



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

February 12, 2016

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

Dear Mr. Goodrich:

On January 7, 2016 a preliminary review of the Mackinaw City Public Schools (the "District") began pursuant to Public Act 110 of 2015.

An Interim Report of the Preliminary Review was sent to the District on January 27, 2016. The District was then given five days to respond to that Interim Report. In its response, the District did not submit any evidence or information that caused the Department of Treasury to amend its final report. Copies of both the Interim Report of the Preliminary Review and the District's response are included as attachment to the Final Report of the Preliminary Review.

As required by Section 4(3) of the Act, the Final Report of the Preliminary Review of the District is being transmitted to the Local Emergency Financial Assistance Loan Board (ELB) for its review. The ELB will determine whether or not probable financial stress exists in the District.

Sincerely,

A handwritten signature in cursive script that reads "Paul G. Connors".

Paul G. Connors,

Director of the Office of School Review and Fiscal Accountability

cc: Jeffrey Curth, Superintendent, Mackinaw City Public Schools  
Vince Rogala, Board President, Mackinaw City Public Schools  
Wayne Schmidt, State Senator, Michigan Senate  
Peter Pettalia, State Representative, Michigan House of Representatives  
Lee Chatfield, State Representative, Michigan House of Representatives  
Valerie Dullack, Board Vice President, Mackinaw City Public Schools  
Sam Staffan, Board Secretary, Mackinaw City Public Schools  
Dan Durant, Board Treasurer, Mackinaw City Public Schools  
Steve Powers, Board Trustee, Mackinaw City Public Schools  
James Bell, Board Trustee, Mackinaw City Public Schools  
Ed Trudeau, Board Trustee, Mackinaw City Public Schools

Mary Vratanina, Superintendent, Cheboygan-Otsego-Presque Isle ESD  
Brian J Whiston, State Superintendent, MDE  
Kyle Guerrant, Deputy Superintendent, Administrative Services, MDE  
Dan Hanrahan, Director, State Aid and School Finances, MDE



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DATE:** February 12, 2016

**TO:** Local Emergency Financial Assistance Loan Board

**FROM:** Paul G. Connors, Director of the Office of School Review and Fiscal Accountability

**SUBJECT:** Final Report- Preliminary Review of Mackinaw City Public Schools

### I. Background

On January 7, 2016 the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of Mackinaw City Public Schools (the “District”) to determine whether or not probable financial stress existed. Pursuant to 2015 PA 110, section 4(2) (b) (MCL 141.1544), the District is statutorily mandated to undergo a preliminary review to determine the existence of probable financial stress. In part, this section provides that the Department, as the State Financial Authority, shall conduct a preliminary review of any school district subject to a Deficit Elimination Plan (DEP) which provides for the elimination of deficit over a period exceeding 5 years.

### II. Final Review Findings

The following are facts or circumstances determined by the Department that are indicative of probable fiscal stress pursuant to 2015 PA 110, section 4(1)(s):

- 1) The current approved DEP exceeds seven or more consecutive years (including the current year); and/or

**Finding:**

District’s current DEP was approved October 26, 2015 and extends 2 years through the 2016-2017 fiscal year (FY).

The District does not meet this criteria.

- 2) The district’s existing deficit is greater than 15% of general fund revenues; and/or

**Finding:**

District’s approved budget reflects total general fund revenues of \$2,326,283 for the 2015-2016 FY. Its total projected fund balance for the FY is negative \$546,416 indicating its deficit is 23% of its total general fund revenues.

The District meets this criteria.

- 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
  - c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
  - d) History of spending outside the appropriations established by the local school board in violation of Uniform Budgeting and Accounting Act (UBAA)
  - e) Significant audit findings and/or material weaknesses identified in the single audit; and

**Finding:**

- a) No deficiency noted.
- b) District is currently not anticipating a cash flow shortfall for FY 16.
- c) No deficiency noted.
- d) District has been in violation of the UBAA since 2012 when it began spending outside the appropriations established by its board adopted budget.
- e) District received two (2) audit findings for the FY ending June 30, 2015. Each was a reoccurring finding from the prior FY, which include:
  - **1 Significant Deficiency-** lack of segregation of duties.
  - **1 Material Noncompliance-** operating a deficit budget.

The District meets this criteria.

- 4) District has shown unsatisfactory progress in eliminating a deficit. This criteria is determined by identifying one or more of the following conditions:
  - a) A deficit increase is planned in the subsequent FY
  - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of the 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

**Finding:**

- a) A deficit increase is planned in the subsequent FY.

