

**SUBSTITUTE FOR
SENATE BILL NO. 943**

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 2022 PA 144.

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 **(j) For a district that is a public school academy, financial**
28 **statements provided by an educational management organization that**
29 **has a management agreement with the district under section 503c,**

1 523c, 553c, or 1311h of the revised school code, MCL 380.503c,
2 380.523c, 380.553c, and 380.1311h. The financial statements must
3 disclose the specific financial expenditures of the money received
4 by the educational management organization under the management
5 agreement, including expenditures made as a result of subcontracts.
6 The financial statements must account for all funds retained as
7 compensation by the educational management organization.
8 Compensation under this subdivision is the difference between the
9 sum of all fees, commissions, payments, and charges assessed to the
10 public school academy by the educational management organization
11 for the operation and management of the public school academy
12 during the educational management organization's fiscal year and
13 the amount actually expended by the educational management
14 organization for the operation and management of the public school
15 academy during the educational management organization's fiscal
16 year.

17 (k) For a district that is a public school academy, a detailed
18 accounting provided to the district by the authorizing body of all
19 fees, reimbursements, or other charges collected or retained by,
20 and all expenditures made by, the district's authorizing body for
21 the current fiscal year, including an itemized list of use and
22 purpose.

23 (l) Copies of any letters or other notices received by the
24 district indicating noncompliance with a standard, guideline, or
25 rule of the state board, superintendent of public instruction,
26 department, or, if applicable, authorizing body.

27 (m) For a district that is a public school academy, the report
28 required under section 507, 528, or 561 of the revised school code,
29 MCL 380.507, 380.528, and 380.561.

1 (n) For a district that is a public school academy, a
2 management agreement entered into under section 503c, 523c, 553c,
3 or 1311h of the revised school code, MCL 380.503c, 380.523c,
4 380.553c, and 380.1311h.

5 (o) A copy of any lease agreement for real property under
6 section 504a, 525, 557, or 1311h of the revised school code, 1976
7 PA 451, MCL 380.504a, 380.525, 380.557, and 380.1311h.

8 (p) A copy of the appraisal required under section 504a, 525,
9 557, or 1311h of the revised school code, 1976 PA 451, MCL
10 380.504a, 380.525, 380.557, and 380.1311h.

11 (3) For the information required under subsection (2) (a),
12 (2) (b) (i), and (2) (c), an intermediate district shall provide the
13 same information in the same manner as required for a district
14 under subsection (2).

15 (4) For the purposes of determining the reasonableness of
16 expenditures, whether a district or intermediate district has
17 received the proper amount of funds under this article, and whether
18 a violation of this article has occurred, all of the following
19 apply:

20 (a) The department shall require that each district and
21 intermediate district have an audit of the district's or
22 intermediate district's financial and pupil accounting records
23 conducted at least annually, and at such other times as determined
24 by the department, at the expense of the district or intermediate
25 district, as applicable. The audits must be performed by a
26 certified public accountant or by the intermediate district
27 superintendent, as may be required by the department, or in the
28 case of a district of the first class by a certified public
29 accountant, the intermediate superintendent, or the auditor general

1 of the city. A district or intermediate district shall retain these
2 records for the current fiscal year and from at least the 3
3 immediately preceding fiscal years.

4 (b) If a district operates in a single building with fewer
5 than 700 full-time equated pupils, if the district has stable
6 membership, and if the error rate of the immediately preceding 2
7 pupil accounting field audits of the district is less than 2%, the
8 district may have a pupil accounting field audit conducted
9 biennially but must continue to have desk audits for each pupil
10 count. The auditor must document compliance with the audit cycle in
11 the pupil auditing manual. As used in this subdivision, "stable
12 membership" means that the district's membership for the current
13 fiscal year varies from the district's membership for the
14 immediately preceding fiscal year by less than 5%.

15 (c) A district's or intermediate district's annual financial
16 audit must include an analysis of the financial and pupil
17 accounting data used as the basis for distribution of state school
18 aid.

19 (d) The pupil and financial accounting records and reports,
20 audits, and management letters are subject to requirements
21 established in the auditing and accounting manuals approved and
22 published by the department.

23 (e) All of the following must be done not later than November
24 1 each year for reporting the prior fiscal year data:

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

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

29 (iii) The intermediate district shall enter the pupil membership

1 audit reports, known as the audit narrative, for its constituent
2 districts and for the intermediate district, for the pupil
3 membership count day and supplemental count day, in the Michigan
4 student data system.

5 (f) The annual financial audit reports and pupil accounting
6 procedures reports must be available to the public in compliance
7 with the freedom of information act, 1976 PA 442, MCL 15.231 to
8 15.246.

9 (g) Not later than January 31 of each year, the department
10 shall notify the state budget director and the legislative
11 appropriations subcommittees responsible for review of the school
12 aid budget of districts and intermediate districts that have not
13 filed an annual financial audit and pupil accounting procedures
14 report required under this section for the school year ending in
15 the immediately preceding fiscal year.

