  
8 of the district and for each employee of the district whose salary  
9 exceeds \$100,000.00.

10          (e) The annual amount spent on dues paid to associations.

11          (f) The annual amount spent on lobbying or lobbying services.  
12 As used in this subdivision, "lobbying" means that term as defined  
13 in section 5 of 1978 PA 472, MCL 4.415.

14          (g) Any deficit elimination plan or enhanced deficit  
15 elimination plan the district was required to submit under the  
16 revised school code.

17          (h) Identification of all credit cards maintained by the  
18 district as district credit cards, the identity of all individuals  
19 authorized to use each of those credit cards, the credit limit on  
20 each credit card, and the dollar limit, if any, for each  
21 individual's authorized use of the credit card.

22          (i) Costs incurred for each instance of out-of-state travel by  
23 the school administrator of the district that is fully or partially  
24 paid for by the district and the details of each of those instances  
25 of out-of-state travel, including at least identification of each  
26 individual on the trip, destination, and purpose.

27          (3) For the information required under subsection (2) (a),  
28 (2) (b) (i), and (2) (c), an intermediate district shall provide the  
29 same information in the same manner as required for a district

1 under subsection (2).

2 (4) For the purposes of determining the reasonableness of  
3 expenditures, whether a district or intermediate district has  
4 received the proper amount of funds under this article, and whether  
5 a violation of this article has occurred, all of the following  
6 apply:

7 (a) The department shall require that each district and  
8 intermediate district have an audit of the district's or  
9 intermediate district's financial and pupil accounting records  
10 conducted at least annually, and at such other times as determined  
11 by the department, at the expense of the district or intermediate  
12 district, as applicable. The audits must be performed by a  
13 certified public accountant or by the intermediate district  
14 superintendent, as may be required by the department, or in the  
15 case of a district of the first class by a certified public  
16 accountant, the intermediate superintendent, or the auditor general  
17 of the city. A district or intermediate district shall retain these  
18 records for the current fiscal year and from at least the 3  
19 immediately preceding fiscal years.

20 (b) If a district operates in a single building with fewer  
21 than 700 full-time equated pupils, if the district has stable  
22 membership, and if the error rate of the immediately preceding 2  
23 pupil accounting field audits of the district is less than 2%, the  
24 district may have a pupil accounting field audit conducted  
25 biennially but must continue to have desk audits for each pupil  
26 count. The auditor must document compliance with the audit cycle in  
27 the pupil auditing manual. As used in this subdivision, "stable  
28 membership" means that the district's membership for the current  
29 fiscal year varies from the district's membership for the

1 immediately preceding fiscal year by less than 5%.

2 (c) A district's or intermediate district's annual financial  
3 audit must include an analysis of the financial and pupil  
4 accounting data used as the basis for distribution of state school  
5 aid.

6 (d) The pupil and financial accounting records and reports,  
7 audits, and management letters are subject to requirements  
8 established in the auditing and accounting manuals approved and  
9 published by the department.

10 (e) All of the following must be done not later than November  
11 1 each year for reporting the prior fiscal year data:

12 (i) A district shall file the annual financial audit reports  
13 with the intermediate district and the department.

14 (ii) The intermediate district shall file the annual financial  
15 audit reports for the intermediate district with the department.

16 (iii) The intermediate district shall enter the pupil membership  
17 audit reports for its constituent districts and for the  
18 intermediate district, for the pupil membership count day and  
19 supplemental count day, in the Michigan student data system.

20 (f) The annual financial audit reports and pupil accounting  
21 procedures reports must be available to the public in compliance  
22 with the freedom of information act, 1976 PA 442, MCL 15.231 to  
23 15.246.

24 (g) Not later than January 31 of each year, the department  
25 shall notify the state budget director and the legislative  
26 appropriations subcommittees responsible for review of the school  
27 aid budget of districts and intermediate districts that have not  
28 filed an annual financial audit and pupil accounting procedures  
29 report required under this section for the school year ending in

1 the immediately preceding fiscal year.

2 (5) By the first business day in November of each fiscal year,  
3 each district and intermediate district shall submit to the center,  
4 in a manner prescribed by the center, annual comprehensive  
5 financial data consistent with the district's or intermediate  
6 district's audited financial statements and consistent with  
7 accounting manuals and charts of accounts approved and published by  
8 the department. For an intermediate district, the report must also  
9 contain the website address where the department can access the  
10 report required under section 620 of the revised school code, MCL  
11 380.620. The department shall ensure that the prescribed Michigan  
12 public school accounting manual chart of accounts includes standard  
13 conventions to distinguish expenditures by allowable fund function  
14 and object. The functions must include at minimum categories for  
15 instruction, pupil support, instructional staff support, general  
16 administration, school administration, business administration,  
17 transportation, facilities operation and maintenance, facilities  
18 acquisition, and debt service; and must include object  
19 classifications of salary, benefits, including categories for  
20 active employee health expenditures, purchased services, supplies,  
21 capital outlay, and other. A district shall report the required  
22 level of detail consistent with the manual as part of the  
23 comprehensive annual financial report.

