



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

May 20, 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 P.A. 436 of 2012, the Local Financial Stability and Choice Act, I am providing a final report of my Preliminary Review of the Pontiac School District to the Local Emergency Financial Assistance Loan Board (Attachment A).

An interim report of the Preliminary Review was sent to the Pontiac School District on May 8, 2013. The district was given five days to respond to that interim report. Copies of both the Interim Report of the Preliminary Review (Attachment B) and the Pontiac School District response (Attachment C) 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: Tim Greimel, House Democratic Leader, 29th State House District
Jim Marleau, State Senator, 12th State Senate District
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director of State Aid and School Finance, Michigan Dept. of Education
Carol Turpin, President, Pontiac Board of Education
Karen Cain, Vice President, Pontiac Board of Education
Brenda Carter, Secretary, Pontiac Board of Education
Sherman Williams II, Treasurer, Pontiac Board of Education
Susan Loveland, Trustee, Pontiac Board of Education
Mattie McKinney-Hatchett, Trustee, Pontiac Board of Education
S. Barbara Raby, Trustee, Pontiac Board of Education

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LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: May 20, 2013
TO: Local Emergency Financial Assistance Loan Board
FROM: Mike Flanagan, State Superintendent
SUBJECT: Final Report - Preliminary Review of the Pontiac School District

The following represents the Final Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (P.A. 436 of 2012) for Pontiac School District (the "District").

I. Background

On May 7, 2012, pursuant to my authority under P.A. 4 of 2011, I initiated a Preliminary Review of the finances of the Pontiac School District to determine if a finding of probable financial stress was warranted. Michigan Department of Education ("Department") staff completed the review and submitted it to me on June 5, 2012. Based upon that report, I determined that a finding of probable financial stress existed. However, in light of events that took place at the district after the Preliminary Review process was initiated, I did not recommend a Review Team at that time. I reserved the right to recommend that the Governor appoint a Review Team should it be determined that the district and local board were at any point in the future not continuing to implement the district's approved Deficit Elimination Plan ("DEP") resulting in progress to eliminate the deficit.

In a letter dated April 23, 2013, I advised the Pontiac School District that pursuant to my authority vested under P.A. 436 of 2012, I was initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within the Pontiac School District. Section 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 Section 4(1) are met. The Preliminary Review of the Pontiac School District resulted from the following conditions enumerated in §4(1) of the Act: the existence of "other facts and circumstances...that in the superintendent of public instruction's sole discretion...are indicative of probable financial stress (§4(1)(s)); Pontiac School District failed to timely file an annual financial report or audit

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(§4(1)(k)); Pontiac School District is in breach of its obligation under a deficit elimination plan (§4(1)(n)); and a court has ordered an additional tax levy without the prior approval of the governing body of the local government (§4(1)(o)).

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 or failure to make pension fund deposits.

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

- 1) The District ended the 2008-09 fiscal year with an \$8.5 million deficit. The deficit persisted in each of the subsequent years and the deficit for the year ended June 30, 2012 was \$37.7 million. The District projected that it will remain in deficit in the 2012-13 and 2013-14 fiscal years.
- 2) The District's June 30, 2012 deficit balance expressed as a percentage of its general fund revenues was a negative 52%. The percentage far exceeds the Department's parameter of a negative 15% to indicate concern.
- 3) The District's privately audited financial report for the year ended June 30, 2012, included 10 findings of material weaknesses, significant deficiencies, or non-compliance. The District's June 30, 2011 audit included 14 findings of material weaknesses, significant deficiencies, or non-compliance. See Attachment A for more information.
- 4) The District has shown unsatisfactory progress in eliminating the deficit. The deficit has increased from \$8.5 million on June 30, 2009, to \$37.7 million on June 30, 2012. The District board and administration met with Department and Treasury staff on various occasions during 2009, 2011, and 2013. Pontiac Board of Education members in attendance at these meetings indicated that they were willing to do whatever was necessary to eliminate the deficit, yet the District's deficit has quadrupled since fiscal year end 2009.
- 5) The District was delinquent in retirement contributions to the Michigan Public School Employees Retirement System in the amount of \$2,727,754.70 for the period ending March 31, 2012 as of May 23, 2012. A repayment plan was worked out by the District directly with the Office of Retirement Systems (ORS), Michigan Public School Employees Retirement System (MPERS). The District paid \$500,000 biweekly on a regular basis in February and March of 2013 with payments running a week late. ORS has not received any payments since April 8, 2013. ORS reports that the District is currently in escalation for failure to pay retirement contributions. If the District fails to pay delinquent retirement contributions, the MPERS Board could direct that state school aid be withheld until the contributions are made whole.

In addition to the assessment above related to the Pontiac 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:

- 1) The District did not timely file its audit or annual financial report due by November 15 of each year, or in this instance by November 15, 2012, as required by law. The Department then was legally required to withhold state school aid payments beginning with the December 2012 payment. The District submitted the required reports on March 18, 2013; the withheld payments for December, January and February of 2013 were released to the District.
- 2) The Department's approval of the District's DEP was rescinded as a result of the District's failure to implement agreed to strategies to reduce the 2011-12 deficit to the level projected in the DEP. The Department was then legally required to withhold state school aid payments beginning with the March 2013 payment. The March and April 2013 payments have been withheld.
- 3) A revised DEP was submitted by the District on April 19, 2013. However, the Pontiac Board of Education took action following that submission to renew two (2) administrator contracts that had not been renewed as part of the revised DEP, thereby negating the revised DEP as submitted on April 19, 2013.
- 4) On May 6, 2013, the District submitted another revised and board approved DEP. The Department approved the revised DEP on May 13, 2013 after clarifying with the district administration that the local school board had approved all components of the Plan. This approved Plan goes beyond the Department's normal five-year period and is very aggressive in expecting that a \$37.7 million deficit will be eliminated in three years given the District's deficit history. The approval was given with significant contingencies.
- 5) Cash flow continues to be distressed to a level that requires the District to receive current year advances from Oakland Schools in order meet payroll and other financial obligations.
- 6) Due to advances from Oakland Schools, the District was able to meet its May 3, 2013 payroll. However, there are no other funds that can be advanced by Oakland Schools that would be sufficient to meet the May 17, 2013 payroll obligation in the amount of approximately \$875,000.
- 7) It is the Department's understanding from Oakland Schools that the District is not able to meet other vendor obligations including but not limited to transportation, utilities, custodial, food services, and substitute teachers, as well as \$1.5 million in technology obligations owed directly to Oakland Schools.
- 8) In November 2011, the Department was informed by then Pontiac Board President Dorkins that the District was under FBI investigation. The Department understands that this investigation continues to date.

