

Act No. 8
Public Acts of 1999
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STATE OF MICHIGAN
90TH LEGISLATURE
REGULAR SESSION OF 1999

Introduced by Senators Gast, Steil, North, McManus, Gougeon, Stille, Hoffman, Goschka, Bennett, Schwarz, A. Smith, Vaughn, Koivisto, Emerson, Peters and Young

ENROLLED SENATE BILL No. 259

AN ACT to amend 1984 PA 431, entitled "An act to prescribe the powers and duties of the department of management and budget; to define the authority and functions of its director and its organizational entities; to authorize the department to issue directives; to provide for the capital outlay program; to provide for the leasing, planning, constructing, maintaining, altering, renovating, demolishing, conveying of lands and facilities; to provide for centralized administrative services such as purchasing, payroll, record retention, data processing, and publishing and for access to certain services; to provide for a system of internal accounting and administrative control for certain principal departments; to provide for an internal auditor in certain principal departments; to provide for certain powers and duties of certain state officers and agencies; to codify, revise, consolidate, classify, and add to the powers, duties, and laws relative to budgeting, accounting, and the regulating of appropriations; to provide for the implementation of certain constitutional provisions; to create funds and accounts; to make appropriations; to prescribe remedies and penalties; to rescind certain executive reorganization orders; to prescribe penalties; and to repeal certain acts and parts of acts," by amending sections 113, 115, 131, 203, 204, 205, 217, 219, 221, 237, 241, 242, 246, 248, 251, 267, 303, 305, 342, 344, 350, 350a, 350e, 352, 353, 353e, 354, 355, 356, 363, 367, 367b, 367f, 371, 372, 384, 386, 393, 396, 404, 434, 443, 451, 454, 461, 462, 484, 485, 486, 492, and 493 (MCL 18.1113, 18.1115, 18.1131, 18.1203, 18.1204, 18.1205, 18.1217, 18.1219, 18.1221, 18.1237, 18.1241, 18.1242, 18.1246, 18.1248, 18.1251, 18.1267, 18.1303, 18.1305, 18.1342, 18.1344, 18.1350, 18.1350a, 18.1350e, 18.1352, 18.1353, 18.1353e, 18.1354, 18.1355, 18.1356, 18.1363, 18.1367, 18.1367b, 18.1367f, 18.1371, 18.1372, 18.1384, 18.1386, 18.1393, 18.1396, 18.1404, 18.1434, 18.1443, 18.1451, 18.1454, 18.1461, 18.1462, 18.1484, 18.1485, 18.1486, 18.1492, and 18.1493), section 113 as amended by 1987 PA 122, sections 115, 203, 205, 217, 221, 246, 342, 350, 367, 371, 372, 384, 386, 393, and 451 as amended and sections 204, 350a, 350e, 396, and 454 as added by 1988 PA 504, sections 219, 352, and 355 as amended and sections 367b and 367f as added by 1991 PA 72, section 353 as amended by 1994 PA 107, section 353e as added by 1997 PA 144, section 354 as amended by 1995 PA 286, section 363 as amended by 1993 PA 2, section 461 as amended by 1986 PA 251, and sections 484, 485, and 486 as added by 1986 PA 272, and by adding sections 237a, 281a, 430, and 451a; and to repeal acts and parts of acts.

The People of the State of Michigan enact:

Sec. 113. (1) "Capital outlay" means a project or facility financed either in whole or in part with state funds, including lease purchase agreements, to demolish, construct, renovate, or equip a building or facility for which total project costs exceed \$1,000,000.00. These projects may be on state owned property, property owned by an institution of higher education, property owned by community colleges, or property under the control of the state building authority.

(2) "Community college" means a community college or a junior college.

(3) "Department" means the department of management and budget.

(4) "Directives" means intergovernmental, interagency, or interdepartment administrative or procedural guidelines or instructions which do not affect the rights of, or procedures and practices available to, the public.

(5) "Director" means the director of the department of management and budget.

(6) "Energy conservation measure" means improvement of a building structurally or the installation of equipment or materials in a building for the purpose of reducing energy consumption or cost, increasing energy efficiency, or allowing the use of a renewable resource for fuel.

Sec. 115. (1) "Institution of higher education" means a state supported 4-year college or university.

(2) "JCOS" means the joint capital outlay subcommittee of the appropriations committees.

(3) Except as used in sections 284 to 292, "record" means a public record as defined in section 2 of the freedom of information act, 1976 PA 442, MCL 15.232.

(4) "State agency" means a department, board, commission, office, agency, authority, or other unit of state government. State agency does not include an institution of higher education or a community college or, for purposes of article 2 or 3, the legislative branch of government. For purposes of article 2 or 3, except for those sections pertaining to the authorization, planning, construction, and funding of a capital outlay project, including construction of a facility to house offices or functions necessary for operation of the judicial branch of government, state agency does not include the judicial branch of government.

(5) "Unit of local government" means a political subdivision of this state, including school districts, community college districts, intermediate school districts, cities, villages, townships, counties, and authorities, if the political subdivision has as its primary purpose the providing of local governmental service for citizens in a geographically limited area of the state and has the power to act primarily on behalf of that area.

Sec. 131. (1) The director may issue, alter, or rescind administrative and procedural directives as determined to be necessary for the effective administration of this act. The directives are exempt from the definition of a rule pursuant to section 7 of the administrative procedures act of 1969, 1969 PA 306, MCL 24.207. The directives shall be placed in the appropriate manual and distributed to each principal department, autonomous entity within state government, the senate and house appropriations committees, and the fiscal agencies. The directives shall take effect upon written approval of the director unless a later date is specified. Before a directive may become effective, the department shall give the affected principal departments reasonable time, as determined by the department of management and budget, to respond.

(2) The department may promulgate rules as necessary to implement this act. The rules shall be promulgated pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328.

Sec. 203. (1) The department shall issue directives, after consultation with any affected state agency, relative to state automated information processing installations and telecommunications projects and services including the planning, establishment, consolidation, or outsourcing of state information processing installations and telecommunications projects and services to assure the design, implementation, and maintenance of effective and efficient support systems for state agencies.

(2) Within 120 days after the end of each fiscal year, the department shall report to the appropriations committees and the fiscal agencies for the immediately past completed fiscal year. The report shall include all of the following:

(a) A departmental summary of expenditures and source of funding for all information technology projects undertaken by a principal department.

(b) Expenditures on information technology hardware, information technology software, information technology consulting services entered into with the private sector, and expenditures related to state employees whose primary work assignment involves information technology support.

(c) A distinction between information technology expenditures made directly by state departments and those expenditures made through contracts with the private sector.

(3) An expenditure shall not be made for automated information processing unless the expenditure is pursuant to an automated information processing plan that is approved by the department.

(4) The department shall develop and maintain a statewide plan for the effective and efficient utilization of information processing and telecommunication projects and services.

(5) The department may arrange for and effect a unified and integrated statewide information processing and telecommunication system and provide for the administration of the system.