FY13	FY14	FY15	FY16	FY17	FY18
Actual	Actual	Actual	Projection	Projection	Projection
(\$345K)	(\$515K)	(\$588K)	(\$546K)	(\$306K)	\$6K

- b) No deficiency noted.

- c) No deficiency noted.

The District meets this criteria.

- 5) District’s failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, or received noticed from a vendor indicating an unpaid balance.

**Finding:**

The Department has not received notification from any vendor or other State agency that the District is delinquent with any payment.

The District does not meet this criteria.



**MACKINAW CITY PUBLIC SCHOOLS**  
MACKINAW CITY, MICHIGAN 49701

**JEFFREY S. CURTH**  
Superintendent

PHONE: 231-436-8211  
FAX: 231-436-5434

Tuesday, February 02, 2016

Department of Treasury,

The “Lack of Segregation of Duties” audit finding is very common in most small school districts, especially those that have budgetary constraints. While we would prefer to hire additional staff to separate some of these functions, cost / benefit does not justify us doing so in our present financial condition. That being said, we have separated cash receipts and purchasing from the accounting staff in recent years so that we have been able to improve the segregation of duties. We also have management review and approval of other accounting transactions.

Yours In Education,

Jeffrey S. Curth, Superintendent  
Pamela Zazula-Mayhew, Accountant / Business Manager



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DATE:** January 27, 2016

**TO:** Jeffrey Curth, Superintendent, Mackinaw City Public Schools  
Vince Rogala, Board President, Mackinaw City Public Schools

**FROM:** Paul G. Connors, Director of the Office of School Review and Fiscal Accountability *PGC*

**SUBJECT:** Interim Report- Preliminary Review of Mackinaw City Public Schools

The following represents the interim report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (PA 436 of 2012) for Mackinaw City Public Schools (the "District"). We appreciate the level of cooperation received from the District's administration during this process.

## I. Background

In a letter dated October 5, 2015, I advised Mackinaw City Public Schools that the district oversight would transfer from the Michigan Department of Education (MDE) to the Department of Treasury (the "Department") beginning January 1, 2016. Also, the letter stated that I was approving the Deficit Elimination Plan (DEP) but that, pursuant to Pursuant to 2015 PA 110 (MCL 141.1544(2)(B)), Mackinaw City Public Schools is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department of Treasury, as the State Financial Authority, shall conduct a preliminary review of any school district that is subject to a deficit elimination plan that provides for the elimination of deficit over a period exceeding 5 years.

Under state statute, the Department shall provide an interim report of its findings to the school district within 20 days following the commencement of the preliminary review (attachment A). The school district may provide comments within 5 days after the interim report is provided to the district. Thereafter, the Department shall prepare and provide a final report detailing its preliminary review to the Emergency Loan Board within 30 days following commencement of the preliminary review.

## II. Interim Report of Findings- Criteria

Potential factors to determine whether probable financial stress might exist in a school district:

- 1) The last approved deficit elimination plan exceeds seven or more consecutive years (including the current year); and/or

- 2) The district's existing deficit is greater than 15% of general fund revenues; 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
  - c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
  - d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)
  - e) Significant audit findings and/or material weaknesses identified in the single audit; 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 is planned the future fiscal year
  - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of the 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, or received noticed from a vendor indicating an unpaid balance.

The criteria outlined above is subject to change upon review each fiscal year.

The Department assessed Mackinaw City Public Schools with regard to the above five (5) criteria. The results of the assessment are as follows:

Findings of probable financial stress:

- 1) Mackinaw's current Deficit Elimination Plan was approved October 26, 2015 and extends through the 2016-2017 fiscal year. A period of two (2) years.

- 2) Mackinaw’s approved budget reflects total general fund revenues of \$2,326,283 for the 2015-2016 fiscal year. Their total projected fund balance for 2015-16 is negative \$546,416 indicating their deficit is 23% of their total general fund revenues.
- 3) The district is currently not anticipating a cash flow concern for FY 16. Mackinaw City Public Schools have been in violation of the Uniform Budgeting and Accounting Act for five years (since 2012) when the board of education passed a budget that put the district into deficit.

Mackinaw Schools received two (2) audit findings for the fiscal year ending June 30, 2015 all of which were reoccurring findings from the prior fiscal year ending June 30, 2014. They include:

- **1 Significant Deficiency-** lack of segregation of duties.
- **1 Material Noncompliance-** operating a deficit budget.

