



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

June 26, 2013

Harlan Goodrich, Secretary
Local Emergency Financial Assistance Loan Board
Local Audit and Finance Unit
Michigan Department of Treasury
Lansing, MI 48909

Dear Mr. Goodrich:

As required in § 4(2) of Public Act 436 of 2012, the Local Financial Stability and Choice Act, I am providing a Final Report of my Preliminary Review of the Buena Vista School District to the Local Emergency Financial Assistance Loan Board.

An Interim Report of the Preliminary Review was sent to the Buena Vista School District on June 11, 2013. The district was given five days to respond to that Interim Report. Copies of both the Interim Report of the Preliminary Review and the Buena Vista School District response are attached.

Questions may be directed to Dan Hanrahan at HanrahanD@Michigan.gov and Carol Wolenberg at WolenbergC@Michigan.gov or by fax to (517) 241-0196.

Sincerely,

Mike Flanagan

State Superintendent

Attachments

cc: Stacy Erwin Oakes, State Representative, 95th State House District
Roger Kahn, State Senator, 32nd State Senate District
Randy Jackson, President, Buena Vista Board of Education
Tionna Watkins, Vice President, Buena Vista Board of Education
Rhonda Burton, Secretary, Buena Vista Board of Education
Fredia Wicks, Treasurer, Buena Vista Board of Education
Mary Haynie, Trustee, Buena Vista Board of Education
Frances Hayes, Trustee, Buena Vista Board of Education
Beverly Ford, Trustee, Buena Vista Board of Education
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director of State Aid and School Finance, Michigan Dept. of Education

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STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: June 26, 2013
TO: Local Emergency Financial Assistance Loan Board
FROM: Mike Flanagan, State Superintendent 
SUBJECT: Final Report - Preliminary Review of the Buena Vista School District

The following represents the Final Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act, Public Act 436 of 2012 (PA 436), for Buena Vista School District (the "District").

I. Background

In a letter dated May 28, 2013, I advised the Buena Vista School District that pursuant to my authority vested under PA 436, I was initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within the Buena Vista School District. §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the conditions listed in §4(1) are met. The Preliminary Review of the Buena Vista School District resulted from the following condition enumerated in §4(1) of the Act: the governing body or the chief administrative officer of a local government requests a preliminary review under this act (§4(1)(a)). The Michigan Department of Education ("Department") received the Buena Vista Board of Education Resolution dated May 9, 2013, regarding the existence of probable financial stress in the district. Specifically, the Buena Vista Board "requests that the State Financial Authority (i.e. the Superintendent of Public Instruction) immediately conduct a preliminary review to determine the existence of probable financial stress within the district," pursuant to §4(1)(a) of PA 436.

In addition to the condition above that initiated the Preliminary Review, the District also meets the following conditions in §4(1):

(s) Other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically in the case of Buena Vista, the §4(1)(s) circumstance is

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the closure of schools from May 7-17, 2013 due to insufficient operating funds.

(j) The local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.437 to 141.440 which prohibits an administrative officer of a school district from incurring expenditures against an appropriation in excess of the amount appropriated. The District's negative fund balance is evidence of this violation.

(n) The local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan. The Department approved a Deficit Elimination Plan (DEP) on July 7, 2012 which required the District to reduce its deficit to \$819,929 on June 30, 2013. The District's pupil count did not reach the level projected in the DEP for 2012-13. The DEP approval required the district to compensate for that loss with other revenues or expenditure reductions. Instead, the District now estimates that the June 30, 2013 deficit will be at least \$1.9 million and probably higher. The District is continuing to make adjustments for federal fund sources, payables and receivables.