(6) A state agency shall not purchase or operate a telecommunications facility or system or an automated data processing system or installation unless the facility, system, or installation is approved by the department.

(7) Each state agency shall report to the department and to the appropriate appropriations committees and fiscal agencies on each informational system sold or marketed by the state agency or a contractor hired by the state agency.

The report shall include all costs of development of the system, the income derived from the marketing or sale, and the disposition of the income.

Sec. 204. (1) The department shall develop and implement standardized risk management policies, practices, and procedures for all state agencies.

(2) The department shall review and approve all risk management related programs of state agencies, including, but not limited to, worker's compensation, disability management, insurance, safety, loss control, claims handling, exposure analysis, accident investigation, and risk management information systems.

(3) After consultation with affected state agencies, the department may administer selected risk management related programs as described in subsection (2).

(4) The department shall review and approve all proposals for the acquisition of insurance or risk management related program services for state agencies and utilize self-insurance options if cost effective.

Sec. 205. (1) As used in this section:

(a) "Form" means an application, questionnaire, permit, order, schedule, record, report, or document in regular and continuing use that is used to obtain information, response, compliance, or application that is required from the public or private sector by this state.

(b) "Forms management program" means a total system intended to improve the efficiency of state government through forms including, but not limited to, survey, analysis, design, specification, printing, buying, inventory storage, use, and distribution of forms.

(2) The department shall issue directives for the implementation and maintenance of a forms management program within each state agency. The department shall coordinate the development of forms at state agencies in order to facilitate the standardization of forms, recommend the elimination of redundant forms, and provide a central source of information regarding forms usage in state government.

Sec. 217. (1) The department shall issue and administer directives relative to the travel of officers and unclassified employees of state agencies when engaged in the performance of state business and for the reimbursement of expenses necessarily incurred when engaged in the performance of state business from whatever source the reimbursement may be financed. The directives issued pursuant to this section shall not take effect unless the directives are approved by the board.

(2) A meeting of a state agency shall be held in a facility owned, leased, being purchased, or operated by this state, the federal government, a unit of local government, or a state supported institution, college, or university, unless the chief executive officer of the state agency, in writing, authorizes a different location.

(3) On January 1 of each year, the director shall prepare a travel report in a format established jointly by the chairpersons of the appropriations committees and shall submit the report to the appropriations committees and the fiscal agencies. The report shall list each person who received compensation, fees, or remuneration under a budget act for travel outside the state during the preceding fiscal year. The listing shall include the name of the person who received the compensation, fees, or remuneration and the destination, reason for, and dates of the travel; and the transportation and related costs. The report shall also include a summary statement of the total in-state travel for the preceding fiscal year.

Sec. 219. (1) The department shall provide for and issue directives for the management, operation, maintenance, security, and repair of facilities. The director shall determine space utilization standards and may assign space within the facilities. The department shall manage and operate state owned facilities under the jurisdiction of the department.

(2) The department shall not assign space in buildings and premises designated as part of the Michigan capitol park and under the exclusive jurisdiction of the Michigan capitol park commission, pursuant to section 298b, and shall not assign space in buildings under the jurisdiction of the legislature or the Michigan capitol committee created under chapter 7 of the legislative council act, 1986 PA 268, MCL 4.1701 to 4.1702, unless the Michigan capitol park commission, the legislature, or the Michigan capitol committee request the department to assign such space.

(3) The legislative council shall manage and operate the Michigan library and historical center.

(4) The Michigan capitol committee shall manage and operate the capitol building and grounds. The senate shall manage and operate the Farnum building and grounds. The house of representatives shall manage and operate the Roosevelt building and grounds and, beginning in 1999, the house office building.

Sec. 221. (1) The director may provide for the rental and lease of land and facilities for the use of state agencies in the manner provided by law. The rentals and leases shall not be effective unless approved by the board.

(2) If a project costs more than \$1,000,000.00 and consists of less than 25,000 gross square feet, the department shall notify the joint capital outlay subcommittee in writing of its intent to proceed with such a facility. The notice shall be given 30 days before the lease contract providing for the proposed constructions is entered into.

(3) If the director proposes to lease space or a facility which meets either of the following criteria, approval of the joint capital outlay subcommittee is required prior to board approval:

(a) The space or facility exceeds 25,000 gross square feet.

(b) The annual base cost of the proposed lease is more than \$500,000.00.

(4) For the purposes of this section, the renewal of an existing lease will require the approval of the joint capital outlay subcommittee if the renewal results in changes to the lease that would cause it to meet the requirements outlined in subsection (3).

(5) The department may grant easements, upon terms and conditions the board determines are just and reasonable, for highway and road purposes, and for constructing, operating, and maintaining pipelines or electric, telephone, telegraph, television, gas, sanitary sewer, storm sewer, or other utility lines including all supporting fixtures and other appurtenances over, through, under, upon, and across any land belonging to this state, except lands under the jurisdiction of the department of natural resources, the department of military affairs, or the state transportation department.

(6) The department shall determine annually the prevailing market rental values of all state owned office facilities and private facilities which provide housing for state employees. The rental values determined pursuant to this subsection shall not be effective unless approved by the board. The renting, leasing, or licensing of state owned land and facilities to private and public entities shall be at prevailing market rental values or at actual costs as determined by the director.

(7) The department shall charge state agencies for building occupancy in state owned facilities under the jurisdiction of the department. The rates to be charged for building occupancy shall be coordinated with the budget cycle. The rates shall reflect the actual cost for occupancy of the facilities.

Sec. 237. (1) For state agency capital outlay projects or facilities, the department is responsible for development, oversight, review, and approval of program statements, studies, designs, plans, management, specifications, contract documents, construction management, and construction, relative to the acquisition, construction, lease purchase, improvement, demolition, or other capital outlay projects for state agencies for which an appropriation or other authorization has been made.

(2) The department shall approve the award, selection, and employment of architects, professional engineers, construction managers, and other design or construction professional services contractors, subject to rules of the department of civil service, to do all of the following:

(a) Prepare program statements, studies, designs, plans, and specifications for the construction of, repairing of, making additions to, remodeling or demolition of, lease purchase of, or acquisition of state facilities.

(b) Administer construction work, including resident inspectors, on-site management, and supervision of construction projects.

(3) The department may obtain independent testing services to provide quality control of work performed on facilities.

(4) Prior to state building authority financing, the department shall provide final approval of the capital outlay project to ensure compliance with the authorized program, plans, and specifications.

(5) The attorney general shall review all standard lease and lease purchase agreement formats and approve any exceptions to the standard formats and may assess a fee for legal services pursuant to an agreement with the department.

Sec. 237a. (1) This section pertains to capital outlay projects for community colleges and universities.

(2) The department shall review documents associated with community college and university capital outlay projects for which an appropriation or other authorization has been made.