- 9) The District has a long history of turnover in administrative leadership, which does not provide for consistent, stable, and on-going implementation of a Deficit Elimination Plan. For example, Superintendent Tom Maridada was replaced by Interim Superintendent Jonathan Brown in July 2011; he left in November 2011. Interim Superintendent Brown was replaced by Superintendent Walter Burt in 2011; he was replaced by Superintendent Brian Dougherty for the 2012-13 school year. Superintendent Dougherty resigned on May 6, 2013 effective May 10, 2013. He will be replaced by Interim Superintendent Kelly Williams who will receive consulting services from former Superintendent Burt. The District also has had an Interim Business Manager, Paul Bryant from Plante and Moran, since June 2011.
- 10) A \$7,779,543.22 Civil Judgment was ordered by the 6th Judicial Circuit Court against the District on January 18, 2013 on behalf of Michigan Education Special Services Association (MESSA).

An interim report detailing my preliminary review was sent to the Pontiac School District on May 8, 2013. The District was given five days to respond to that report. Copies of both the interim report (Attachment B) and the district response (Attachment C) Pontiac School District Board President) are attached.

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: Tim Greimel, House Democratic Leader, 29th State House District
Jim Marleau, State Senator, 12th State Senate District
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Mattie McKinney-Hatchett, Trustee, Pontiac Board of Education
S. Barbara Raby, Trustee, Pontiac Board of Education

Pontiac School District			
Findings 2011-2012			
Financial Statement			
Finding Number	Type of Finding	Program Office	Condition
2012-1	Material Weakness		Bank reconciliations not prepared on a regular and a timely basis
2012-2	Material Weakness		A significant number of adjustments were made to the general ledger subsequent to the year end in conjunction with the audit
2012-3	Material Weakness		Due to staff turnover and other workload constraints, 3 out of 40 samples supporting documentation were unavailable for review
2012-4	Noncompliance		The District did not submit their financial audit within the required timeframe
2012-5	Significant deficiency and noncompliance		Expenditures exceeded appropriations by material amounts in several categories
Federal Programs			
2012-6	Material Weakness and noncompliance	Child Nutrition Cluster	Supporting records indicating the number of meals served did not agree to the claim report submitted for reimbursement
2012-7	Material Weakness and noncompliance	Title I Part A Cluster	Adequate documentation to verify that the incurred costs were paid prior to drawdowns was not available
2012-8	Significant deficiency and noncompliance	SOS (Strengthening the Odds of Success)	Certain requirements as specified in the grant application were not met
2012-9	Material Weakness and noncompliance	Title I Cluster and IDEA-Special Education Cluster	For certain samples, time sheets were not provided to support the payroll charges for hourly employees and the hours on time sheet did not agree to hours paid
2012-10	Significant deficiency and noncompliance	Title I Cluster, IDEA-Special Education Cluster, Title II A, 21st Century Community Learning Centers, SOS, Child Nutrition Cluster	District did not provide a copy of certain written procedures

Pontiac School District			
Findings	2010-2011		
Financial Statement			
Finding Number	Type of Finding	Program Office	Condition
2011-1	Material Weakness		Bank reconciliations not prepared on a regular and a timely basis
2011-2	Material Weakness		The District did not timely calculate the accrual for items included in long-term debt such as employee compensated absences or risk liabilities
2011-3	Material Weakness		A significant number of adjustments were made to the general ledger subsequent to the year end in conjunction with the audit
2011-4	Material Weakness		The District did not accurately calculate depreciation charges
2011-5	Material Weakness		Evidence of review and approval by personnel other than the preparer was not noted
2011-6	Noncompliance		The District's budget reflects an estimate of actual revenue, expenditures, and ending fund balance, which resulted in a projected deficit budget
Federal Programs			
2011-7	Significant deficiency and noncompliance	Child Nutrition Cluster	Incorrect classifications have been made resulting in the District claiming excess reimbursements in the monthly claim reports submitted to the Department
2011-8	Material Weakness and noncompliance	Child Nutrition Cluster	The production records did not match with the menu. As a result, it could not be determined whether the food served met the nutrient standard requirements set by USDA
2011-9	Material Weakness and noncompliance	Title I Part A Cluster, Special Education Cluster, and SOS (Strengthening the Odds of Success)	The District did not have written procedures and did not perform any other procedures to verify compliance with suspension and debarment requirements
2011-10	Material Weakness and noncompliance	Title I Part A Cluster, Title II Part A, 21st Century Community Learning Centers	For 5 out of 10 samples selected for cash management testing, adequate documents were not provided to verify that drawn down amounts were based on costs paid. Further, there were excess funds received in the grants

Local Emergency Financial Assistance Loan Board

May 20, 2013

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Pontiac School District			
Findings	2010-2011, continued		
Federal Programs, continued			
2011-11	Noncompliance	Title I Part A Cluster	Form DS-4044 is required to be filed within 60 days after the end of the project year, or November 30, for project close out. It was submitted on December 6, 2010. In addition the expenditure on the Final Expenditure Report did not agree with the District's records
2011-12	Material Weakness and Noncompliance	Title II Part A, Special Education Cluster , SOS, 21st CCLC	Supporting documents were not provided to verify allowability of expenditures
2011-13	Material Weakness and Noncompliance	Title I Part A Cluster, 21st CCLC, SOS	Semi-annual payroll certification was not provided. In addition, payroll certifications did not indicate the time spent on the Title I grant. No additional documentation was provided to support the time charged to the program
2011-14	Material Weakness and Noncompliance	21st CCLC	District did not extend invitation to private schools to participate in the grant program



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RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: May 8, 2013

TO: Brian Dougherty, Superintendent, Pontiac School District
Carol Turpin, Board President, Pontiac School District

FROM: Mike Flanagan, State Superintendent 

SUBJECT: Interim Report - Preliminary Review of the Pontiac School District

The following represents the Interim Report of findings for the Preliminary Review under the Local Financial Stability and Choice Act (P.A. 436 of 2012) for Pontiac School District (the "District").

I. Background

On May 7, 2012, pursuant to my authority under P.A. 4 of 2011, I initiated a Preliminary Review of the finances of the Pontiac School District to determine if a finding of probable financial stress was warranted. Michigan Department of Education ("Department") staff completed the review and submitted it to me on June 5, 2012. Based upon that report, I determined that a finding of probable financial stress existed. However, in light of events that took place at the district after the Preliminary Review process was initiated, I did not recommend a Review Team at that time. I reserved the right to recommend that the Governor appoint a Review Team should it be determined that the district and local board were at any point in the future not continuing to implement the district's approved Deficit Elimination Plan ("DEP") resulting in progress to eliminate the deficit.