II. Final Report of Findings

The Department has developed critical factors to determine if a finding of probable financial stress is warranted. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

- 1) The district has been in deficit for three or more consecutive years (including the current year); and
- 2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and
- 3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:
 - a) Lack of written policies and procedures or failure to follow the written policies and procedures
 - b) Poor cash management
 - c) Failure to provide Personnel Activity Reports (PAR) for employees paid with federal funds

- d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)
 - e) Use of grant funds on unallowable expenditures
 - f) Going Concern/Qualified Opinion; and
- 4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:
- a) A deficit increase from the previous year
 - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of Deficit Elimination Plans (DEP), delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)
 - c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or
- 5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed the Buena Vista School District with regard to the above five (5) factors. The results of the assessment are as follows:

- 1) The Buena Vista School District ended the 2010-11 fiscal year with a \$51,593 deficit. The deficit balance for the year ended June 30, 2012 was \$1.0 million. The District projected that it will remain in deficit in the 2012-13 and 2013-14 fiscal years.
- 2) The Buena Vista School District's June 30, 2013 deficit balance expressed as a percentage of its general fund revenues is projected to be a negative 27%. The percentage far exceeds the Department's parameter of a negative 15% to indicate concern.
- 3) The Buena Vista School District's audited financial report for the year ended June 30, 2012 included six findings of material weaknesses, significant deficiencies, or non-compliance. The District's June 30, 2011 audit included two findings of material weaknesses, significant deficiencies, or non-compliance. (See Attachment A for details) In addition, the following additional program findings relate to federal programs operated by the District:

- (a) The Department began withholding School Improvement Grant funds on May 6, 2013 due to district insolvency and slow, inconsistent implementation
 - (b) In a report issued on February 4, 2013, significant fiscal internal control deficiencies were identified related to federal grant programs in the following areas: staffing, board policies and district procedures, cash management, payroll expenditures, budget, general expenditures, purchased services and equipment. Questioned costs were identified in the amount of \$419,344.45 (75.51% of the sample). In light of the serious nature of the findings and amount of questioned costs, the Department is requiring increased fiscal monitoring by a CPA firm at district expense prior to draws on federal program funds to protect the federal interests.
 - (c) The District's implementation of the federal Safe and Supportive Schools Grant had the following issues: (i) non-compliance with grant requirements including non-implementation of the approved grant plan and lack of documented grant outcomes; and (ii) diverted grant funds for the Building Liaison's time and effort to non-approved, non-grant related programs including Saturday School and after-school programs.
- 4) The Buena Vista School District has shown unsatisfactory progress in eliminating the deficit. The District's deficit has increased from \$51,593 on June 30, 2011 to \$1.0 million on June 30, 2012. Further, the District projects that the deficit will grow to at least \$1.9 million and probably higher at the end of the 2012-13 school year. The District is continuing to make adjustments for federal fund sources, payables and receivables.
- 5) The District cancelled classes May 7-17, 2013 due to insufficient funds to meet payroll obligations. Further, although classes were reinstated on May 20, 2013 and are scheduled to end June 26, 2013, the District was not able to meet the 75% attendance requirement on several of those additional days. The Department will be required to adjust the District's 2013-14 State School Aid funding for failure to maintain the required daily attendance requirement when the report required in August of every year is submitted.

In addition to the assessment above related to the Buena Vista School District and the five (5) critical factors that the Department developed to assist in analyzing a district's level of financial stress, the following factors were also noted:

- The Department's approval of the District's DEP was rescinded February 5, 2013 as a result of the District's failure to implement strategies to reduce the 2012-13 deficit to the level projected in the DEP.
- In a February 5, 2013 meeting, the District informed the Department's financial management division that it was no longer operating the Wolverine Secure Treatment Center program although the District continued to receive categorical state aid funds for that program, resulting in an overpayment of \$580,000 in state school aid to the District. The Department was then legally required to offset the April and May 2013 state school aid payments in order to recover the overpayment.
- The Department approved the District's revised DEP on May 15, 2013 with several standard contingencies and one significant Special Condition. The Special Condition reads, "The remaining state school aid funds due to the District for the school year ending June 30, 2013 will be released to the District as needed to meet critical expenditures, including all payroll related costs, on a schedule not to exceed the payment schedule in Section 17b of the State School Aid Act (MCL 388.1617b)."
 - The June 13, 2013 cash flow statement from the district shows that the District will be out of cash and unable to make payroll beginning the week of July 1, 2013.
 - The Department imposed a requirement for efficiencies that the District must notify the Department no later than 4 days in advance in order to process an Electronic Payment Transfer for payroll and other critical expenses related to this Special Condition. However, the Department accommodated 3 requests from the District for payments that required a wire transfer in order for May 31, 2013 and June 7, 2013 payrolls to be met.
- In a June 12, 2013 letter to Carol Wolenberg, Deputy Superintendent, and John Barton in the Department of Treasury, both Departments were informed that the Buena Vista School District will default on the August 2013 repayment of its \$2,000,000 2012 state aid note. This default will preclude the District's participation in the 2013 state aid note borrowing program. Therefore, it is likely that the District's 2013-14 budget would have no operational capacity and, therefore, no enrollment. The letter further informed the Departments that the Deficit Elimination Plan would be revised based upon this new assumption.
- This same June 12, 2013 letter also indicated that the District leadership has initiated discussion with a large contract service