- 4) Mackinaw’s ending fund balance history and projections:

FY13	FY14	FY15	FY16
Actual	Actual	Actual	Projection
(\$345K)	(\$515K)	(\$588K)	(\$546K)

- 5) The Department of Treasury has not received notification from any vendor or other State agency that Mackinaw City Public Schools is delinquent with any payment.

Mackinaw City Public Schools is considered “out of formula” meaning they do not receive State Aid. They receive through local property taxes approximately \$11,200 per pupil whereas the State foundation allocation is \$7,965 per pupil. Since their local revenue exceeds the State’s formula, they do not receive a foundational allocation. The district’s December State Aid Membership is 172.49.

The District has five days to respond to these findings. Any comments the district would like to provide to the Department of Treasury are due February 3, 2016. Please send documents and questions to Paul G. Connors, Director of the Office of School Review and Fiscal Accountability, at ConnorsP@michigan.gov or phone (517) 241-1186.

cc: Wayne Schmidt, State Senator, Michigan Senate  
 Peter Pettalia, State Representative, Michigan House of Representatives  
 Lee Chatfield, State Representative, Michigan House of Representatives  
 Valerie Dullack, Board Vice President, Mackinaw City Public Schools  
 Sam Staffan, Board Secretary, Mackinaw City Public Schools

Dan Durant, Board Treasurer, Mackinaw City Public Schools  
Steve Powers, Board Trustee, Mackinaw City Public Schools  
James Bell, Board Trustee, Mackinaw City Public Schools  
Ed Trudeau, Board Trustee, Mackinaw City Public Schools  
Mary Vratana, Superintendent, Cheboygan-Otsego-Presque Isle ESD  
Brian J Whiston, State Superintendent, MDE  
Kyle Guarrant, Deputy Superintendent, Administrative Services, MDE  
Dan Hanrahan, Director, State Aid and School Finances, MDE  
Harlan Goodrich, Secretary, Local Emergency Financial Assistance Loan Board

Attachment A

72 (REV. 04-15)



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

NICK A. KHOURI  
STATE TREASURER

January 7, 2016

Jeffrey Curth, Superintendent  
Vince Rogala, Board President  
Mackinaw City Public Schools  
609 West Central Avenue  
Mackinaw City, MI 49701

Dear Superintendent Curth and Board President Rogala,

Pursuant to 2015 PA 110 (MCL 141.1544(2)(b)), Mackinaw City Public Schools is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department of Treasury (Department), as the State Financial Authority, shall conduct a preliminary review of any school district that is subject to a deficit elimination plan that provides for the elimination of deficit over a period exceeding 5 years.

Under state statute, the Department shall provide an interim report of its findings to the school district within 20 days following the commencement of the preliminary review. The school district may provide comments within 5 days after the interim report is provided to the district. Thereafter, the Department shall prepare and provide a final report detailing its preliminary review to the Emergency Loan Board within 30 days following commencement of the preliminary review.

The department expects the preliminary review process to begin in January 2016. If you have any questions concerning how this legislation impacts your district, please contact Shelbi Frayer, Assistant Director of the Office of School Review and Fiscal Accountability, by email at [FrayerS1@Michigan.gov](mailto:FrayerS1@Michigan.gov) or by phone at 517-241-7029.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul G. Connors".

Paul G. Connors  
Office of School Review and Fiscal Accountability

cc.

Wayne Schmidt, State Senator, Michigan Senate  
Peter Pettalia, State Representative, Michigan House of Representatives  
Lee Chatfield, State Representative, Michigan House of Representatives  
Valerie Dullack, Board Vice President, Mackinaw City Public Schools  
Sam Staffan, Board Secretary, Mackinaw City Public Schools  
Dan Durant, Board Treasurer, Mackinaw City Public Schools  
Steve Powers, Board Trustee, Mackinaw City Public Schools  
James Bell, Board Trustee, Mackinaw City Public Schools  
Ed Trudeau, Board Trustee, Mackinaw City Public Schools  
Mary Vratanova, Superintendent, Cheboygan-Otsego-Presque Isle ESD  
Brian J Whiston, State Superintendent, MDE

Page 2

Kyle Guerrant, Deputy Superintendent, Administrative Services, MDE  
Dan Hanrahan, Director, State Aid and School Finances, MDE