In a letter dated April 23, 2013, I advised the Pontiac School District that pursuant to my authority vested under P.A. 436 of 2012, I was initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within the Pontiac School District. Section 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 Section 4(1) are met. The Preliminary Review of the Pontiac School District resulted from the following conditions enumerated in §4(1) of the Act: the

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existence of "other facts and circumstances...that in the superintendent of public instruction's sole discretion...are indicative of probable financial stress (§4(1)(s)); Pontiac School District failed to timely file an annual financial report or audit (§4(1)(k)); Pontiac School District is in breach of its obligation under a deficit elimination plan (§4(1)(n)); and a court has ordered an additional tax levy without the prior approval of the governing body of the local government (§4(1)(o)).

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
 - 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 or failure to make pension fund deposits.

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

- 1) The District ended the 2008-09 fiscal year with an \$8.5 million deficit. The deficit persisted in each of the subsequent years and the deficit for the year ended June 30, 2012 was \$37.7 million. The District projected that it will remain in deficit in the 2012-13 and 2013-14 fiscal years.
- 2) The District's June 30, 2012 deficit balance expressed as a percentage of its general fund revenues was a negative 52%. The percentage far exceeds the Department's parameter of a negative 15% to indicate concern.
- 3) The District's privately audited financial report for the year ended June 30, 2012, included 10 findings of material weaknesses, significant deficiencies, or non-compliance. The District's June 30, 2011 audit included 14 findings of material weaknesses, significant deficiencies, or non-compliance. See Attachment A for more information.
- 4) The District has shown unsatisfactory progress in eliminating the deficit. The deficit has increased from \$8.5 million on June 30, 2009, to \$37.7 million on June 30, 2012. The District board and administration met with Department and Treasury staff on various occasions during 2009, 2011, and 2013. Pontiac Board of Education members in attendance at these meetings indicated that they were willing to do whatever was necessary to eliminate the deficit, yet the District's deficit has quadrupled since fiscal year end 2009.
- 5) The District was delinquent in retirement contributions to the Michigan Public School Employees Retirement System in the amount of \$2,727,754.70 for the period ending March 31, 2012 as of May 23, 2012. A repayment plan was worked out by the District directly with the Office of Retirement Systems (ORS), Michigan Public School Employees Retirement System (MPSERS). The District paid \$500,000 biweekly on a regular basis in February and March of 2013 with payments running a week late. ORS has not received any payments since April 8, 2013. ORS reports that the District is currently in escalation for failure to pay retirement contributions. If the District fails to pay delinquent retirement contributions, the MPSERS Board could direct that state school aid be withheld until the contributions are made whole.

In addition to the assessment above related to the Pontiac 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:

- 1) The District did not timely file its audit or annual financial report due by November 15 of each year, or in this instance by November 15, 2012, as required by law. The Department then was legally required to withhold state school aid payments beginning with the December 2012 payment. The District submitted the required reports on March 18, 2013; the withheld payments for December, January and February of 2013 were released to the District.
- 2) The Department's approval of the District's DEP was rescinded as a result of the District's failure to implement agreed to strategies to reduce the 2011-12 deficit to the level projected in the DEP. The Department was then legally required to withhold state school aid payments beginning with the March 2013 payment. The March and April 2013 payments have been withheld.
- 3) A revised DEP was submitted by the District on April 19, 2013. However, the Pontiac Board of Education took action following that submission to renew two (2) administrator contracts that had not been renewed as part of the revised DEP, thereby negating the revised DEP as submitted on April 19, 2013.
- 4) On May 6, 2013, the District submitted another revised and board approved DEP. However, on that same evening, the Pontiac Board of Education met once again and took action related to the District's budget. It is unclear to the Department how this most recent board action may affect the May 6, 2013 revised DEP. Until this is clarified, the DEP as submitted goes beyond the Department's normal five-year period and is very aggressive in expecting that a \$37.7 million deficit will be eliminated in two years given the District's deficit history.
- 5) Cash flow continues to be distressed to a level that requires the District to receive advances from Oakland Schools in order meet payroll and other financial obligations.
- 6) Due to advances from Oakland Schools, the District was able to meet its May 3, 2013 payroll. However, there are no other funds that can be advanced by Oakland Schools that would be sufficient to meet the May 17, 2013 payroll obligation in the amount of approximately \$875,000.
- 7) It is the Department's understanding from Oakland Schools that the District is not able to meet other vendor obligations including but not limited to transportation, utilities, and custodial, as well as \$1.5 million in technology obligations owed directly to Oakland Schools.

Brian Dougherty
Carol Turpin
May 8, 2013
Page 5

- 8) In November 2011, the Department was informed by then Pontiac Board President Dorkins that the District was under FBI investigation. The Department understands that this investigation continues to date.
- 9) The District has a long history of turnover in administrative leadership, which does not provide for consistent, stable, and on-going implementation of a Deficit Elimination Plan. For example, Superintendent Tom Maridada was replaced by Interim Superintendent Jonathan Brown in July 2011; he left in November 2011. Interim Superintendent Brown was replaced by Superintendent Walter Burt in 2011; he was replaced by Superintendent Brian Dougherty for the 2012-13 school year. Superintendent Dougherty resigned on May 6, 2013 effective May 17, 2013. He will be replaced by Interim Superintendent Kelly Williams who will receive consulting services from former Superintendent Burt. The District also has had an Interim Business Manager, Paul Bryant from Plante and Moran, since June 2011.
- 10) A \$7,779,543.22 Civil Judgment was ordered by the 6th Judicial Circuit Court against the District on January 18, 2013 on behalf of Michigan Education Special Services Association (MESSA).

III. Next Steps

As the state financial authority for school districts, I am forwarding this interim report to the Pontiac School District pursuant to the language in § 4(2) of P.A. 436 of 2012. The district may provide comments on this Interim Report within five (5) days after the date that this report is submitted to the District. Comments 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. A final report incorporating the District's comments will be provided to the District, the State Senator and State Representative who represent the District, and the Local Emergency Financial Assistance Loan Board on or before May 29, 2013 as required by law. The Local Emergency Financial Assistance Loan Board will determine if probable financial stress exists for the District.