Local Emergency Financial Assistance Loan Board

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June 26, 2013

provider to charter schools. This service provider offered to review its ability to contract for central office and management services. The Department has been informed that the District's board of education is now reconsidering chartering its high school.

- The District's board of education held a special meeting on June 25, 2013. At this meeting, the board laid off 20 teachers and staff members leaving three District employees after June 28, 2013. The board also approved an application to request an emergency loan of over \$2 million from the Department of Treasury in order to pay off the District's State Aid Note debt due to Treasury in August 2013.

An Interim Report of the Preliminary Review was sent to the Buena Vista School District on June 11, 2013. The District was given five days, as required in statute, to respond to that report. Copies of both the Interim Report (Attachment B) and the response from Buena Vista School District Board President Randy Jackson (Attachment C) are attached. Attachment D is a copy of the June 12, 2013 letter to Carol Wolenberg and John Barton.

As the state financial authority for school districts, I am forwarding this Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board pursuant to the language in § 4(2) of P.A. 436 of 2012.

Questions should be directed to Dan Hanrahan, Director of the Office of State Aid and School Finance, at hanrahand@michigan.gov and Carol Wolenberg, Deputy Superintendent, at wolenbergc@michigan.gov or by fax to (517) 241-0196.

Attachments

cc: Stacy Erwin Oakes, State Representative, 95th State House District
Roger Kahn, State Senator, 32nd State Senate District
Randy Jackson, President, Buena Vista Board of Education
Tionna Watkins, Vice President, Buena Vista Board of Education
Rhonda Burton, Secretary, Buena Vista Board of Education
Fredia Wicks, Treasurer, Buena Vista Board of Education
Mary Haynie, Trustee, Buena Vista Board of Education
Frances Hayes, Trustee, Buena Vista Board of Education
Beverly Ford, Trustee, Buena Vista Board of Education
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Dept. of Education

Buena Vista School District			
Findings	2011-2012		
Financial Statement Findings			
Finding Number	Type of Finding	Program Office	Condition
2012-FS-1	Material Weakness		Auditors identified and proposed certain material adjustments (which were approved and posted by management) to adjust the district's general ledger to the appropriate balances.
Federal Program Findings			
2012-SA-1	Material Weakness	All Federal Programs	Independent external auditors assist in preparation of the SEFA. These auditors cannot by definition be considered a part of the District's internal controls.
2012-SA-2	Significant deficiency	Title I Part A Cluster, Special Education Cluster, School Improvement	District had no supporting documentation to verify that they did not contract with parties that are suspended or debarred.
2012-SA-3	Immaterial noncompliance	Title I Part A Cluster, School Improvement Grants Cluster	The district was unable to provide proper supporting documentation for several of the actual cash reimbursements that they obtained throughout the grant period.
2012-SA-4	Significant deficiency	Special Education Cluster	The district properly allocated 100% of employees' payroll charges to federal programs without obtaining proper certifications for those employees.
2012-SA-5	Immaterial noncompliance	Title I Part A Cluster, Special Education Cluster, School Improvement	The district was unable to provide proper support that indicated that Section 1512 reports were completed or submitted.

Buena Vista School District			
Findings	2010-2011		
Financial Statement Findings			
Finding Number	Type of Finding	Program Office	Condition
2011-1	Significant deficiency		The district had several entries posted to balance sheet accounts that were never reviewed by the Finance Director or any other management level employee.
Federal Program Findings			
2011-2	Significant deficiency and immaterial noncompliance	IDEA Program	The district properly allocated 100% of employees' payroll charges to federal programs without obtaining proper certifications for those employees.