(3) The department shall provide architectural and professional engineering review of documents including designs, plans, and change orders at each stage of the project to ensure that the project or facility is in compliance with approved program, appropriation, and capital outlay requirements.

(4) The department shall review the award and selection of architects, professional engineers, construction managers, and other design or construction professional service contractors.

(5) The department shall do all of the following:

(a) Review the construction bid.

(b) Review monthly reports to ensure appropriate construction progress, evaluate change orders, and watch for potential problems.

(c) Respond to college and university requests for assistance on the capital outlay process, contractor issues, and other capital outlay related issues.

(d) Provide for field checks and audits throughout the project in order to meet the trustee requirements of the state building authority.

(6) The department may charge a fee for the services described in this section at a rate not to exceed actual costs.

(7) In the event that a college or university chooses to have the department provide for the complete administration of a capital outlay project, then the provisions of section 237 apply to the project.

(8) Prior to state building authority financing, the department shall provide final review of the capital outlay project to ensure compliance with the authorized program, plans, and specifications.

Sec. 241. (1) Except for the contracts permitted in section 240, a contract shall not be awarded for the construction, repair, remodeling, or demolition of a facility unless the contract is let pursuant to a bidding procedure which is approved by the board. The department shall issue directives prescribing procedures to be used to implement this section. The procedures shall require a competitive solicitation in the award of any contract for construction, repair, remodeling, or demolition of a facility.

(2) The department may award or approve the award, if the board approves, of construction contracts to construct a project for which the director is the agent and may expend, for the purposes and in the manner set forth, the amounts appropriated. The director is not the agent for a community college or institution of higher education, but may act in that capacity upon the specific request of a community college or institution of higher education.

Sec. 242. (1) This section applies to a project authorized pursuant to an appropriation act.

(2) State agencies, community colleges, and universities shall develop 5-year capital outlay requests, which shall include the need for remodeling and renovations. For community colleges and universities, the 5-year capital outlay requests shall also include the need for special maintenance. These requests shall be submitted annually to the department and to the JCOS.

(3) The department and the JCOS shall review capital outlay requests. The department shall prioritize requests and shall include the recommended requests in the annual executive budget recommendation.

(4) Each recommended request included in the executive budget shall include sufficient state funds for state agency projects and institution funds for college and university projects to provide for professionally developed program statements and schematic plans. The request for program development and schematic planning must be approved by the JCOS and the legislature through the appropriation process.

(5) Program statements and schematic planning documents shall be reviewed by the department and, when the review is completed, shall be submitted to the JCOS as either approved or not approved.

(6) Upon review and approval by the JCOS, the JCOS and the legislature may authorize the project for final design and construction with a line-item appropriation in an appropriation bill.

(7) Preliminary plans shall be submitted to the department for review and approval. The department shall review and approve final plans to be prepared for bidding. Bid results shall be submitted to the JCOS.

(8) The department shall provide for review and oversight of capital outlay projects financed either in total or in part by the state building authority pursuant to the provisions of sections 237 and 237a.

(9) Appropriations made for studies and initial plans shall not be considered a commitment on the part of the legislature to appropriate funds for the completion of plans or construction of any project based on the studies or planning documents.

Sec. 246. (1) The release of allocations may be approved when the legislature has specified either a total authorized cost or has appropriated an amount sufficient to complete the designated project. The authorized cost of projects shall only be established or revised by specific reference in a budget act, by concurrent resolution adopted by both houses of the legislature, or inferred by the total amount of any appropriations made to complete plans and construction.

(2) Expenditures under a capital outlay budget act shall be authorized when the release of the appropriation is approved by the board. The board shall approve the release of construction appropriations when the director certifies that a project can be accomplished within the appropriation or authorization and that the project is in compliance with this act. For each project certified, the board, upon the further recommendation of the director, shall approve the release of only those amounts required to complete the project according to the recommended purpose and scope as provided in an appropriation act. Contracts or other commitments shall not be incurred or obligated which will result in the completion of a project which exceeds this purpose and scope. A state agency, community college, or institution of higher education shall not make any commitments for a project until after the release of the appropriation pursuant

to this act. The board may approve the release of a part of any appropriation for the purpose of preparing the planning or bidding documents or for investigations which may be necessary to determine whether or not the project can be completed within the appropriation.

Sec. 248. (1) This section applies to all capital outlay projects appropriated in any budget act. This section does not apply to lump sums other than planning projects.

(2) Appropriations made in any budget act for a planning project shall not lapse to the fund from which appropriated at the end of the fiscal year, but shall continue until the purposes for which the sums were appropriated are completed. However, each project which has been authorized for planning for 3 years or more and which has not been authorized for final design and construction shall be terminated, unless the project is specifically reauthorized in a budget act.

(3) Appropriations made in any budget act for final design and construction shall not lapse to the fund from which they are appropriated at the end of the fiscal year, but shall continue until the purposes for which the sums were appropriated are completed. However, each project that has been authorized for final design and construction for 3 years or more and where construction has not commenced shall be terminated, unless the project is specifically reauthorized in a budget act.

(4) Except as otherwise provided in this section, the balance of any capital outlay project other than a planning project shall not lapse at the end of the fiscal year for which the appropriation was made, but shall continue for not more than 2 fiscal years occurring after the fiscal year for which the appropriation for the project is made.

(5) A capital outlay project may be continued beyond 3 fiscal years if the bid for the start of construction of the project is awarded before the end of the second fiscal year occurring after the fiscal year for which the appropriation for the project is made.

(6) A capital outlay project which is for purchase of property may be continued beyond 3 fiscal years if a contract to purchase property is entered into before the end of the second fiscal year occurring after the fiscal year for which the appropriation for the purchase is made but only the amount necessary to complete the purchase of the property pursuant to the contract shall be carried forward.

(7) A capital outlay project may be continued beyond 3 fiscal years if a federal grant award is pending and the federal rules preclude the award of the bid before the end of the second fiscal year occurring after the fiscal year for which the appropriation for the project was made, but shall not be continued beyond an additional year unless the bid for the start of construction of the project is awarded.

(8) If the bid for the start of construction of the project is awarded before the appropriations for the project are scheduled to lapse pursuant to subsection (4) or (6), the unobligated balance of the appropriations for the project shall not lapse but shall continue for 23 months after a project is substantially completed.

(9) If a capital outlay project is subject to a legal action, the balance shall lapse pursuant to subsections (2) to (8), or 30 days after the legal action is settled, or 30 days after a final order is entered, whichever is later.

(10) An unexpended balance which is to lapse pursuant to this section shall lapse to the fund from which the appropriation is made.

(11) A grant or grant-in-aid appropriated for the demolition, acquisition, construction, repair, or maintenance of capital assets shall not be reduced, adjusted, delayed, impounded, lapsed, or otherwise altered by the director for any purpose without legislative approval and shall be carried forward until awarded, in full, to the recipient of the appropriation consistent with legislative intent.