16 (5) By the first business day in November of each fiscal year,
17 each district and intermediate district shall submit to the center,
18 in a manner prescribed by the center, annual comprehensive
19 financial data consistent with the district's or intermediate
20 district's audited financial statements and consistent with
21 accounting manuals and charts of accounts approved and published by
22 the department. For an intermediate district, the report must also
23 contain the website address where the department can access the
24 report required under section 620 of the revised school code, MCL
25 380.620. The department shall ensure that the prescribed Michigan
26 public school accounting manual chart of accounts includes standard
27 conventions to distinguish expenditures by allowable fund function
28 and object. The functions must include at minimum categories for
29 instruction, pupil support, instructional staff support, general

1 administration, school administration, business administration,
2 transportation, facilities operation and maintenance, facilities
3 acquisition, and debt service; and must include object
4 classifications of salary, benefits, including categories for
5 active employee health expenditures, purchased services, supplies,
6 capital outlay, and other. A district shall report the required
7 level of detail consistent with the manual as part of the
8 comprehensive annual financial report.

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

14 (7) By not later than 1 week after the last business day in
15 September of each year, each district and intermediate district
16 shall file with the center the audited transportation expenditure
17 report, known as "SE-4094", on a form and in the manner prescribed
18 by the center. An intermediate district shall certify the audit of
19 a district's report.

20 (8) The department shall review its pupil accounting and pupil
21 auditing manuals at least annually and shall periodically update
22 those manuals to reflect changes in this article. Any changes to
23 the pupil accounting manual that are applicable for the school year
24 that begins after March 31 of a fiscal year must be published by
25 not later than March 31 of that fiscal year. However, if
26 legislation is enacted that necessitates adjustments to the pupil
27 accounting manual after March 31 of a fiscal year, and a district
28 incurs a violation of the amended pupil accounting manual in the
29 subsequent fiscal year, the department must notify the district of

1 that violation and allow the district 30 days to correct the
2 violation before the department is allowed to impose financial
3 penalties under this act related to the violation.

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

8 (10) If a district or intermediate district does not comply
9 with subsections ~~(4), (5), (6), (7), (1) to (7), (9),~~ and (12) ~~—~~or
10 if the department determines that the financial data required under
11 subsection (5) are not consistent with audited financial
12 statements, the department shall withhold all state school aid due
13 to the district or intermediate district under this article,
14 beginning with the next payment due to the district or intermediate
15 district, until the district or intermediate district complies with
16 subsections ~~(4), (5), (6), (7), (1) to (7), (9),~~ and (12). If the
17 district or intermediate district does not comply with subsections
18 ~~(4), (5), (6), (7), (1) to (7), (9),~~ and (12) by the end of the
19 fiscal year, the district or intermediate district forfeits the
20 amount withheld.

21 (11) If a district or intermediate district does not comply
22 with subsection (2), the department may withhold up to 10% of the
23 total state school aid due to the district or intermediate district
24 under this article, beginning with the next payment due to the
25 district or intermediate district, until the district or
26 intermediate district complies with subsection (2). If the district
27 or intermediate district does not comply with subsection (2) by the
28 end of the fiscal year, the district or intermediate district
29 forfeits the amount withheld.

1 (12) By November 1 of each year, if a district or intermediate
2 district offers virtual learning under section 21f, or for a school
3 of excellence that is a cyber school, as defined in section 551 of
4 the revised school code, MCL 380.551, the district or intermediate
5 district shall submit to the department a report that details the
6 per-pupil costs of operating the virtual learning by vendor type
7 and virtual learning model. The report must include information
8 concerning the operation of virtual learning for the immediately
9 preceding school fiscal year, including information concerning
10 summer programming. Information must be collected in a form and
11 manner determined by the department and must be collected in the
12 most efficient manner possible to reduce the administrative burden
13 on reporting entities.

14 (13) By March 31 of each year, the department shall submit to
15 the house and senate appropriations subcommittees on state school
16 aid, the state budget director, and the house and senate fiscal
17 agencies a report summarizing the per-pupil costs by vendor type of
18 virtual courses available under section 21f and virtual courses
19 provided by a school of excellence that is a cyber school, as
20 defined in section 551 of the revised school code, MCL 380.551.

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

23 (a) Virtual courses provided by the Michigan Virtual
24 University.

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

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

1 (d) Virtual courses created and offered by a district or
2 intermediate district.

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

6 (16) The department shall annually submit to the senate and
7 house subcommittees on school aid and to the senate and house
8 standing committees on education an itemized list of allocations
9 under this article to any association or consortium consisting of
10 associations in the immediately preceding fiscal year. The report
11 must detail the recipient or recipients, the amount allocated, and
12 the purpose for which the funds were distributed.

13 Enacting section 1. This amendatory act takes effect 90 days
14 after the date it is enacted into law.

15 Enacting section 2. This amendatory act does not take effect
16 unless all of the following bills of the 102nd Legislature are
17 enacted into law:

18 (a) Senate Bill No. 944.

19 (b) Senate Bill No. 946.