



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 9, 2016 a preliminary review of the Mount Clemens Community Schools (the "District") began pursuant to Public Act 110 of 2015.

An Interim Report of the Preliminary Review was sent to the District on February 1, 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 for its review. The Local Emergency Financial Assistance Loan Board whether 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: Dr. William A. Pearson, Superintendent, Mount Clemens Community Schools
Earl C. Rickman III, Board President, Mount Clemens Community Schools
Jack Brandenburg, State Senator, Michigan Senate
Tory Rocca, State Senator, Michigan Senate
Marilyn Lane, State Representative, Michigan House of Representatives
Anthony Forlini, State Representative, Michigan House of Representatives
William A. Pearson, Superintendent, Mount Clemens Community Schools
Earl C. Rickman III, Board President, Mount Clemens Community Schools
Dr. David McFadden, Board Vice President, Mount Clemens Community Schools
Jeanine Walker, Board Secretary, Mount Clemens Community Schools

Glenn Voorhess, Board Treasurer, Mount Clemens Community Schools
Jason Monk, Board Trustee, Mount Clemens Community Schools
Pat Maceroni, Board Trustee, Mount Clemens Community Schools
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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 Mount Clemens Community Schools

I. Background

On January 9 2016 the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of Mount Clemens Community School District (the “Department”) to determine whether or not a school district financial problem existed. Pursuant to 2015 PA 110, section 4 (2) (b) (MCL 141.1544), the District 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, 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.

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

Finding:

The District’s current Deficit Elimination Plan was approved June 2, 2015 and extends through the 2017-2018 fiscal year. A period of three (3) years.

The District does not meet this criteria.

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

Finding:

The District recently approved an amended budget on December 17, 2015 increasing its deficit from (\$1.4M) to (\$2.3M). Total general fund revenues for

the 2015-2016 fiscal year is \$11,323,172 indicating a total general fund deficit of 21%.

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) The District has been in violation of the UBAA for six years (since 2009) when the board of education passed a budget that put the district into deficit.
- e) The District received two (2) audit findings for the fiscal year ending June 30, 2015. They include:
 - **1 Material Weakness-** several accounts misstated.
 - **2 Material Noncompliance-** operating a deficit budget and miscalculating indirect and direct costs to the food service.

The District meets this criteria.

- 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

Finding:

- a) A deficit increase is planned the future fiscal year. The District’s ending fund balance history and projections:

FY13 Actual	FY14 Actual	FY15 Actual	FY16 Projection
(\$3.58M)	(\$2.44M)	(\$1.37M)	(\$2.38M)

- 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.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: February 1, 2016

TO: Dr. William A. Pearson, Superintendent, Mount Clemens Community Schools
Earl C. Rickman III, Board President, Mount Clemens Community Schools

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

SUBJECT: Interim Report- Preliminary Review of Mount Clemens Community 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 Mount Clemens Community 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 Mount Clemens Community Schools that 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, section 4 (2)(b) (MCL 141.1544), the District 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, 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 2015 PA 110, section 4 (3), the Department shall provide an interim report of its findings to the 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 DEP 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/or
- 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 the District with regard to the above five (5) criteria. The results of the assessment are as follows:

Findings of probable financial stress:

- 1) The District's current DEP was approved June 2, 2015 and extends through the 2017-2018 fiscal year. A period of three (3) years.
- 2) The District recently approved an amended budget on December 17, 2015 increasing its deficit from (\$1.4M) to (\$2.3M). Total general fund revenues for

the 2015-2016 fiscal year is \$11,323,172 indicating a total general fund deficit of 21%.

- 3) The District is not anticipating a cash flow concern for FY 16. The District has been in violation of the Uniform Budgeting and Accounting Act for six years (since 2009) when the board of education passed a budget that put the district into deficit.

The District received two (2) audit findings for the fiscal year ending June 30, 2015. They include:

- **1 Material Weakness-** several accounts misstated.
- **2 Material Noncompliance-** operating a deficit budget and miscalculating indirect and direct costs to the food service.

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

FY13 Actual	FY14 Actual	FY15 Actual	FY16 Projection
(\$3.58M)	(\$2.44M)	(\$1.37M)	(\$2.38M)

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

The District receives a State foundation allocation of \$8,007 per pupil. The District’s January State Aid Membership is 1,146.67.