Attachment

Cc: Tim Greimel, House Democratic Leader, 29th State House District
Jim Marleau, State Senator, 12th State Senate District
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director of State Aid and School Finance, Michigan Dept. of Education

Pontiac School District			
Findings	2011-2012		
Financial Statement			
Finding Number	Type of Finding	Program Office	Condition
2012-1	Material Weakness		Bank reconciliations not prepared on a regular and a timely basis
2012-2	Material Weakness		A significant number of adjustments were made to the general ledger subsequent to the year end in conjunction with the audit
2012-3	Material Weakness		Due to staff turnover and other workload constraints, 3 out of 40 samples supporting documentation were unavailable for review
2012-4	Noncompliance		The District did not submit their financial audit within the required timeframe
2012-5	Significant deficiency and noncompliance		Expenditures exceeded appropriations by material amounts in several categories
Federal Programs			
2012-6	Material Weakness and noncompliance	Child Nutrition Cluster	Supporting records indicating the number of meals served did not agree to the claim report submitted for reimbursement
2012-7	Material Weakness and noncompliance	Title I Part A Cluster	Adequate documentation to verify that the incurred costs were paid prior to drawdowns was not available
2012-8	Significant deficiency and noncompliance	SOS (Strengthening the Odds of Success)	Certain requirements as specified in the grant application were not met
2012-9	Material Weakness and noncompliance	Title I Cluster and IDEA-Special Education Cluster	For certain samples, time sheets were not provided to support the payroll charges for hourly employees and the hours on time sheet did not agree to hours paid
2012-10	Significant deficiency and noncompliance	Title I Cluster, IDEA-Special Education Cluster, Title II A, 21st Century Community Learning Centers, SOS, Child Nutrition Cluster	District did not provide a copy of certain written procedures

Pontiac School District			
Findings	2010-2011		
Financial Statement			
Finding Number	Type of Finding	Program Office	Condition
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2011-5	Material Weakness		Evidence of review and approval by personnel other than the preparer was not noted
2011-6	Noncompliance		The District's budget reflects an estimate of actual revenue, expenditures, and ending fund balance, which resulted in a projected deficit budget
Federal Programs			
2011-7	Significant deficiency and noncompliance	Child Nutrition Cluster	Incorrect classifications have been made resulting in the District claiming excess reimbursements in the monthly claim reports submitted to the Department
2011-8	Material Weakness and noncompliance	Child Nutrition Cluster	The production records did not match with the menu. As a result, it could not be determined whether the food served met the nutrient standard requirements set by USDA
2011-9	Material Weakness and noncompliance	Title I Part A Cluster, Special Education Cluster, and SOS (Strengthening the Odds of Success)	The District did not have written procedures and did not perform any other procedures to verify compliance with suspension and debarment requirements
2011-10	Material Weakness and noncompliance	Title I Part A Cluster, Title II Part A, 21st Century Community Learning Centers	For 5 out of 10 samples selected for cash management testing, adequate documents were not provided to verify that drawn down amounts were based on costs paid. Further, there were excess funds received in the grants

Pontiac School District			
Findings	2010-2011, continued		
Federal Programs, continued			
2011-11	Noncompliance	Title I Part A Cluster	Form DS-4044 is required to be filed within 60 days after the end of the project year, or November 30, for project close out. It was submitted on December 6, 2010. In addition the expenditure on the Final Expenditure Report did not agree with the District's records
2011-12	Material Weakness and Noncompliance	Title II Part A, Special Education Cluster , SOS, 21st CCLC	Supporting documents were not provided to verify allowability of expenditures
2011-13	Material Weakness and Noncompliance	Title I Part A Cluster, 21st CCLC, SOS	Semi-annual payroll certification was not provided. In addition, payroll certifications did not indicate the time spent on the Title I grant. No additional documentation was provided to support the time charged to the program
2011-14	Material Weakness and Noncompliance	21st CCLC	District did not extend invitation to private schools to participate in the grant program



School District of the City of Pontiac

Dr. Brian M. Dougherty, Superintendent

DATE: May 13, 2013

TO: Carol Wolenberg, Deputy Superintendent; Dan Hanrahan, Director of State Aid and School Finance

FROM: Pontiac School District

SUBJECT: Response to Interim Report - Preliminary Review of the Pontiac School District

The District has received the Interim Report of findings for the Preliminary Review under the Local Financial Stability and Choice Act (P.A. 436 of 2012) dated May 8, 2013. As allowed under this Act the District is responding with comments within five (5) days of receipt of the report.

Interim Report of Findings

The Department assessed the Pontiac School District with regard to five (5) factors. The results of the assessment and the District's responses are as follows:

- 1) The District ended the 2008-09 fiscal year with an \$8.5 million deficit. The deficit persisted in each of the subsequent years and the deficit for the year ended June 30, 2012 was \$37.7 million. The District projected that it will remain in deficit in the 2012-13 and 2013-14 fiscal years.

Agree with item. District is requesting an additional year (2014-2015) to eliminate the Deficit. In order to have a reasonable plan in place this additional year would be needed.

- 2) The District's June 30, 2012 deficit balance expressed as a percentage of its general fund revenues was a negative 52%. The percentage far exceeds the Department's parameter of a negative 15% to indicate concern.

Agree with item.

- 3) The District's privately audited financial report for the year ended June 30, 2012, included 10 findings of material weaknesses, significant deficiencies, or non-compliance. The District's June 30, 2011 audit included 14 findings of material weaknesses, significant deficiencies, or non-compliance. See Attachment A for more information.

See responses to Attachment A on subsequent document. Several of the items were corrected as documented in the independent auditors report. See attachments 1-4.



School District of the City of Pontiac

Dr. Brian M. Dougherty, Superintendent

- 4) The District has shown unsatisfactory progress in eliminating the deficit. The deficit has increased from \$8.5 million on June 30, 2009, to \$37.7 million on June 30, 2012. The District board and administration met with Department and Treasury staff on various occasions during 2009, 2011, and 2013. Pontiac Board of Education members in attendance at these meetings indicated that they were willing to do whatever was necessary to eliminate the deficit, yet the District's deficit has quadrupled since fiscal year end 2009.

Agree with item.

- 5) The District was delinquent in retirement contributions to the Michigan

Public School Employees Retirement System in the amount of \$2,727,754.70 for the period ending March 31, 2012 as of May 23, 2012. A repayment plan was worked out by the District directly with the Office of Retirement Systems (ORS), Michigan Public School Employees Retirement System (MPERS). The District paid \$500,000 biweekly on a regular basis in February and March of 2013 with payments running a week late. ORS has not received any payments since April 8, 2013. ORS reports that the District is currently in escalation for failure to pay retirement contributions. If the District fails to pay delinquent retirement contributions, the MPERS Board could direct that state school aid be withheld until the contributions are made whole.

Agree with item. District's biweekly payments have not been submitted due to the withholding of State Aid. March and April 2013 payments are being withheld as of the date of this report. Also the District is working to borrowing monies via a Tax Anticipation Note (TAN). These monies would allow the District to bring the outstanding balance current.

