

Grand Jury Investigation of the Stephens County School System Finances

Introduction

On September 3rd, 2014 the grand jury received a request from a Stephens County resident to investigate the reasons behind the Stephens County School System fund balance discrepancy of approximately \$1.6 million that was discovered in May of 2014 by state auditors.

The grand jury voted in favor of proceeding with the investigation based on the following:

- The negative financial impact on the taxpayers of Stephens County due to the millage rate increase that was a direct result of the school system's financial inaccuracies.
- Concerns about the ability of the school system to properly manage the finances moving forward.
- Potential negative impacts on the education of students due to a significantly restricted budget in the 2014-2015 school year that was a direct result of the financial inaccuracies in the previous year's budget.
- The grand jury's aim to assure that the necessary improvements and controls are in place to avoid a similar situation from ever happening again in the Stephens County school system.

Investigation Process

The investigation consisted of three main parts. The first involved interviews with the current school superintendent and all current board members. All parties were interviewed individually and were asked a series of questions related to their awareness of the financial inaccuracies and what they considered to be their responsibilities concerning the management and oversight of the school system finances. They were also asked why they thought financial problems had occurred, why the board didn't know about it until the new superintendent told them, and what was currently being done to fix the problem moving forward.

The second part of the investigation included interviews with two of the current finance department staff members, two previous assistant superintendents, the previous superintendent, and the finance director who was employed with the school system from June 2007 until February 2013. The interviews with this group concentrated on their roles and responsibilities in the daily process of financial transactions and the oversight and management of the finances. This group was also asked why they thought the financial

problems had occurred and they were asked some questions related to specific comments that were brought up in interviews with the first group.

The third part of the investigation included a presentation and question and answer session with representatives from the Georgia Department of Audits and Accounts Education Audit Division. This is the government entity responsible for performing the annual state audits of the school system finances.

The following are findings from the investigation that support the grand jury's conclusions and recommendations. These are listed in chronological order and are based on data provided by the state auditors and from information provided in interviews:

- The 2012 state audit covering the period from July 1, 2011 through June 30, 2012 was a "clean" audit. No significant issues were found and the numbers balanced.
- Based on information provided in the 2013 state audit, general ledger reconciliations with the school system bank accounts ceased in October of 2012 and did not resume throughout the remainder of the audit period which ended in June of 2013. No explanation was provided or found for why this stopped.
- Based on information provided in interviews with the school system, other financial management duties were not performed on a timely basis or not done at all beginning in October of 2012 and continuing through the end of the 2012 calendar year and into January of 2013. No explanation was provided or found for this occurrence.
- The finance director, who had been in the position for 5 ½ years resigned in February 2013.
- A state fraud audit was performed in February 2013 and no evidence of fraud was found during the period from October 2012 through February 2013.
- A new finance director was hired in April 2013 and resigned in October 2013.
- A new finance director was hired in November 2013 and resigned in August 2014.
- The current finance director was hired in July 2014.
- There is no certification or training required by the state of Georgia or by Stephens County for school system finance directors.
- Finance in education requires specialized knowledge due to multiple revenue streams, special programs, and government requirements.
- During the time periods between the hiring of the different finance directors, there was no backup person qualified to do the high level financial management of the school system and there was no one at a local level who could properly train the new finance directors.

- School board members reviewed monthly financial reports that showed amounts spent for the different budgeted accounts. The reports were very detailed and lacked summary information.
- Board members routinely questioned school administration about the finances throughout 2013 and the first quarter of 2014 and were told that everything was “okay”.
- Several board members stated that they were hesitant to ask too many questions concerning the finances because they were cautioned in their state board training not to micro-manage.
- All board members stated that they thought everything was good with the finances and that the information was accurate throughout 2013 and into 2014 until they found out from the new superintendent about the issues.
- The new school superintendent started in May 2014. When he began to ask questions about the finances, he immediately realized there was a systemic problem based on the answers he was given.
- The unaudited fund balance was showing a positive cash number of \$800,000 when in reality the number was several hundred thousand dollars negative according to the 2013 audit which meant the school system was spending money it didn't have.
- The 2013 audit only covered the period through June 2013. The 2014 audit which is planned for January 2015 will show the financial results from July 2013 through June 2014. The expectation is that there will be further inaccuracies found.
- The 2013 audit revealed that all general operating account bank statements for October 2012 through June 30, 2013 were not reconciled to the general ledger until March 2014.
- According to the state auditors, although there were many inaccuracies and evidence of a lack of financial oversight found in the 2013 audit, all cash balances from the 2012 audit were accounted for in the 2013 audit. No actual money was missing after all the reconciliations were done.
- According to the state auditors there was nothing found in the 2013 audit that indicates fraud.