Sec. 251. (1) This section applies to all real property of the state except all of the following:

- (a) Property under the jurisdiction of the state transportation department.
- (b) Property under the jurisdiction of a state institution of higher education.
- (c) Property under the jurisdiction of the department of natural resources.
- (d) Property under the jurisdiction of the department of military affairs.

(2) The department shall provide for the development and maintenance of real property records and facility inventories. The department may award appropriate service contracts or employ land surveyors to survey, monument, map, describe, and record real property and facilities.

(3) The department shall issue directives to provide for the disposition process for facilities and lands that are considered surplus. The department shall require a public notice component in its directives regarding the disposition process under this subsection.

Sec. 267. (1) The department shall issue directives to provide for the disclosure, transfer, and disposal of surplus, salvage, and scrap material of state agencies. The department may dispose of surplus and of salvage or scrap by donating or selling the property or equipment to a unit of local government. However, if a unit of local government is not interested in the property or equipment, the department may sell the surplus, salvage, or scrap at auction.

(2) The department may pay necessary costs incurred in the conduct of the transfers or auctions of the property or equipment including the necessary warehousing and reconditioning costs from the proceeds of the auction or by assessing a handling fee for property or equipment being donated.

Sec. 281a. (1) The department of management and budget and each principal executive department and agency shall provide to the senate and house of representatives standing committees on appropriations and the senate and house fiscal agencies a monthly report on all personal service contracts in an amount greater than \$10,000.00 awarded without competitive bidding, pricing, or rate setting. The report shall include all of the following:

- (a) The total dollar amount of the contract.
- (b) The effective beginning and ending dates of the contract.
- (c) The name of the vendor.
- (d) The type of service to be provided.

(2) For new personal service contracts of \$100,000.00 or more, the department of management and budget shall provide a monthly report to the senate and house of representatives standing committees on appropriations and the senate and house fiscal agencies including all of the following:

- (a) The total dollar amount of the contract.
- (b) The effective beginning and ending dates of the contract.
- (c) The name of the vendor.
- (d) The type of service to be provided.

(3) Each principal executive department and agency shall provide a monthly summary listing to the senate and house of representatives standing committees on appropriations and the senate and house fiscal agencies of information that identifies any authorizations for personal service contracts that are provided to the department of civil service pursuant to delegated authority granted to each principal executive department and agency related to personal services contracts.

(4) The civil service department shall also include a report of all mixed contracts that the civil service commission did not review for approval under the authority of civil service rule 4-6.3, standard (e).

Sec. 303. (1) "Detroit consumer price index" means the most comprehensive index of consumer prices available for the Detroit area from the bureau of labor statistics of the United States department of labor or its successor.

(2) "Open-end appropriation" means an annual appropriation without a specific sum, for a state budget purpose.

(3) "Personal income" means as defined by the bureau of economic analysis of the United States department of commerce or its successor.

(4) "Program" means the activities and financial resources applied to a public policy intention as approved by the legislature.

(5) "Proportion" means the proportion of total state spending from state sources paid to all units of local government in a fiscal year, and shall be calculated by dividing a fiscal year's state spending from state sources paid to units of local government by total state spending from state sources for the same fiscal period.

Sec. 305. (1) "Total state spending" means the sum of state operating fund expenditures, not including transfers between funds.

(2) "Total state spending from state sources" means the sum of state operating fund expenditures not including transfers between funds, federal aid, and restricted local and private sources of financing.

(3) "Transfer payments" means as defined by the bureau of economic analysis of the United States department of commerce or its successor.

(4) "Unit of local government" means unit of local government as defined in section 115(5).

Sec. 342. The state budget director or state treasurer shall establish and maintain an economic analysis, revenue estimating, and monitoring activity. The activity shall include the preparation of current estimates of all revenue by source for state operating funds for the initial executive budget proposal to the legislature and thereafter through final closing of the state's accounts.

Sec. 344. (1) The state budget director shall develop annual proposals for departmental program activities and the associated estimated costs and sources of financing. The proposals shall reflect current departmental program activities relative to impact on state policy goals, and new and augmented program activities in response to changing priorities. The proposals shall reflect the evaluations and analyses of state programs and activities prescribed in this act.

(2) The state budget director shall review the auditor general's audits of state agencies as a basis for making recommendations in departmental program expenditure proposals.

(3) The state budget director shall annually determine the amounts required for interest and principal of state debt and the estimated costs of capital outlay projects to provide facilities for state program services.

Sec. 350. (1) If state government assumes the financing and administration of a function, after December 22, 1978, which was previously performed by a unit of local government, the state payments for the function shall be counted as state spending paid to units of local government.

(2) Refunds or other repayments of prior year revenues shall not be considered in the determination of total state spending.

Sec. 350a. As used in sections 26 to 28 of article IX of the state constitution of 1963:

(a) "Personal income of Michigan" for a calendar year means total annual personal income as officially reported by the United States department of commerce, bureau of economic analysis, or its successor, in August of the year following the calendar year for which the report is made. Revision of the total annual personal income figure as reported by the bureau of economic analysis after August of the year following the calendar year for which the report is made shall not cause personal income of Michigan as defined to be revised.

(b) "Total state revenues" means the combined increases in net current assets of the general fund and special revenue funds, except for component units included within the special revenue group for reporting purposes only. For fiscal years beginning after September 30, 1986, total state revenues shall be computed on the basis of generally accepted accounting principles as defined in this act. However, total state revenues shall not include the following:

(i) Financing sources which have previously been counted as revenue, for the purposes of section 26 of article IX of the state constitution of 1963 such as, beginning fund balance, expenditure refunds, and residual-equity and operating transfers from within the group of funds.

(ii) Current assets generated from transactions involving fixed assets and long-term obligations in which total net assets do not increase.

(iii) Revenues which are not available for normal public functions of the general fund and special revenue funds.

(iv) Federal aid.

(v) Taxes imposed for the payment of principal and interest on voter-approved bonds and loans to school districts authorized under section 16 of article IX of the state constitution of 1963.

(vi) Tax credits based on actual tax liabilities or the imputed tax components of rental payments, but not including the amount of any credits not related to actual tax liabilities.

(vii) Refunds or payments of revenues recognized in a prior period.

(viii) The effects of restatements of beginning balances required by changes in generally accepted accounting principles.

(c) The calculation of total state revenues required by section 350b(3) shall not be adjusted after the filing of the report required by June 30, 1989, unless future changes in generally accepted accounting principles would substantially distort the comparability of the base year and the current and future years. In no event shall intervening years be recalculated.

Sec. 350e. The department shall annually prepare a report which summarizes in detail the state's compliance with the revenue limit established in section 350b. The report shall be submitted to the auditor general for review and comment not later than May 31 of each year, and shall be published by submission to the legislature not later than June 30 of each year.

Sec. 352. (1) When the annual growth rate is more than 2%, the percentage excess over 2% shall be multiplied by the total state general fund-general purpose revenue for the fiscal year ending in the current calendar year to determine the amount to be transferred to the fund from the state general fund in the fiscal year beginning in the current calendar year.