In addition to the assessment above related to the Pontiac 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:

- 1) The District did not timely file its audit or annual financial report due by November 15 of each year, or in this instance by November 15, 2012, as required by law. The Department then was legally required to withhold state school aid payments beginning with the December 2012 payment. The District submitted the required reports on March 18, 2013; the withheld payments for December, January and February of 2013 were released to the District.

Agree with item.



School District of the City of Pontiac

Dr. Brian M. Dougherty, Superintendent

- 2) The Department's approval of the District's DEP was rescinded as a result of the District's failure to implement agreed to strategies to reduce the 2011-12 deficit to the level projected in the DEP. The Department was then legally required to withhold state school aid payments beginning with the March 2013 payment. The March and April 2013 payments have been withheld.

Agree with item. The withholding of State Aid has added to the distress of the District regarding payment of critical vendors, debt payments, healthcare and Office of Retirement System payments.

- 3) A revised DEP was submitted by the District on April 19, 2013. However, the Pontiac Board of Education took action following that submission to renew two (2) administrator contracts that had not been renewed as part of the revised DEP, thereby negating the revised DEP as submitted on April 19, 2013.

Additional expenditure reductions in the DEP were submitted to MDE on May 6, 2013 which exceeded the renewal costs of the two (2) administrator contracts. These costs included supplies and a position within the athletic department.

- 4) On May 6, 2013, the District submitted another revised and board approved DEP. However, on that same evening, the Pontiac Board of Education met once again and took action related to the District's budget. It is unclear to the Department how this most recent board action may affect the May 6, 2013 revised DEP. Until this is clarified, the DEP as submitted goes beyond the Department's normal five-year period and is very aggressive in expecting that a \$37.7 million deficit will be eliminated in two years given the District's deficit history.

No Board of Education action subsequent to May 2, 2013 adjusting the DEP took place. The plan submitted to MDE on May 6, 2013 is the plan once approved that will be followed by the Pontiac School District. See Attachment 5

- 5) Cash flow continues to be distressed to a level that requires the District to receive advances from Oakland Schools in order meet payroll and other financial obligations.

Agree with item. Advances are for monies owed to the District under PA-18 (special education dollars) for services rendered to this population. The last distribution for the fiscal year was to be received in mid-June 2013. This amount was advance to the District in May 2013 to help meet payroll.



School District of the City of Pontiac

Dr. Brian M. Dougherty, Superintendent

- 6) Due to advances from Oakland Schools, the District was able to meet its May 3, 2013 payroll. However, there are no other funds that can be advanced by Oakland Schools that would be sufficient to meet the May 17, 2013 payroll obligation in the amount of approximately \$875,000.

Agree with item. The May 17, 2013 gross payroll including a retirement systems payment would be approximately \$1.7 million.

- 7) It is the Department's understanding from Oakland Schools that the District is not able to meet other vendor obligations including but not limited to transportation, utilities, and custodial, as well as \$1.5 million in technology obligations owed directly to Oakland Schools.

Agree with item.

- 8) In November 2011, the Department was informed by then Pontiac Board President Dorkins that the District was under FBI investigation. The Department understands that this investigation continues to date.

Agree with item. Documentation related to this investigation was requested and submitted more than 3 years ago. The District has had no involvement since that time.

- 9) The District has a long history of turnover in administrative leadership, which does not provide for consistent, stable, and on-going implementation of a Deficit Elimination Plan. For example, Superintendent Tom Maridada was replaced by Interim Superintendent Jonathan Brown in July 2011; he left in November 2011. Interim Superintendent Brown was replaced by Superintendent Walter Burt in 2011; he was replaced by Superintendent Brian Dougherty for the 2012-13 school year. Superintendent Dougherty resigned on May 6, 2013 effective May 17, 2013. He will be replaced by Interim Superintendent Kelly Williams who will receive consulting services from former Superintendent Burt. The District also has had an Interim Business Manager, Paul Bryant from Plante and Moran, since June 2011.

The high turnover of leadership in the superintendent position inclusive of transitional interim superintendents was to identify permanent individuals that eventually chose to resign. During the timeframe indicated above the District has only had two (2) permanent superintendents (Maridada and Dougherty)



School District of the City of Pontiac

Dr. Brian M. Dougherty, Superintendent

- 10) A \$7,779,543.22 Civil Judgment was ordered by the 6th Judicial Circuit Court against the District on January 18, 2013 on behalf of Michigan Education Special Services Association (MESSA).

Agree with item. This civil judgment is expected to be satisfied from the issuance of an approximately \$14.5 million tax anticipation note which would prevent it from being reported on the summer tax rolls. This note however cannot currently move forward until the Deficit Elimination Plan (DEP) has been approved.

Thank you for your consideration of the above responses and attachments. The Pontiac School District is committed to providing a quality education to its students while working to eliminate the outstanding Deficit as quickly as possible.



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243 · 248.451.6800
Dr. Brian M. Dougherty, Superintendent

February 8, 2013

Mr. Braden Goetz
Group Leader, High School Programs
U. S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Avenue. SW,
Washington, DC 20202-6200

Dear Mr. Goetz:

As requested, this communication comes to address the grant award concerns for the SOS High School Graduation Initiative grant S360A100030-12 as addressed in your communication dated January 29, 2013. We are addressing these concerns to better ensure that the awarded funds are expended in accordance with all applicable legal requirements and with all objectives outlined in our approved application.

Response to Item #1:

Brief description of expenditures listed in communication- Please see Attachment "A" and "A-1"

Response to Item #2:

PO 24387 identified as "7 reservations for NCA Accreditation Review (AdvancEd) Visit" and "conference room" At the Fairfield Inn was incorrectly billed for payment using HSGI grant funds by a former central office administrator Without the approval of the current project director.

Response to Item #3:

PO 25108 identified for 150 "Tuscan chicken" meals and use of the dining room, and gratuity at Michigan State University was incorrectly billed for payment using HSGI grant funds by a former central office administrator without the approval of the current project director.

Response to Item #4:

Journal Entry-July 11, 2011 was specified to reduce the expenditures to Dell Computers and Apple Computers in the amount from \$65,023.90 to \$50,000 as approval by the grantee. The reduce amount was \$15,023.90.

Response to Item #5:

Job Description for Early College Tutors- Please see Attachment "B"

Response to Item #6:

Pontiac School District employed four (4) cohort counselors for Pontiac High School during the 2009-10 school year.