STATE OF MICHIGAN
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GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

June 11, 2013

Deborah Hunter-Harvill, Superintendent
Randy Jackson, President, Buena Vista Board of Education
Buena Vista School District
705 N. Towerline Rd.
Saginaw, MI 48601

Dear Superintendent Hunter-Harvill and Board President Jackson:

In a May 28, 2013, letter to you, I advised that I was authorizing a Preliminary Review under Section 4 of PA 436 of 2012, the Local Financial Stability and Choice Act. The purpose of the Preliminary Review is to "determine the existence of probable financial stress" within the district. This section of law also requires that an interim report of findings be provided to the district within 20 days following commencement of the Preliminary Review. This letter is to transmit the interim report of findings to meet that obligation.

The district has five (5) days from the date that the interim report is submitted to the district to provide comments on this report. The law requires that I must complete a final report within 30 days following the commencement of the Preliminary Review and submit it to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team to determine if a financial emergency exists.

Please provide your comments on the interim report to both Dan Hanrahan at HanrahanD@Michigan.gov and Carol Wolenberg WolenbergC@Michigan.gov or by fax to (517) 241-0196. We appreciate your cooperation in this matter.

Sincerely,

Mike Flanagan
State Superintendent

cc: Senator Roger Kahn, 32nd District
Representative Stacy Erwin Oakes, 95th District
Jamie Kendall, Financial Consultant, Buena Vista School District
Tionna Watkins, Vice President, Buena Vista Board of Education
Rhonda Burton, Secretary, Buena Vista Board of Education
Fredia Wicks, Treasurer, Buena Vista Board of Education
Mary Haynie, Trustee, Buena Vista Board of Education
Frances Hayes, Trustee, Buena Vista Board of Education
Beverly Ford, Trustee, Buena Vista Board of Education
Richard Syrek, Superintendent, Saginaw ISD
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Daniel Hanrahan, Director, Office of State Aid and School Finance, Michigan Department of Education

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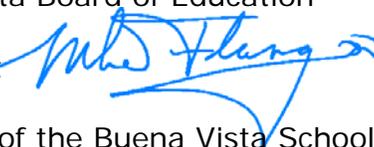
STATE OF MICHIGAN
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GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: June 11, 2013

TO: Deborah Hunter-Harvill, Superintendent, Buena Vista School District
Randy Jackson, President, Buena Vista Board of Education

FROM: Mike Flanagan, State Superintendent 

SUBJECT: Interim Report - Preliminary Review of the Buena Vista School District

The following represents the Interim Report of findings for the Preliminary Review under the Local Financial Stability and Choice Act, Public Act 436 of 2012 (PA 436), for Buena Vista School District (the "District").

I. Background

In a letter dated May 28, 2013, I advised the Buena Vista School District that pursuant to my authority vested under PA 436, I was initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within the Buena Vista School District. §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the criteria listed in §4(1) are met. The Preliminary Review of the Buena Vista School District resulted from the following condition enumerated in §4(1) of the Act: the governing body or the chief administrative officer of a local government requests a preliminary review under this act (§4(1)(a)). The Michigan Department of Education ("Department") received the Buena Vista Board of Education Resolution dated May 9, 2013, regarding the existence of probable financial stress in the district. Specifically, the Buena Vista Board "requests that the State Financial Authority (i.e. the Superintendent of Public Instruction) immediately conduct a preliminary review to determine the existence of probable financial stress within the district," pursuant to §4(1)(a) of PA 436.

In addition to the criterion above that initiated the Preliminary Review, the district also meets the following criteria in §4(1):

(s) Other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically in the case of Buena Vista, the §4(1)(s) circumstance is the closure of schools from May 7 - 17, 2013 due to insufficient operating funds.

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(j) The local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.437 to 141.440 which prohibits an administrative officer of a school district from incurring expenditures against an appropriation in excess of the amount appropriated. The district's negative fund balance is evidence of this violation.