Conclusions

Based on the grand jury's findings, there is no evidence of fraudulent activity connected with the Stephens County schools system finance issues that transpired over the past two years. We believe the problem was an amalgam of leadership missteps and external circumstances that resulted in a loss of management control. Below are the issues that we consider to be the root causes:

- State funding cuts every year for the last several years have put pressure on the local school system to do more with less and much of this responsibility has fallen on the finance director and the superintendent. Whereas, we do not believe that was the only problem, we do believe this was a contributor to some poor hiring decisions, turnover rate of finance directors, and lack of proper structure and control within the finance department.
- Too much responsibility and control resided with the finance director. No one else in the system had sufficient knowledge to understand what the finance director should have been doing and there was no backup for the finance director.
- Board of education members were not monitoring high level numbers such as the fund balance in 2013 and early 2014. The monthly reports used at the time were too detailed and lacked summary information.
- Board of education members were hesitant to ask too many questions about the finances because they did not want to micro-manage. The result was lack of ownership by the board and a lack of understanding of the financial position of the school system.
- The board depended too much on the superintendent and the superintendent depended too much on the finance director for oversight of the finances.
- Due to the urgency of replacing finance directors when vacancies occurred, the selection process was not stringent enough in some cases which resulted in the hiring of unqualified people.
- The unexplained cessation of certain critical financial management duties that occurred the last quarter of 2012 through January of 2013 combined with the resignation of a long-term finance director in February 2013 resulted in a long period of time with no reconciliation of school system journal entries with the bank accounts. Also, important journal entries were not made at all during this period.
- This problem was perpetuated by the hiring of two finance directors who did not have the experience level to get the situation back under control.
- The previous superintendent did not communicate the severity of the financial management shortcomings in 2012, 2013 and early 2014 with the board and did not take the proper steps to escalate the problem to the state level. This inaction contributed to a grossly inaccurate budget for the 2013 – 2014 fiscal year budget.

Based on the conclusions that were drawn from the investigation, the grand jury offers the following recommendations:

- Board of education members need to take more ownership of the finances for the school system to include a full understanding of the numbers and close monitoring of financial performance.

- Monthly reports should be available to board members that clearly show the fund balance and other critical financial performance measures.
- The board should feel free to voice any concerns they may have concerning the finances with the superintendent and the board should take the responsibility of assuring that the finances are being managed properly by the superintendent and the finance director.
- Board members should receive annual training on how to read financial reports and how public school financial systems should operate.
- The superintendent should also receive annual training on how to read financial reports and public school system financial management since it is a dynamic process that changes every year.
- The superintendent and the board should have an open line of communication on major issues related to the operation and finances of the school system.
- The finance director should be required to have some level of certification in his or her field and should receive training annually.
- Someone in the finance department needs to be cross-trained to understand and perform the duties of the finance director when needed. An assistant finance director may be needed.
- The superintendent should have a clear understanding of the duties and responsibilities of the finance director and should monitor performance closely.
- The finance director should have a clear understanding of the expectations of the state, the local board, and the superintendent.
- A request was made by the grand jury prior to this report to the Georgia Department of Audits and Accounts to move the 2014 state audit for Stephens County up to the earliest date possible. It is now scheduled for January 2015.
- Another request was made by the grand jury prior to this report to the superintendent to send the finance director to a training class that was scheduled in November. This had already been scheduled by the superintendent.
- Lessons need to be learned from the mistakes that were made throughout this process and the gaps that were discovered in the school system financial management process. Corrective actions should be put into place to prevent the same mistakes from happening again.

Additional recommendations from the Georgia Department of Audits and Accounts Education Audit Division:

- The financial staff of Stephens County Board of Education should try to attend as many workshops and conferences as available to them to gain a better understanding of financial accounting and reporting for school districts. Some annuals events include GASBO – November conference, GAINS – April conference,

GDOE annual year end workshops – held in May and June in RESA’s across the state, DOAA sponsored training for preparing financial statements held in June, July, and August at RESA’s across the state.

- Training available through the Carl Vinson Institute – University of Georgia for governmental accounting or through the Georgia School Board Association would be extremely beneficial.
- Identify accounting personnel at school districts surrounding Stephens County who would be willing to answer questions and possibly mentor the new accounting personnel at Stephens County would be helpful.
- Seek assistance from the Georgia Department of Education- Finance Review staff. Ask questions and ask for guidance when needed. Request copies of the financial statement preparation templates utilized by DOAA for the FY 2013 audit engagement and become very familiar with the information and data utilized to assist in the preparation of the FY 2014 financial statements.
- Financial statement preparation presentations, templates, and additional guidance are available on the DOAA Resource page of the website.
- The school district should consult with the DOAA audit supervisor with questions while preparing the financial statements.

The grand jury would like to request a corrective action plan from the Stephens County Board of Education that outlines the course of action that will be taken short and long term to assure that the issues brought forth in this report are addressed and that procedures are put in place to assure accurate accounting, proper financial oversight, and good stewardship of the money entrusted to the Board of Education and the school system administration by the state of Georgia and the taxpayers of Stephens County.