The District has five days to respond to these findings. Any comments the District would like to provide to the Department are due February 8, 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:

- Jack Brandenburg, State Senator, Michigan Senate
- Tory Rocca, State Senator, Michigan Senate
- Marilyn Lane, State Representative, Michigan House of Representatives
- Anthony Forlini, State Representative, Michigan House of Representatives
- William A. Pearson, Superintendent, Mount Clemens Community Schools
- Earl C. Rickman III, Board President, Mount Clemens Community Schools
- Dr. David McFadden, Board Vice President, Mount Clemens Community Schools
- Jeanine Walker, Board Secretary, Mount Clemens Community Schools
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- Michael R. DeVault, Superintendent, Macomb Intermediate School District
- Brian J Whiston, State Superintendent, MDE
- Kyle Guerrant, 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)



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 9, 2016

Dr. William A. Pearson, Superintendent
Earl C. Rickman III, Board President
Mount Clemens Community Schools
167 Cass Avenue
Mount Clemens, MI 48043

Dear Superintendent Pearson and Board President Rickman,

Pursuant to 2015 PA 110 (MCL 141.1544(2)(b)), Mount Clemens Community 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 or by phone at 517-241-7029.

Sincerely,

A handwritten signature in cursive script, appearing to read "Paul G. Connors".

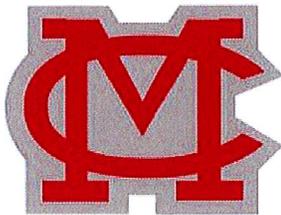
Paul G. Connors
Office of School Review and Fiscal Accountability

cc.

Jack Brandenburg, State Senator, Michigan Senate
Tory Rocca, State Senator, Michigan Senate
Marilyn Lane, State Representative, Michigan House of Representatives
Anthony Forlini, State Representative, Michigan House of Representatives
William A. Pearson, Superintendent, Mount Clemens Community Schools
Earl C. Rickman III, Board President, Mount Clemens Community Schools
Dr. David McFadden, Board Vice President, Mount Clemens Community Schools
Jeanine Walker, Board Secretary, Mount Clemens Community Schools
Glenn Voorhess, Board Treasurer, Mount Clemens Community Schools
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Page 2

Ed Bruley, Board Trustee, Mount Clemens Community Schools
Michael R. DeVault, Superintendent, Macomb Intermediate School District
Brian J Whiston, State Superintendent, MDE
Kyle Guerrant, Deputy Superintendent, Administrative Services, MDE
Dan Hanrahan, Director, State Aid and School Finances, MDE
Harlan Goodrich, Secretary, Local Emergency Financial Assistance Loan Board



MOUNT CLEMENS COMMUNITY SCHOOLS

167 CASS AVENUE • MOUNT CLEMENS, MICHIGAN 48043

(586) 461-6100 • FAX (586) 4461-3799

DR. WILLIAM A. PEARSON
SUPERINTENDENT
586.461.3776
PEARSONB@MTCPS.ORG

RENÉE CLEMENS
HUMAN RESOURCES,
CURRICULUM, INSTRUCTION,
AND SCHOOL IMPROVEMENT
586.461.3775
CLEMSNR@MTCPS.ORG

TERESA DAVIS
ASSISTANT SUPERINTENDENT
BUSINESS AND SUPPORT SERVICES
586.461.3777
DAVIST@MTCPS.ORG

February 11, 2016

State of Michigan
Department of Treasury
430 West Allegan Street
Lansing, MI 48922

Attention: Paul G. Connors
Office of School Review and Fiscal Accountability

Reference: Interim Report – Preliminary Review of Mount Clemens
Community Schools, February 1, 2016

Thank you to Paul Connors, Shebi Frayer, and Alistair Ritchie for agreeing to meet with us [Teresa Davis, Assistant Superintendent; Paul Bodiya, CFO Macomb ISD; and me] on Tuesday, February 09, 2016. The purpose of the meeting was in response to the above mentioned memo.

I presented our deficit elimination plan (DEP). Our plan details how Mount Clemens will eliminate the deficit and have a positive fund balance of at least five (5) percent. Our Board of Education is in agreement per negotiations' closed sessions. The plan will be discussed in detail at the next regularly scheduled meeting on February 24, 2016.

As we developed the plan, we believe all possible scenarios were explored and discussed. We are confident we will right-size expenditures without jeopardizing achievement and eliminate the deficit within the timeline.

We appreciate the time you afforded us in this matter. Please let us know if we can provide any other information. I can be reached at (586) 461-3776. If you prefer email, the address is pearsonb@mtcps.org.

Sincerely,

William A. Pearson, Ed.D.
Superintendent of Schools