(n) The local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan. The Department approved a deficit elimination plan (DEP) on July 7, 2012 which required the district to reduce its deficit to \$819,929 on June 30, 2013. The district's pupil count did not reach the level projected in the DEP for 2012-13. The DEP approval required the district to compensate for that loss with other revenues or expenditure reductions. Instead, the district now estimates that the June 30, 2013 deficit will be \$1.9 million.

II. Interim Report of Findings

The Department has developed critical factors to determine if a finding of probable financial stress is warranted. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

- 1) The district has been in deficit for three or more consecutive years (including the current year); and
- 2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and
- 3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:
 - a) Lack of written policies and procedures or failure to follow the written policies and procedures
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- d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)
 - e) Use of grant funds on unallowable expenditures
 - f) Going Concern/Qualified Opinion; and
- 4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:
- a) A deficit increase from the previous year
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 - c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or
- 5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed the Buena Vista School District with regard to the above five (5) factors. The results of the assessment are as follows:

- 1) The Buena Vista School District ended the 2010-11 fiscal year with a \$51,593 deficit. The deficit balance for the year ended June 30, 2012 was \$1.0 million. The District projected that it will remain in deficit in the 2012-13 and 2013-14 fiscal years.
- 2) The Buena Vista School District's June 30, 2013 deficit balance expressed as a percentage of its general fund revenues is projected to be a negative 27%. The percentage far exceeds the Department's parameter of a negative 15% to indicate concern.
- 3) The Buena Vista School District's audited financial report for the year ended June 30, 2012 included six findings of material weaknesses, significant deficiencies, or non-compliance. The District's June 30, 2011 audit included two findings of material weaknesses, significant

deficiencies, or non-compliance. See Attachment A for more information.

- 4) The Buena Vista School District has shown unsatisfactory progress in eliminating the deficit. The deficit has increased from \$51,593 on June 30, 2011 to \$1.0 million on June 30, 2012. Further, the district projects that the deficit will grow to \$1.9 million at the end of the 2012-13 school year.
- 5) The District cancelled classes May 7-17, 2013 due to insufficient funds to meet payroll obligations.

In addition to the assessment above related to the Buena Vista School District and the five (5) critical factors that the Department developed to assist in analyzing a district's level of financial stress, the following factors were also noted:

- The Department's approval of the District's DEP was rescinded February 5, 2013 as a result of the District's failure to implement strategies to reduce the 2012-13 deficit to the level projected in the DEP.
- In a February 5, 2013 meeting, the District informed the Department that it was no longer operating the Wolverine Secure Treatment Center program although the district continued to receive categorical state aid funds for that program, resulting in an overpayment of \$580,000 in state school aid to the District. The Department was then legally required to withhold state school aid payments beginning with the April 2013 payment to recover the overpayment.
- The Department approved the district's revised DEP on May 15, 2013 with several standard contingencies and one significant Special Condition. The Special Condition reads, "The remaining state school aid funds due to the district for the school year ending June 30, 2013 will be released to the district as needed to meet critical expenditures, including all payroll related costs, on a schedule not to exceed the payment schedule in Section 17b of the State School Aid Act (MCL 388.1617b)."
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 - The Department imposed a requirement for efficiencies that the District must notify the Department no later than 4 days in

advance in order to process an Electronic Payment Transfer for payroll and other critical expenses related to this Special Condition. However, the Department accommodated 3 requests from the District for payments that required a wire transfer in order for May 31, 2013 and June 7, 2013 payrolls to be met.

III. Next Steps

As the state financial authority for school districts, I am forwarding this Interim Report to the Buena Vista School District pursuant to the language in §4(2) of PA 436. The District may provide comments on this Interim Report within five (5) days after the date that this Report is provided. Please direct these comments to Dan Hanrahan at hanrahand@michigan.gov or by fax to (517) 241-0196. A Final Report incorporating the District's comments will be provided to the District and the Local Emergency Financial Assistance Loan Board on or before July 11, 2013 as required by law. The Local Emergency Financial Assistance Loan Board will determine if probable financial stress exists for the District. The law requires that this Board make a determination no later than 20 days after receiving the Final Report of the Preliminary Review.