Response to Item #7:

Contract between EduShift, Inc. and the School District City of Pontiac- Please see Attachment "C"

Sincerely yours,

Dr. Brian M. Dougherty, Superintendent

Cc: Dr. Walter McLean, Project Director



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243 · 248.451.6800

Dr. Brian M. Dougherty, Superintendent

January 8, 2013

Ms. Lynetta Johnson
U. S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Avenue. SW, Room 3E322
Washington, DC 20202-6200

Dear Ms. Johnson:

As requested, this communication comes to address the grant award conditions for the SOS High School Graduation Initiative grant S360A100030-12 as addressed in your communication dated September 21, 2012. We are addressing these imposed conditions to better ensure that the awarded funds are expended in accordance with all applicable legal requirements and with all objectives outlined in our approved application.

In addition to the responses relayed in the January 4, 2013 communication, we are, again, submitting receipts to support the amount of grant funds we have drawn down. These receipts have been annotated with an itemized description of how each drawdown was expended.

We stand committed to a District Corrective Action Plan to better ensure sound fiscal management of the grant funds. As previously shared, our plan includes:

- Ensuring internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
- Ensuring that deficiencies in internal control are corrected as soon as possible (date) to ensure proper accountability and transparency for expenditures of HSGI grant award.
- Factors that affect the magnitude, i.e., the volume of activity exposed to the deficiency in the current period or expected in the future.
- Providing reasonable assurance that HSGI award is expended only for allowable activities and that the costs are allowable and in accordance with the applicable cost principles.
- Providing reasonable assurance that draw downs are only for immediate needs.
- Providing reasonable assurances are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Sincerely yours,

Dr. Brian M. Dougherty, Superintendent

Cc: Dr. Walter McLean, Project Director



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243 · 248.451.6800
Dr. Brian M. Dougherty, Superintendent

November 13, 2012

Ms. Lynetta Johnson
U. S. Department of Education
Office of Elementary and Secondary Education
400 Maryland Avenue. SW, Room 3E322
Washington, DC 20202-6200

Dear Ms. Johnson:

As requested, this communication comes to address the grant award conditions for the SOS High School Graduation Initiative grant S360A100030-12 as addressed in your communication dated September 21, 2012. We are addressing these imposed conditions to better ensure that the awarded funds are expended in accordance with all applicable legal requirements and with all objectives outlined in our approved application.

We address these special conditions with the following responses of commitment:

A. Status Report and Project Plans

1. Evidence that Pontiac has hired two "middle school Intervention Content Coaches" who are Mathematics and Reading Specialists to serve PMS .

Response: The district has posted for the positions of Middle/High School Intervention Content Coaches specifically for literacy and mathematics. These coaches will begin services not later than January 10, 2012. Based on the needs assessment, the coaches will work with grades 7-9. (Attachment "A")

2. Evidence that Pontiac has hired four additional guidance counselors and/or social workers at Pontiac High School.

Response: The district does not have four additional guidance counselors at Pontiac High School. We have revised the work of the four existing counselors as evidenced in the attachments: Guidance and Counseling Program inclusive of discrete job responsibilities with an accompanying Rubric of Performance to measure their work as identified in the original grant proposal and the Cohort Guidance & Counseling Semester Report. (Attachment "B")

3. Evidence that Pontiac has purchased Compass Learning's Odyssey program or a comparable program to provide supplemental reading/English language arts and mathematics instruction and a description of how the program is being implemented at PMS.

Response: Vantage Learning is the vendor selected to assist Pontiac Middle and High Schools students, especially students not performing at grade-level in literacy and mathematics. The Vantage Learning is a web-based tool designed to facilitate growth in all core subjects. Its Student Progress Monitoring System component is a web-based, adaptive learning platform which uses computer adaptive testing for conducting continuous core-curricular student skills assessments; it serves as a complete assessment bundle supporting the formative assessment process by providing a fundamental, systematic approach to

educational improvement through the automated delivery of targeted and prescriptive resources, enabling real-time delivery of Personalized Adaptive Learning Plans.

4. A detailed plan and timeline for establishing a Center of Academic Acceleration at Welcome Missionary Baptist Church or at another similar location by no later than January 4, 2013.

Response: The district has re-established partnership with the Welcome Missionary Baptist Church in cultivating extended learning opportunities for students, especially students that are enrolled in the district and likewise are part of the individual church families. The partnership will provide opportunities for students to participate in the church's After-School Tutoring Program; Young Men Making A Difference Ministry and Blooming Ladies in Christ Ministry.

5. A detailed plan and timeline for implementing the "SOS: My Successful Life" multimedia campaign by no later than January 4, 2013.

Response: Since the writing of the original applications, the district, due to a Deficit Elimination Plan, had to eliminate the division of public relations which was identified to spearhead and implement the "SOS: My Successful Life" multimedia campaign. Our alternative plan will feature student success stories that will be shared on the district website, local high school website, communications to parents and community, and the district public television station.

6. A detailed plan and timeline for implementing an early warning system "that includes timely electronic attendance monitoring before each class period with immediate notification of a student's absence to parents and guardians" by no later than January 4, 2013. (Attachment "C")

The district has installed and fully implemented a School Messenger system that is designed to provide staff and parents/guardians with timely electronic attendance monitoring.

We stand committed to a District Corrective Action Plan to better ensure sound fiscal management of the grant funds. As previously shared, our plan includes:

- Ensuring internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
- Ensuring that deficiencies in internal control are corrected as soon as possible (date) to ensure proper accountability and transparency for expenditures of HSGI grant award.
- Factors that affect the magnitude, i.e., the volume of activity exposed to the deficiency in the current period or expected in the future.
- Providing reasonable assurance that HSGI award is expended only for allowable activities and that the costs are allowable and in accordance with the applicable cost principles.
- Providing reasonable assurance that draw downs are only for immediate needs.
- Providing reasonable assurances are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Thanks for this opportunity to share our commitment to ensuring compliance with all legal and fiscal requirements of the grant award and with the objectives of our approved application. Thanks to you for your guidance and assistance.

Sincerely yours,

Dr. Brian M. Dougherty

Cc: Dr. Walter McLean, Project Director

Dr. Theda Zawaiza, Team Leader, HSGI

Dr. Sylvia E. Lyles, Director, Office of Elementary and Secondary Education

Attachments:



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243 · 248.451.6800

Walter L. Burt, Ed D, Interim Superintendent

July 12, 2012

Dr. Theda Zawaiza, Team Leader
High School Graduation Initiative
U.S. Department of Education
400 Maryland Avenue, SW, Room 3E122
Washington, DC 20202

Dr. Zawaiza:

We are committed to providing the support, with transparency, the evidence of our work in meeting the identified goals and full implementation of the High School Graduation Initiative grant (S360A100030). This communication specifically addresses your request for "complete documentation including receipts for purchases and time and effort records for employees paid with grant funds, for all of the HSGI funds the district has drawn down from G5 to date".