(2) When the annual growth rate is less than 0%, the percentage deficiency under 0% shall be multiplied by the total state general fund-general purpose revenue for the fiscal year ending in the current calendar year to determine the eligible amount to be transferred to the state general fund from the fund in the fiscal year ending in the current calendar year. When the formula calls for a larger transfer from the fund than is necessary to balance the current fiscal year state general fund-general purpose budget, the excess shall remain in the fund.

Sec. 353. (1) In a calendar quarter following a calendar quarter in which the seasonally adjusted state unemployment rate as certified by the director of the department of career development or its successor is 8% or more, an amount may

be appropriated from the fund by the legislature for the purposes listed in this section in accordance with the following table:

<u>Percent of seasonally adjusted unemployment in the calendar quarter preceding the calendar quarter in which an amount may be appropriated</u>	<u>Percent of fund available for economic stabilization during the calendar quarter following a calendar quarter of high unemployment</u>
8.0-11.9%	2.5% of fund balance as of first day of calendar quarter
12.0% and over	5.0% of fund balance as of first day of calendar quarter

(2) The legislature may appropriate by law money from the fund in the amounts as provided in this section to assist in the following countercyclical economic stabilization purposes:

(a) Capital outlay.

(b) Public works and public service jobs.

(c) Refundable investment or employment tax credits against state business taxes for new outlays and hiring in this state.

(d) Any other purpose the legislature may provide by law which provides employment opportunities counter to the state's economic cycle.

(3) Notwithstanding subsections (1) and (2), there is hereby appropriated \$40,000,000.00 from the fund for the Michigan state parks endowment fund. The appropriation provided for in this subsection shall only be effective after the proceeds from the sale of the accident fund have been transferred to the fund as provided for in section 701a of the worker's disability compensation act of 1969, 1969 PA 317, MCL 418.701a.

Sec. 353e. (1) Notwithstanding section 353, for the fiscal year ending September 30, 1998, there is appropriated and transferred from the fund to the state school aid fund the sum of \$212,000,000.00 for the purpose of paying money damages to school districts and intermediate school districts who were plaintiffs in the consolidated cases known as *Durant v State of Michigan*, 456 Mich 175, (1997).

(2) Notwithstanding section 353, for the fiscal year ending September 30, 1999, there is appropriated and transferred from the fund to the state school aid fund the sum of \$73,700,000.00 for the purpose of making appropriations to school districts and intermediate school districts other than those described in subsection (1).

(3) Notwithstanding section 353, for the fiscal year ending September 30, 2000, for the fiscal year ending September 30, 2001, for the fiscal year ending September 30, 2002, for the fiscal year ending September 30, 2003, for the fiscal year ending September 30, 2004, for the fiscal year ending September 30, 2005, for the fiscal year ending September 30, 2006, for the fiscal year ending September 30, 2007, and for the fiscal year ending September 30, 2008, there is appropriated and transferred from the fund to the state school aid fund the sum of \$32,000,000.00 for the purpose of making appropriations to school districts and intermediate school districts other than those described in subsection (1).

Sec. 354. (1) The executive budget for each fiscal year shall contain an estimate of the transfer into or out of the fund required by section 352.

(2) The legislature shall include a final estimate of the transfer into or out of the fund required by section 352 in the appropriations bill which contains the revenue estimate required by section 31 of article IV of the state constitution of 1963.

(3) Except as provided in subsection (4), a transfer into the fund shall be made in equal monthly installments throughout the fiscal year. Except as provided in subsection (4), a transfer out of the fund may be made as needed during the fiscal year.

(4) Notwithstanding section 352, for each fiscal year ending after October 1, 1997, all unreserved general fund-general purpose balances at the final close of the fiscal year shall be transferred to the fund. If an amount is required to be transferred to the fund for a fiscal year under section 352, any amount transferred to the fund under this subsection shall be considered to be a part of the amount transferred to the fund for purposes of section 352.

Sec. 355. The transfer into or out of the fund as provided in section 352 for each fiscal year beginning after September 30, 1978, may be adjusted in light of revision in the annual growth rate for the calendar year upon which that transfer was made. If an adjustment is made, it shall be implemented by an appropriation bill enacted into law. The adjustment, if made, shall be directly proportional to an increase or decrease in the annual growth rate, but the adjustment shall not be in excess of 1% multiplied by the total general fund-general purpose revenue of the fiscal year upon which the transfer was based. The basis for an adjustment shall be a change in the personal income level for that calendar year as determined by the bureau of economic analysis of the United States department of commerce or its successor in the last report it makes before April 30 of the fiscal year in which that calendar year ended. The adjustment, if made, shall be effective on June 1 of the fiscal year in which the transfer is made.

Sec. 356. The balance in the fund shall not exceed 10% of the combined level of general fund-general purpose and school aid fund revenues. If the balance in the fund at the end of a fiscal year exceeds 10% of the actual state general fund-general purpose and school aid fund revenues for that fiscal year, the excess shall be rebated to taxpayers on the individual income tax returns filed following the close of that fiscal year according to a schedule to be established by law.

Sec. 363. Within 30 days after the legislature convenes in regular session, except in a year in which a newly elected governor is inaugurated into office when 60 days shall be allowed, the governor shall transmit to each member of the legislature and the fiscal agencies the budget in detail as provided in this act, accompanied by such explanations and recommendations relative thereto as the governor considers necessary. At the time the budget is transmitted to the legislature, the director shall transmit line-item appropriation detail to the fiscal agencies using a computer software application that is compatible with the budget tracking computer systems used by the respective fiscal agencies.

Sec. 367. (1) Concurrent with transmitting the state budget to the legislature, the governor shall submit to the legislature and the fiscal agencies executive budget bills containing itemized statements of estimated state spending to be paid to local units of government, individual line item amounts, including the number of FTE positions to be funded by each individual line item amount, for the proposed expenditures and any necessary bills for additional revenue to provide financing for the proposed expenditures.

(2) One executive budget bill and 1 enacted budget bill shall contain all of the following:

(a) The estimated revenue for each state operating fund in sufficient detail to provide for comparison with actual revenue.

(b) Summary totals for each state operating fund to reflect that recommended expenditures for each fund are within proposed and estimated resources.

(c) A statement of estimated state spending to be paid to units of local government, total state spending from state sources of financing, and the state-local proportion derived from that data.

Sec. 367b. (1) A revenue estimating conference shall be held in the second week of January and in the last week in May of each year, and as otherwise provided in this act.

(2) The principals of the conference shall be the state budget director or the state treasurer, the director of the senate fiscal agency, and the director of the house fiscal agency, or their respective designees.

(3) The conference shall establish an official economic forecast of major variables of the national and state economies. The conference shall also establish a forecast of anticipated state revenues as the conference determines including the following:

(a) State income tax collections.

(b) State sales tax collections.