Attachments

cc: Stacy Erwin Oakes, State Representative, 95th State House District
Roger Kahn, State Senator, 32nd State Senate District
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director, Office of State Aid and School Finance, Michigan Dept. of Education
Richard Syrek, Superintendent, Saginaw Intermediate School District

Attachment A

Buena Vista School District			
Findings	2011-2012		
Financial Statement Findings			
Finding Number	Type of Finding	Program Office	Condition
2012-FS-1	Material Weakness		Auditors identified and proposed certain material adjustments (which were approved and posted by management) to adjust the district's general ledger to the appropriate balances.
Federal Program Findings			
2012-SA-1	Material Weakness	All Federal Programs	Independent external auditors assist in preparation of the SEFA. These auditors cannot by definition be considered a part of the District's internal controls.
2012-SA-2	Significant deficiency	Title I Part A Cluster, Special Education Cluster, School Improvement	District had no supporting documentation to verify that they did not contract with parties that are suspended or debarred.
2012-SA-3	Immaterial noncompliance	Title I Part A Cluster, School Improvement Grants Cluster	The district was unable to provide proper supporting documentation for several of the actual cash reimbursements that they obtained throughout the grant period.
2012-SA-4	Significant deficiency	Special Education Cluster	The district properly allocated 100% of employees' payroll charges to federal programs without obtaining proper certifications for those employees.
2012-SA-5	Immaterial noncompliance	Title I Part A Cluster, Special Education Cluster, School Improvement	The district was unable to provide proper support that indicated that Section 1512 reports were completed or submitted.

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Findings	2010-2011		
Financial Statement Findings			
Finding Number	Type of Finding	Program Office	Condition
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Federal Program Findings			
2011-2	Significant deficiency and immaterial noncompliance	IDEA Program	The district properly allocated 100% of employees' payroll charges to federal programs without obtaining proper certifications for those employees.

BUENA VISTA SCHOOL DISTRICT
705 N. TOWERLINE ROAD • SAGINAW, MICHIGAN 48601
(989) 755-2184 • FAX (989) 755-0286

June 17, 2013

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FRANCES L. HAYES
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BEVERLEY FORD
Trustee

○ ○ ○

DR. DEBORAH HUNTER-HARVILL
Superintendent

○ ○ ○

**BUENA VISTA DISTRICT
SCHOOLS**

BUENA VISTA HIGH
BRITTANY SANFORD
PRINCIPAL
3945 Holland Road
754-1493 – Phone
758-0915 – Fax

**THE PHOENIX SCIENCE AND
TECHNOLOGY CENTER**
Debra Jackson-Noble Principal
1925 S. Outer Drive
753-6438 – Phone
753-4953 – Fax

HENRY A. DOERR
CHILD DEVELOPMENT CENTER

Principal
3270 Perkins
755-5421 – Phone
755-6722 – Fax



"We Make A Difference"

Re: Interim Report – Preliminary Review of Buena Vista Schools
Conducted by State of Michigan Financial Review Team

Dear Superintendent Flanagan:

Thank you for taking the time to review the financial circumstances at the Buena Vista School District and providing us with your interim report (the "Report"). It paints a grim picture of the financial situation within the District.

The shut-down experienced in May, combined with the default on the District's bonds and impending default on the District's 2012 state aid note, are clear indications that we have been unable to get small enough fast enough.

It is clear that the District needs to take swift and immediate steps to restructure itself if it is to remain a viable entity. We believe that the process outlined in the Deficit Elimination Plan and our letter to Ms. Carol Wolenberg dated June 12, 2013 provide two alternative methods for the District to revise its operations and undertake significant change.

Our only comment to the Report relates to the assertions made regarding the District's notification to the state about the receipt of funds from the Wolverine Secure Treatment Center. We feel compelled to offer some context to this situation, due to the fact that, although the District takes responsibility for expending the funds it received, the continued receipt of these funds appears to have resulted from a combination of unfortunate errors.

While it is true that the District notified senior staff at the Michigan Department of Education in February of 2013 about the receipt of these funds, it should also be noted that, prior to February, 2013, the District notified various staff within the State of Michigan that the program was discontinued and engaged in electronic mail correspondence related to the wind up of the program through July of 2012, under a prior fiscal services director. That correspondence is attached.