The district's Financial Business Office, Project Accountant and Project Director have been in conversations with Mr. Rick Reiber, CPA, Post Audit Group, U.S. Department of Education regarding his audit findings. We have responded to him both through conference calls and forwarding of evidence to support the audit findings. Among these documents were the time and effort records for employees paid with grant funds. We acknowledge the departments request for receipts for purchases and are making every attempt to comply with the same. Mr. Reiber informed us that he was not requesting every receipt, just examples of support documents.

We recognize that we need to improve in some areas of budget and finance and have identified the following as our plan of action to better ensure fiscal management and accountability:

School District City of Pontiac's CORRECTIVE ACTION PLAN

Plan:

- Ensuring internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
- Ensuring that deficiencies in internal control are corrected as soon as possible (date) to ensure proper accountability and transparency for expenditures of HSGI grant award.
- Factors that affect the magnitude, i.e., the volume of activity exposed to the deficiency in the current period or expected in the future.
- Providing reasonable assurance that HSGI award is expended only for allowable activities and that the costs are allowable and in accordance with the applicable cost principles.
- Providing reasonable assurance that draw downs are only for immediate needs.

-
- Providing reasonable assurances are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Data Collection:

- Amount of Year 1 grant
- Budget allocations
- Budget expenditures
- Draw downs
-

Activity	School	Person(s) Responsible	Frequency
POS systems are used to record all meals (pin pads & ID cards) served	PMS & PHS	PSD Cooks & Cashiers	Daily
Meal counts are called into food service office	PMS & PHS	PSD Cooks	Daily
Meal counts are recorded on a weekly count sheet, edit checked	PMS & PHS	CW (Chartwells)-DDS	Daily
and input into Zangle			
Production records are completed to support all meals served	PMS & PHS	PSD Cooks	Daily
Production records and meal count sheets are randomly selected and	PMS & PHS	PSD Field Supervisor	Mid Week
compared for accuracy			
Production records and weekly paperwork gets collected, reviewed	PMS & PHS	PSD Field Supervisor	Weekly
for accuracy, organized and filed at the food service office			
Zangle meal counts are checked again for accuracy and compared	PMS & PHS	PSD Adm. Asst. & CW-DDS	End of Month
to location monthly attendance records to prevent over claims			
Weekly count sheet and production records are randomly selected	PMS & PHS	CW-DDS	End of Month
again for comparison and accuracy			
Meal counts are input into MDE system to claim for reimbursement	PMS & PHS	PSD Adm. Asst.	End of Month
Claim for reimbursement is certified and sent to MDE	PMS & PHS	PSD Level 3 Staff	End of Month

Meal Accountability and Claim Filing

Activity	School	Person(s) Responsible	Frequency
All meal counts are recorded on meal accountability sheets at the point of service (end of the serving line)	Elm. Schools	PSD Cooks & Group Leaders	Daily
Meal counts are called into food service office	Elm. Schools	PSD Cooks & Group Leaders	Daily
Meal counts are recorded on a weekly count sheet, edit checked and input into Zangle	Elm. Schools	CW (Chartwells)-DDS	Daily
Production records are completed to support all meals served	Elm. Schools	PSD Cooks & Group Leaders	Daily
Production records and meal count sheets are randomly selected and compared for accuracy	Elm. Schools	PSD Field Supervisor	Mid Week
Production records and weekly paperwork are collected, reviewed for accuracy, organized and filed at the food service office	Elm. Schools	PSD Field Supervisor	Weekly
Zangle meal counts are checked again for accuracy and compared to location monthly attendance records to prevent over claims	Elm. Schools	PSD Adm. Asst. & CW-DDS	End of Month
Weekly count sheet and production records are randomly selected again for comparison and accuracy	Elm. Schools	CW-DDS	End of Month
Meal counts are input into MDE system to claim for reimbursement	Elm. Schools	PSD Adm. Asst.	End of Month
Claim for reimbursement is certified and sent to MDE	Elm. Schools	PSD Level 3 Staff	End of Month

School District of the City of Pontiac

Status of Prior Year Findings
Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
2011-1	<p>Condition and Description – Bank reconciliations, including the District's main operating accounts, were not reconciled in a timely manner for several months during the year. Further, during our review of the bank reconciliations, we noted instances where bank transfers were not recorded timely. Lack of timely review and reconciliation of bank accounts constitutes a material weakness in the internal control structure.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-1.</p>
2011-2	<p>Condition and Description – The District did not timely calculate the accrual for items included in long-term debt such as employee compensated absences or risk liabilities. The District is required to calculate the accrual for employee compensated absences and risk liabilities, and record that liability on the government-wide statements.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-2.</p>
2011-3	<p>Condition and Description – Due to lack of internal controls and oversight, a significant number of adjustments were made to the general ledger subsequent to the year-end in conjunction with the audit.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-2.</p>
2011-4	<p>Condition and Description – During our review of depreciation expense for fiscal year 2011, the District did not accurately calculate the depreciation charges. We noted instances where the depreciation expense charged was more than the net book value. An audit adjustment was made to correct the depreciation expense.</p> <p>Status: No such condition was noted during the current year.</p>

School District of the City of Pontiac

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-5	<p>Condition and Description – During our review of journal entries posted to the accounting system, evidence of review and approval by personnel other than the preparer was not noted.</p> <p>Status: This condition was resolved in fiscal year 2012.</p>
2011-6	<p>Condition and Description – State of Michigan Public Act 621, 1978 requires all school districts in the State to adopt a balanced budget prior to the start of their fiscal year. During our review of the adopted budget for the fiscal year July 1, 2010 – June 30, 2011, the District did not adopt a balanced budget and included a projected deficit, which is a noncompliance with Michigan law.</p> <p>Status: This condition was resolved in fiscal year 2012.</p>

School District of the City of Pontiac

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

Reference
Number

Findings

2011-7

Program Name – Child Nutrition Cluster

Condition and Description – For 1 out of 60 samples selected for testing, the eligibility classification was incorrect. The student was classified as reduced, however based on the supporting documents provided the student should have been classified as paid.

Status: No such condition was noted during the current year.

2011-8

Program Name – Child Nutrition Cluster

Condition – For two weeks selected for testing, production records did not agree with the menu that was provided.

Status: The required food components were provided during the current year.

2011-9

Program Name – Title I Part A Cluster, Special Education Cluster, and SOS

Condition – The District did not have written procedures and did not perform any other procedures to verify compliance with suspension and debarment requirements.