24 (6) By the last business day in September of each year, each  
25 district and intermediate district shall file with the center the  
26 special education actual cost report, known as "SE-4096", on a form  
27 and in the manner prescribed by the center. An intermediate  
28 district shall certify the audit of a district's report.

29 (7) By not later than 1 week after the last business day in

1 September of each year, each district and intermediate district  
2 shall file with the center the audited transportation expenditure  
3 report, known as "SE-4094", on a form and in the manner prescribed  
4 by the center. An intermediate district shall certify the audit of  
5 a district's report.

6 (8) The department shall review its pupil accounting and pupil  
7 auditing manuals at least annually and shall periodically update  
8 those manuals to reflect changes in this article. Any changes to  
9 ~~the pupil accounting manual that are applicable for the school year~~  
10 ~~that begins after March 31 of a fiscal year must be published by~~  
11 ~~not later than March 31 of that fiscal year. However, if~~  
12 ~~legislation is enacted that necessitates adjustments to the pupil~~  
13 ~~accounting manual after March 31 of a fiscal year, and a district~~  
14 ~~incurs a violation of the amended pupil accounting manual in the~~  
15 ~~subsequent fiscal year, the department must notify the district of~~  
16 ~~that violation and allow the district 30 days to correct the~~  
17 ~~violation before the department is allowed to impose financial~~  
18 ~~penalties under this act related to the violation.~~**department's**  
19 **pupil accounting and pupil auditing manual must be transmitted to**  
20 **the chairs of the committees in the house and senate responsible**  
21 **for education legislation before the changes take effect. A change**  
22 **to the department's pupil accounting or pupil auditing manual must**  
23 **not take effect during the school fiscal year in which the change**  
24 **is made.**

25 (9) If a district that is a public school academy purchases  
26 property using money received under this article, the public school  
27 academy shall retain ownership of the property unless the public  
28 school academy sells the property at fair market value.

29 (10) If a district or intermediate district does not comply



1 with subsections (4), (5), (6), (7), and (12), or if the department  
2 determines that the financial data required under subsection (5)  
3 are not consistent with audited financial statements, the  
4 department shall withhold all state school aid due to the district  
5 or intermediate district under this article, beginning with the  
6 next payment due to the district or intermediate district, until  
7 the district or intermediate district complies with subsections  
8 (4), (5), (6), (7), and (12). If the district or intermediate  
9 district does not comply with subsections (4), (5), (6), (7), and  
10 (12) by the end of the fiscal year, the district or intermediate  
11 district forfeits the amount withheld.

12 (11) If a district or intermediate district does not comply  
13 with subsection (2), the department may withhold up to 10% of the  
14 total state school aid due to the district or intermediate district  
15 under this article, beginning with the next payment due to the  
16 district or intermediate district, until the district or  
17 intermediate district complies with subsection (2). If the district  
18 or intermediate district does not comply with subsection (2) by the  
19 end of the fiscal year, the district or intermediate district  
20 forfeits the amount withheld.

21 (12) By November 1 of each year, if a district or intermediate  
22 district offers virtual learning under section 21f, or for a school  
23 of excellence that is a cyber school, as defined in section 551 of  
24 the revised school code, MCL 380.551, the district or intermediate  
25 district shall submit to the department a report that details the  
26 per-pupil costs of operating the virtual learning by vendor type  
27 and virtual learning model. The report must include information  
28 concerning the operation of virtual learning for the immediately  
29 preceding school fiscal year, including information concerning

1 summer programming. Information must be collected in a form and  
2 manner determined by the department and must be collected in the  
3 most efficient manner possible to reduce the administrative burden  
4 on reporting entities.

5 (13) By March 31 of each year, the department shall submit to  
6 the house and senate appropriations subcommittees on ~~state~~-school  
7 aid, the state budget director, and the house and senate fiscal  
8 agencies a report summarizing the per-pupil costs by vendor type of  
9 virtual courses available under section 21f and virtual courses  
10 provided by a school of excellence that is a cyber school, as  
11 defined in section 551 of the revised school code, MCL 380.551.

12 (14) As used in subsections (12) and (13), "vendor type" means  
13 the following:

14 (a) Virtual courses provided by the Michigan Virtual  
15 University.

16 (b) Virtual courses provided by a school of excellence that is  
17 a cyber school, as defined in section 551 of the revised school  
18 code, MCL 380.551.

19 (c) Virtual courses provided by third party vendors not  
20 affiliated with a public school in this state.

21 (d) Virtual courses created and offered by a district or  
22 intermediate district.

23 (15) An allocation to a district or another entity under this  
24 article is contingent upon the district's or entity's compliance  
25 with this section.

26 (16) The department shall annually submit to the senate and  
27 house subcommittees on school aid and to the senate and house  
28 standing committees on education an itemized list of allocations  
29 under this article to any association or consortium consisting of

- 1 associations in the immediately preceding fiscal year. The report
- 2 must detail the recipient or recipients, the amount allocated, and
- 3 the purpose for which the funds were distributed.