The District's internal review indicates that the funds in question continued to be received due to the peculiarities of the pupil accounting reporting system. When the program was discontinued, and the District was reporting its fall count, District staff attempted to report "0" students attending the program. The software would not accept this number. When the District made contact with technical assistance personnel to resolve the issue, the advice was given that the District should simply report "1" student as a work around.

Unfortunately, the correct way to respond to this, we have been informed, would have been to close out the program by building code in the electronic entity master (a separate database). The reporting of "1" student, combined with the failure to close out the program in the EEM appears to have caused the State, on a software level, to believe the program remained active, despite the

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human information that was being provided to the contrary.

The funds were transmitted to the District along with regular state aid funds and categoricals and used to pay operational expenses of the District during the period in question. The District did not accomplish the reductions necessary to reduce its overhead in a manner that would allow it to continue to operate using only its state aid and categoricals.

While the District takes responsibility for the consequences of this error, we believe we have the requisite staff and safeguards in place to ensure that this does not re-occur.

Sincerely,

A handwritten signature in cursive script that reads "Randy L. Jackson". The signature is written in black ink and includes a long horizontal flourish extending to the right.

Mr. Randy L. Jackson
Board of Education, President

CLARK HILL

Joseph B. Urban
T 248.988.1829
F 248.988.1827
Email: jurban@clarkhill.com

Clark Hill PLC
151 S. Old Woodward
Suite 200
Birmingham, MI 48009
T 248.642.9692
F 248.642.2174

clarkhill.com

June 12, 2013

BY CERTIFIED MAIL

Ms. Carol Wolenberg
Deputy Superintendent
Michigan Department of Education
608 W. Allegan Street
P.O. Box 30008
Lansing, MI 48909



Re: Buena Vista School District

Dear Ms. Wolenberg:

Thank you for taking to time to meet with me and Dr. Hunter-Harvill, Superintendent of the Buena Vista School District, on Monday, June 10, 2013. I know that the District is grateful for the support that the MDE has provided, not only in the form of permitting access to the District's state school aid to finish the instructional year, but also even in the mundane areas related to initiating wire transfers of funds to ensure payment of teaching staff. Your department's dedication to supporting local districts in their educational responsibilities cannot be overstated.

As we discussed, Buena Vista School District will default on the August, 2013 repayment of its \$2,000,000 2012 state aid note. I write to formalize the likely consequence of Buena Vista's default. As we both heard from Mr. Barton of the Michigan Finance Authority, the Authority will in all likelihood be forced to intercept the District's state aid next year in order to recoup payment on the defaulted note. This recoupment will exceed the total state aid that is anticipated to be allocated, based upon projected membership count. Further, the District's default will preclude its participation in the 2013 state aid note pool.

Based on the discussions with you and Mr. Barton, there will be no ability for MDE or the Authority to make interim financial assistance available to the District so that it may operate in 2013-14 despite the intercept.

As a result, the District's 2013-14 budget will more than likely forecast no operational capacity in 2013-14, and, therefore, no enrollment. The Deficit Elimination Plan will also be revised based upon this new assumption.

June 12, 2013
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Although the facts above are grim, we have been engaged in discussions with other parties in order to explore the continued viability of the District.

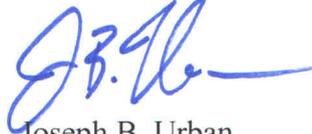
District leadership has initiated discussion with a large contract service provider to charter schools. That service provider has offered to review its ability to contract for central office and management services, such that the District would remain a K-12 district (not convert to a charter school), but realize savings from the consolidations set forth in the deficit elimination plan and also from the contracting out of all administrative functions.

I have been directed to ask you, and, by copy of this letter, Mr. Barton, whether MDE and the Authority would permit the intercept period for repayment of the 2013 state aid note to be extended so that the District could remain operational and to undertake repayment for the 2013 state aid note from the savings realized from contracting out administrative services. We anticipate that, should you be amenable to such a proposal from the District, the service provider will be able to project savings and a repayment schedule for your consideration.

Please contact me with any questions or to discuss this further.

Sincerely,

CLARK HILL PLC



Joseph B. Urban

John Barton, Michigan Finance Authority