Status: This condition was resolved in fiscal year 2012. However, finding related to lack of written procedures was noted. See finding 2012-10.

2011-10

Program Name – Title I Part A Cluster, Title II Part A, 21st CCLC

Condition – For 5 out of 10 samples selected for cash management testing, adequate documents were not provided to verify that drawn down amounts were based on costs paid. Further, during our review of program costs and cash receipts, there were excess funds received in the grants.

Status: This condition still existed in FY 2012. See finding 2012-7.

School District of the City of Pontiac

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS (Continued)

Reference
Number

Findings

2011-11

Program Name – Title I Part A Cluster

Condition – During our review of form DS-4044 it was noted that the form was not submitted timely. It was submitted on December 6, 2010. In addition the expenditure on the Final Expenditure Report did not agree with the District's records.

Status: This condition was resolved in fiscal year 2012.

2011-12

Program Name – Title II Part A, Special Education Cluster, SOS, 21st CCLC

Condition – For Title II Part A, for 17 out of 30 samples selected for disbursement testing, supporting documents were not provided for our review to verify allowability of the expenditure.

For IDEA Special Education Cluster, for 3 out of 25 samples, supporting documents were not provided for our review to verify allowability of the expenditure.

For SOS, 11 out 40 samples, supporting documents were not provided for our review to verify allowability of the expenditures.

For 21st CCLC, 6 out of 25 Samples, supporting documents were not provided for our review to verify allowability of the expenditures.

Status: This condition was resolved in fiscal year 2012.

2011-13

Program Name – Title II Part A, Special Education Cluster, SOS, 21st CCLC

Condition – For Title I Cluster, 1 out of 15 employees tested, semi-annual payroll certification was not provided. In addition, for three other employees, payroll certifications did not indicate the time spent on the Title I grant. No additional documentation was provided to support the time charged to the program.

For 21st CCLC and SOS, semi-annual payroll certifications were not provided for review.

Status: Payroll findings were noted in current year. See finding 2012-9.

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-14	<p>Program Name – 21st CCLC</p> <p>Condition –Supporting documents to verify the required participation of private schools and invitation extended to the private schools was not provided.</p> <p>Status: This condition was resolved in fiscal year 2012.</p>



School District of the City of Pontiac

Attachment 5

Dr. Brian M. Dougherty, Superintendent

PONTIAC BOARD OF EDUCATION Agenda Item Request Form

Committee: Finance

Committee Date: 5/2/2013

Agenda Item: Approval of the Amended Deficit Elimination Plan (DEP)

Item Purpose: Discussion Action Report

Funding Source/Account Number: N/A

Human Resources: Timothy Gardner, Jr. Curriculum & Instruction: Kelley Williams

Business Finance: Paul Bryant Superintendent: Dr. Brian M. Dougherty

Presenter(s): _____

- Attachments:
1. Deficit Elimination Plan
 2. Resolution

Item Discussion/Description:

Due to the enrollment, decreased revenue and various other factors, our district created, submitted and implemented a Deficit Elimination Plan beginning Fall 2011. Since then, there is a need to consistently review and revise it in order to keep with the amounts stated in the DEP.

On March 26, 2013 the Board approved an amended DEP. On May 2, 2013 it was communicated to the Board that the budget needed to be amended to show a \$196,000 reduction.

It is the recommendation of Administration the approval of an amended DEP to reflect the reduction of one FTE (the athletic director) in the amount of \$120,000 and reduce the general supplies (athletics \$100,000). These two reductions will result in a total of \$220,000.00 thus allowing for a \$24,000.00 cushion.

Committee Recommendation: Approval of an amended DEP to reflect the reduction of one FTE (the athletic director) in the amount of \$120,000 and reduce the general supplies (athletics \$100,000).

Move item to Regular Agenda _____ Revise item and move to Regular Agenda for approval _____

Revise item and re-present to Committee _____

Date: _____

Approvals Required: _____

Moved by _____

Board Vote: Ayes _____ Nays _____ Requested Approved: Yes No Tabled

The mission of the School District of the City of Pontiac, in partnership with students, parents, and community is to create a learning/teaching environment that ensures quality and equity for all to succeed in a rapidly changing world.

**School District of the City of Pontiac
County of Oakland, Michigan**

PRESENT: Members: Caroll Turpin, Karen Cain, Sherman Williams, Susan Loveland, Mattie Hatchett, S. Barbara Raby

ABSENT: Members: Brenda Carter

RESOLUTION APPROVING AMENDED DEFICIT ELIMINATION PLAN

The following preamble and resolution offered by Member Susan Loveland and supported by Member Dr. Shirley Raby

WHEREAS, the Michigan Uniform Budgeting and Accounting Act and the State School Aid Act require a school district that is operation under a general fund deficit budget to adopt an amend deficit elimination plan;

WHEREAS, the amended deficit elimination plan must be submitted to the Michigan Department of Education for review and approval;

WHEREAS, the School District Interim Business has prepared an amended deficit elimination plan;

WHEREAS, the Michigan Department of Education has requested that the School District of the City of Pontiac file the deficit elimination plan as soon as possible.

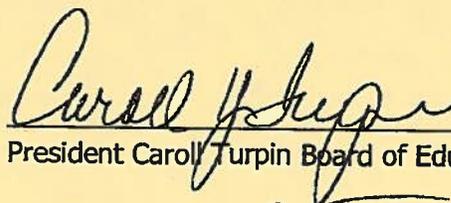
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF EDUCATION OF THE PONTIAC SCHOOL DISTRICT, COUNTY OF OAKLAND, MICHIGAN THAT:

1. The Amended Deficit Elimination Plan attached hereto as Exhibit A is hereby approved;
2. The Superintendent or his designee is further authorized and instructed to submit the Amended Deficit Elimination Plan to the Michigan Department of Education on or before May 3, 2013; and
3. All resolutions and parts of resolutions insofar as they conflict with the provisions of this Resolution are hereby rescinded.

AYES: Members: Caroll Turpin, Karen Cain, Sherman Williams, Susan Loveland, Mattie Hatchett, S. Barbara Raby

NAYS: Members:

RESOLUTION DECLARED ADOPTED



President Carol Turpin Board of Education



Secretary, Board of Education – Brenda Carter

The undersigned duly qualified and acting Secretary of the Board of Education of the Pontiac School District, County of Oakland, Michigan, hereby certifies that the foregoing is a true and complete copy of the Resolution adopted by the Board of Education at a Special Meeting held on May 2, 2013 the original of which Resolution is a part of the Board's minutes, and further certifies that notice of the meeting was given to the public under the Open Meetings Act 267, Public Acts of Michigan, 1976, as amended.