(c) Single business tax collections.

(d) Total general fund/general purpose revenues.

(e) Lottery transfers to the school aid fund.

(f) Total school aid fund revenues.

(g) Annual percentage growth in the basic foundation allowance provided for in the state school aid act of 1979, 1979 PA 94, MCL 388.1601 to 388.1772.

(h) Compliance with the state revenue limit established by section 26 of article IX of the state constitution of 1963.

(i) Pay-ins or pay-outs required under the countercyclical budget and economic stabilization fund.

(4) The conference's official forecast of economic and revenue variables shall be determined by consensus among the principals.

(5) The forecasts required by this section shall be for the fiscal year in which the conference is being held and the ensuing fiscal year.

(6) The official conference forecast shall be based upon the assumption that the current law and current administrative procedures will remain in effect for the forecast period.

Sec. 367f. Upon the written request of a principal, a conference shall be convened by the chairperson.

Sec. 371. (1) An employee of a state agency shall not make or authorize an expenditure or incur an obligation that results in the agency exceeding the gross appropriation level of an appropriation line item made to that agency by the legislature. The chief executive officer and the chief financial officer of a state agency are responsible for any action taken by a state agency which results in exceeding an appropriation. The chief executive officer of a state agency shall

report a violation of this subsection immediately to the director and the chairpersons of the senate and house appropriations committees, together with a statement of any action taken to remedy the occurrence.

(2) Within 15 days after a bill appropriating an amount is enacted into law, the amount appropriated shall be divided into allotments by department and by state agency based on periodic requirements to represent a spending plan. The state budget director shall review the allotments. The director shall submit a report each quarter to the appropriations committees and the fiscal agencies that compares actual expenditures to the allotments per appropriation line item made for each department and each state agency for that quarter. When it appears that a spending plan, or sources of financing related to a spending plan, do not provide the level of program service assumed in the appropriation for the fiscal year, the state budget director shall immediately notify the chairpersons and minority chairpersons of the appropriations committees, the chairpersons and minority chairpersons of the appropriate appropriations subcommittees, and the fiscal agencies.

Sec. 372. (1) Allotments may be adjusted by the state budget director as requested by a department, subject to the considerations in section 371(2).

(2) A payment which would exceed an allotment balance may be withheld by order of the state budget director. Payments shall not exceed the total periodic allotments for the fiscal year.

(3) For open-end appropriations, a continuing allotment may be approved by the state budget director or the state budget director may require the state agency to submit requests for periodic allotments.

(4) Allotments may be reduced or adjusted by the state budget director as a result of implementing measures of administrative efficiency, including the abolishment of positions by appointing authorities. An action taken under this section shall be reported to the appropriations committees and the fiscal agencies within 15 days after the action is taken.

(5) The state budget director may issue directives for the allotment of appropriations.

Sec. 384. (1) A state agency which applies for federal financial assistance shall notify the department within 10 days after the application is sent. The notification to apply for federal financial assistance shall be on a form prescribed by, and contain information requested by, the department. Within 10 days after the state agency receives notice that its application for federal financial assistance is awarded, rejected, revised, or deferred, the state agency shall provide notice of the award, rejection, revision, or deferment of the application to the department.

(2) Within 30 days after a state agency receives notice that a federal grant has been awarded to the state for which organizations or units of local government are eligible to apply, the state agency administering the federal grant program shall report to the legislature and the fiscal agencies the availability of the grant funds and the proposed plan for allocating the grant funds to the organizations or units of local government. A state agency shall not commit any federal grant funds before this notification to the legislature has occurred and a subsequent appropriation of the funds is made by the legislature.

(3) Before December 1 and June 1 of each year, each principal department shall report to the appropriations committees, the fiscal agencies, and the department estimates on the extent to which federal revenues appropriated have been realized and are expected for the remainder of the fiscal year. The report shall detail the estimate by program or grant, and catalog of federal domestic assistance account.

Sec. 386. (1) The state budget director shall prepare monthly financial reports.

(2) Within 45 days after the end of each month, the state budget director shall transmit copies of the monthly financial report to all the appropriations committee members and the fiscal agencies. The monthly financial report due by December 15 shall be the first monthly financial report to include statements concerning the fiscal year which began on October 1.

(3) Each monthly financial report shall contain the following information:

(a) A statement of actual monthly and year-to-date revenue collections for the general fund/general purpose revenues, school aid fund revenues, and the tax collections dedicated to the transportation funds; including a comparison with prior year amounts, statutory estimates, and the most recent estimates from the executive branch.

(b) A statement of estimated year-end appropriations lapses and overexpenditures for the state general fund by principal department.

(c) A statement projecting the ending state general fund and state school aid fund balances for the fiscal year in progress.

(d) A summary of current economic events relevant to the Michigan economy, and a discussion of any economic forecast or current knowledge of revenue collections or expenditure patterns that is the basis for a change in any revenue estimate or expenditure projection.

(e) A statement of estimated and actual total state revenues compared to the revenue limit provided for in section 26 of article IX of the state constitution of 1963.

(f) A statement of the estimated fiscal year-end balance of state payments to units of local government pursuant to section 30 of article IX of the state constitution of 1963.

(g) Any other information considered necessary by the state budget director or jointly requested by the chairpersons of the appropriations committees.

(h) A statement of year-to-date balances for the following funds:

(i) The countercyclical budget and economic stabilization fund or its successor.

(ii) The renaissance fund or its successor.

(iii) The natural resources trust fund or its successor.

Sec. 393. (1) Administrative transfers of appropriations within any department to adjust for current cost and price variations from the enacted budget items, or to adjust amounts between federal sources of financing for a specific appropriation line item, or to adjust amounts between restricted sources of financing for a specific appropriation line item, or to pay court judgments, including court approved consent judgments, or to pay all settlements and claims may be made by the state budget director not less than 30 days after notifying each member of the senate and house appropriations committees. Administrative transfers shall not include adjustments that have policy implications or that have the effect of creating, expanding, or reducing programs within that department. Those transfers may be disapproved by either appropriations committee within the 30 days and, if disapproved within that time, shall not be effective.

(2) A transfer of appropriations within any department other than an administrative transfer pursuant to subsection (1) shall not be made by the state budget director unless approved by both the senate and house appropriations committees. If the state budget director does not approve transfers adopted by both the senate and house appropriations committees under this subsection, the state budget director shall notify each member of both the senate and house appropriations committees of his or her action within 15 days after the senate and house appropriations committees' final approval.

(3) A transfer approved by the appropriations committees shall not be effective unless it is identical in terms of funding sources and dollar amounts.

(4) A transfer approved pursuant to this section shall constitute authorization to transfer the amount recommended and approved. However, the amount shall be reduced by the state budget director to be within the current unobligated amount of the appropriation.

(5) Capital outlay appropriations may be transferred from a state agency, community college, or institution of higher education to provide necessary funds for the completion of an authorized capital outlay project, if the transfer is approved by JCOS and the appropriations committees. Operating appropriations shall not be transferred into an existing capital outlay account.

(6) Transfers shall not be authorized under any of the following circumstances:

(a) To create a new line-item appropriation or to create a new state program.

(b) To or from an operating appropriation line-item that did not appear in the fiscal year appropriation bills for which the transfer is being made.

(c) To or from a work project as designated under section 451a.

(d) Between state governmental funds.

(7) Transfers of appropriations for financing sources shall be made concurrently with related transfers of appropriations for line expenditure items.

Sec. 396. (1) From the appropriations contained in a budget act, a state agency shall pay or record expenditures for the following:

(a) Court judgments, including court approved consent judgments; all settlements, awards, and claims.

(b) Writeoffs of accounts receivable recorded in a prior year.

(2) The attorney general shall notify the senate and house appropriations committees, the speaker of the house, the senate majority leader, and the fiscal agencies within 14 days after entering into a settlement or consent judgment which would result in a state obligation that exceeds \$200,000.00. The notice shall include a summary of the facts of the case and the reason or reasons that the settlement or consent judgment would be in the best interests of the state.

(3) Before December 1 of each year, each principal department shall transmit to the appropriations committees and fiscal agencies a written report which includes all of the following:

(a) The total dollar amount of final judgments and settlements against the principal department for the most recent completed fiscal year.

(b) Each source of funding and item appropriating money in a budget act, which source and item is used to pay the judgments and settlements pursuant to subdivision (a).

(c) The total dollar amount of final judgments and settlements received in the most recent completed fiscal year pursuant to legal actions by the principal department.

(d) Each revenue account in which money was credited pursuant to subdivision (c).

(e) An estimate of the total dollar amount and a description of the facts involved in each court action currently pending against the department for the most recently completed fiscal year.

Sec. 404. (1) "Revenues" means the increases in the net current assets of a fund other than from expenditure refunds and residual equity transfers.

(2) "Revolving fund" means a self-supporting fund which provides services or sells goods to state agencies, other governmental jurisdictions, or the public.

(3) "Unencumbered balance" means that portion of an appropriation not yet expended and encumbered.

(4) "Unexpended balance" means that portion of an appropriation not yet expended.

(5) "Unit of local government" means unit of local government as defined by section 115(5).

(6) "Work project" means a 1-time nonrecurring undertaking for the purpose of accomplishing an objective contained in specific line-item appropriation for that purpose or any other specific line-item appropriation designated as a work project by law under criteria established under section 451a(1).

Sec. 430. Within 10 working days after formal presentation of the executive budget, the state budget director shall report to the members of the senate and house appropriations committees and the senate and house fiscal agencies on the amounts and sources of all capped federal funds, special revenue funds as defined in the state of Michigan's comprehensive annual financial report, and the healthy Michigan fund created under section 5953 of the public health code, 1978 PA 368, MCL 333.5953, and an accounting of the state departments or agencies in which the executive budget proposes to spend the funds.

Sec. 434. Revenues received from rates charged or goods sold and revenue which is received from any other source and designated to be credited to a revolving fund shall be credited to that fund. Within 60 days after the fiscal year begins, the director shall submit to the appropriations committees and fiscal agencies a financial plan for the ensuing fiscal year. The financial plan shall include the rate structure, a projected statement of revenues and expenses in sufficient detail to provide for comparison with actual revenues and expenses, a projected statement of receipts and disbursements, and any other information considered necessary by the director. Within 60 days after the end of the fiscal year, the director shall submit to the legislature, the appropriations committees, and the fiscal agencies a report on the status of all such revolving funds, including all information reported in the financial plan.

Sec. 443. Except as otherwise provided by law, all money received by the various state agencies for whom appropriations are made by a budget act shall be forwarded to the state treasurer and credited to the state general fund. The state budget director may make federal revenue transfers between the recipient state department and the spending state department only when funds are appropriated in the spending department.

Sec. 451. (1) At the close of the fiscal year, the unencumbered balance of each appropriation shall lapse to the state fund from which it was appropriated. A document which is not ascertainable before the cutoff date set by the director may be charged against a current year's appropriation if the chief accounting officer determines that the state agency was not willful in its failure to ascertain or record the document and if the amount of the payment would not have exceeded the unencumbered balance of the applicable appropriation in the prior fiscal year.

(2) An encumbrance entered into within 15 days before the end of the fiscal year and outstanding at the close of the fiscal year is not a charge against that fiscal year but is charged to the next succeeding fiscal year.

Sec. 451a. (1) Except as provided in section 248, a work project appropriation continues to be available until completion of the work or 48 months after the last day of the fiscal year in which the appropriation was originally made, whichever comes first, then the remaining balance lapses to the state fund from which it was appropriated. For work projects established before the effective date of the amendatory act that added this section, the 48-month time period described in this subsection begins on the last day of the fiscal year in the year the amendatory act that added this section takes effect. To be designated as a work project, a work project shall meet all of the following criteria:

(a) The work project shall be for a specific purpose.

(b) The work project shall contain a specific plan to accomplish its objective.

(c) The work project shall have an estimated completion cost.

(d) The work project shall have an estimated completion date.

(2) The director has the authority to issue directives to lapse existing work project accounts at any time. The director shall notify each member of the senate and house appropriations committees and the fiscal agencies of work projects that the director has ordered to lapse. These directives may be disapproved by either the senate or house appropriations committee within 30 days after the date of notification and, if disapproved within that time, shall not be effective.

(3) Not later than 45 days after the conclusion of the fiscal year, the director shall notify the senate and house appropriations committees and the fiscal agencies of appropriations proposed to be designated as work projects in accordance with the definition contained in this act. These designations may be disapproved by either appropriations committee within 30 days after the date of notification and, if disapproved within that time, shall not be effective. The notification shall include an estimate of the dollar amount of the funds to be designated as work projects and a description of all work projects designated in an appropriations act.

(4) Not later than 120 days after the conclusion of the fiscal year, the director shall prepare and deliver to the senate and house appropriations committees and the fiscal agencies a report that summarizes current work project accounts. This report shall contain a listing of all work project accounts, the balance in each account, the amount of funds that lapsed from any previously designated work projects, and the funds that received these lapses.

Sec. 454. (1) Each budget act shall appropriate full-time equated positions based on 2,088 hours for 1.0 FTE position.

(2) Before the end of each quarter, the department of civil service shall provide a report to the department, the appropriations committees, and the fiscal agencies regarding the status of FTE positions for the preceding quarter. The quarterly report shall include, but shall not be limited to, the following information:

(a) The number of FTE positions, by department, on the last payroll for the preceding quarter.

(b) The increase or decrease in FTE positions, by department, compared to the last quarterly report.

(c) The difference between the appropriated FTE positions, and the actual number of FTE positions, by department, for that quarter.

(d) Summary totals for the information listed in subdivisions (a), (b), and (c).

(3) The department of civil service shall provide a report to the appropriations committees and the fiscal agencies by December 1 of each year, which shall include a fiscal year summary of the information required in subsection (2) for the most recently completed fiscal year.

Sec. 461. (1) As required by federal law, all federal grants awarded to the state shall be audited by the auditor general, an independent accounting firm selected by the auditor general, or an auditor approved by the appropriate federal agency. The funding for each audit shall be from the respective federal grants audited.

(2) Each audit performed pursuant to Public Law 104-156 shall be conducted by an independent auditor in accordance with generally accepted government auditing standards. Single audits for this state shall be conducted in accordance with Public Law 104-156 by the auditor general, an independent accounting firm selected by the auditor general, or an independent auditor approved by the appropriate federal agency. For fiscal years beginning October 1, 1985 and thereafter, biennial audits of state departments and agencies shall be performed for purposes of complying with the requirements of Public Law 104-156 pertaining to audit evaluation of the internal controls of this state and the state's compliance with material features of laws and regulations related to major federal assistance programs.

(3) The funding for single audits shall be from the respective federal grants audited, in accordance with Public Law 104-156. The chief executive officer of each principal department shall ensure that sufficient amounts are encumbered from the appropriate federal grants to finance the cost of the audits. Any unexpended amounts of encumbered funds may be carried over into succeeding years to cover the cost of the single audits.

(4) Before February 1 of each year, the director of each principal department shall submit to the director, fiscal agencies and the auditor general a schedule of federal financial assistance for the last completed fiscal year in a form approved by the auditor general.

(5) As used in this section, "Public Law 104-156" means chapter 75 of title 31 of the United States Code, 31 U.S.C. 7501 to 7507.

Sec. 462. Within 60 days after the final audit is released, the principal executive officer of a state agency which is audited shall submit a plan to comply with the audit recommendations to the department. The plan shall be prepared in accordance with procedures prescribed by the principal department. Copies of the plan shall be distributed in accordance with the administrative guide to state government. Copies shall also be distributed to relevant house and senate appropriations subcommittees, relevant house and senate standing committees, fiscal agencies, and the executive office.

Sec. 484. (1) The director, in consultation with the auditor general, shall develop a system of reporting and a general framework which shall be used by the principal departments in performing evaluations on their respective internal accounting and administrative control systems.

(2) The director, in consultation with the auditor general, may modify the format for the report or the framework for conducting the evaluations after giving 30 days' notice to each principal department head and the senate and house appropriations committees.

Sec. 485. (1) The department head of each principal department shall establish and maintain an internal accounting and administrative control system within that principal department using the generally accepted accounting principles as developed by the accounting profession and in conformance with directives issued pursuant to section 141(d).

(2) Each internal accounting and administrative control system shall include, but not be limited to, all of the following elements:

(a) A plan of organization that provides separation of duties and responsibilities among employees.

(b) A plan that limits access to that principal department's resources to authorized personnel whose use is required within the scope of their assigned duties.

(c) A system of authorization and record-keeping procedures to control assets, liabilities, revenues, and expenditures.

(d) A system of practices to be followed in the performance of duties and functions in each principal department.

(e) Qualified personnel that maintain a level of competence.

(f) Internal control techniques that are effective and efficient.

(3) Each head of a principal department shall document the system, communicate system requirements to employees of that principal department, assure that the system is functioning as prescribed, and modify as appropriate for changes in condition of the system.

(4) The head of each principal department shall provide a biennial report on or before May 1 of each odd numbered year prepared by the principal department's internal auditor on the evaluation of the principal department's internal accounting and administrative control system to the governor, the auditor general, the senate and house appropriations committees, the fiscal agencies, and the director. For the period reviewed, the report shall include, but not be limited to, both of the following:

(a) A description of any material inadequacy or weakness discovered in connection with the evaluation of the department's internal accounting and administrative control system as of October 1 of the preceding year and the plans and a time schedule for correcting the internal accounting and administrative control system, described in detail.

(b) A listing of each audit or investigation performed by the internal auditor pursuant to sections 486(4) and 487.

Sec. 486. (1) Each principal department shall appoint an internal auditor. Each internal auditor shall be a member of the state classified executive service.

(2) Except as otherwise provided by law, each internal auditor shall report to and be under the general supervision of the department head.

(3) A person may not prevent or prohibit the internal auditor from initiating, carrying out, or completing any audit or investigation. The internal auditor shall be protected pursuant to the whistleblowers' protection act, 1980 PA 469, MCL 15.361 to 15.369.

(4) The internal auditor of each principal department shall:

(a) Receive and investigate any allegations that false or misleading information was received in evaluating the principal department's internal accounting and administrative control system or in connection with the preparation of the biennial report on the system.

(b) Conduct and supervise audits relating to financial activities of the principal department's operations.

(c) Review existing activities and recommend policies designed to promote efficiency in the administration of that principal department's programs and operations as assigned by the department head.

(d) Recommend policies for activities to protect the state's assets under the control of that principal department, and to prevent and detect fraud and abuse in the principal department's programs and operations.

(e) Review and recommend activities designed to ensure that principal department's internal financial control and accounting policies are in conformance with the department of management and budget accounting division directives issued pursuant to sections 421 and 444.

(f) Provide a means to keep the department head fully and currently informed about problems and deficiencies relating to the administration of that principal department's programs and operations and the necessity for and progress of corrective action.

(g) Conduct other audit and investigative activities as assigned by the department head.

(5) Each internal auditor shall adhere to appropriate professional and auditing standards in carrying out any financial or program audits or investigations.

Sec. 492. The financial statements of all state agencies, as defined by generally accepted accounting principles as falling within the reporting responsibility of the state, shall be included in the comprehensive annual financial report of the state. The director shall designate and notify each state agency of this responsibility as well as describe the statement format that shall be followed by each agency so notified. The statements provided shall be followed by each state agency so notified. The statements provided shall be audited as provided by law or by the auditor general or independent auditors selected by the auditor general before submission to the department of management and budget and shall be submitted not later than 90 days following the close of the state's fiscal year.

Sec. 493. The director shall submit preliminary, unaudited financial statements including notes of the general fund and the state school aid fund to the legislature and the fiscal agencies within 120 days after the end of the fiscal year.

Enacting section 1. Sections 206, 207, 223, 225, 238, 239, 243, 247, 271, 282, 353a, 353b, 353d, 354a, 362, 362a, 382, 456, and 488 of the management and budget act, 1984 PA 431, MCL 18.1206, 18.1207, 18.1223, 18.1225, 18.1238, 18.1239, 18.1243, 18.1247, 18.1271, 18.1282, 18.1353a, 18.1353b, 18.1353d, 18.1354a, 18.1362, 18.1362a, 18.1382, 18.1456, and 18.1488, are repealed.

This act is ordered to take immediate effect.

Carol Morey Viventi

Secretary of the Senate.

Jay E. Randall

Clerk of the House of Representatives.

Approved

.....
Governor.