



# GEORGIA STATE SENATE SENATE RESEARCH OFFICE

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## FINAL REPORT OF THE SENATE STUDY COMMITTEE ON CONTINUAL AUDIT EXCEPTIONS ON LOCAL SCHOOL SYSTEMS (SR 1046)

### Committee Members

**Senator Freddie Powell-Sims, Chair**  
**District 12**

**Senator Tyler Harper**  
**District 7**

**Senator Elena Parent**  
**District 42**

**Senator Larry Walker**  
**District 20**

**Senator John Wilkinson**  
**District 50**

*Prepared by the Senate Research Office, 2018*

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## **STUDY COMMITTEE FOCUS, CREATION, & DUTIES**

The Senate Study Committee on Continual Audit Exceptions on Local School Systems (Committee) was created with the adoption of Senate Resolution 1046 during the 2018 Legislative Session. The following individuals were appointed by the President of Senate to serve as members of this Committee:

- Senator Freddie Powell-Sims of the 12<sup>th</sup>
- Senator Tyler Harper of the 7<sup>th</sup>
- Senator Elena Parent of the 42<sup>nd</sup>
- Senator Larry Walker of the 20<sup>th</sup>
- Senator John Wilkinson of the 50<sup>th</sup>

The Committee was created under SR 1046 for the purpose of studying the issues related to annual audits on school systems that continually receive findings of irregularities or budget deficits each year. The resolution calls for the Committee to examine this issue during the 2018 interim and determine if other punitive or corrective measures are necessary to obtain compliance by local school systems with continual citations, including considering the withholding of state funds from the local school system and the removal of the local board of education members.

The following legislative staff members were assigned to this Committee: Melody DeBussey and Natalie Heath of the Senate Budget and Evaluation Office; Elisabeth Fletcher of the Senate Press Office; Justin Cook and Elizabeth Holcomb of the Senate Research Office; and Audrey Lee, Legislative Assistant to Senator Sims.

## BACKGROUND

This section provides background regarding laws in other states which address the issue of a school system failing to keep or maintain their financial records. This includes an overview of existing laws in various states (in addition to a proposed bill in Indiana), and how these states remedy this situation.

### **States which provide warnings or use passive measures**

A number of states specifically require that a school system maintains proper financial records, participates in audits, or otherwise follows the state's laws regarding school finance. These requirements may have no additional mechanisms for addressing when the school system fails to meet these requirements, or may issue warnings or reports in such a situation. Examples of such states include Wyoming, which merely requires the cooperation of their schools with their department of audit,<sup>1</sup> and Nevada, which has their Department of Education produce a report identifying school systems which fail to comply with state statutes or regulations.<sup>2</sup>

### **States which withhold funds**

Another category of states withhold funding from schools which refuse to correct any issues regarding their maintenance of financial records. Examples include the following:

- In California, the county superintendent is prohibited from making any apportionment of state or county school money for a school district, if the district either fails to make a budget or file interim reports which report on the district's financial and budgetary status.<sup>3</sup>
- In Rhode Island, if a school district, state school, or charter school fails to maintain the uniform system of accounting, fails to keep its accounts and interdepartmental records, refuses or neglects to make any reports required by law, or hinders the examination of its accounts and financial records, then the matter is directed to the commissioner of elementary and secondary education (after notice is given that this will occur). After an investigation, the commissioner will direct the school district, in writing, to comply with the requirements of state law. If the school district does not comply within ten days after the written demand is given, then the commissioner can ask the board of education for approval to withhold distribution of state aid to the school district.<sup>4</sup>
- In West Virginia, the State Board of School Finance has authority to inspect the fiscal administration of a county school district. If the school is not complying with state law and regulations in regards to fiscal administration, the board has authority to seek "any appropriate remedy in any court of competent jurisdiction," and to withhold payment of state aid from the county board.<sup>5</sup>

### **States which assume control of the school's financial affairs**

A few states provide mechanisms where the state assumes control of the school system's financial records in the event that the school system fails to do so. Examples include the following:

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<sup>1</sup> Wyo. Stat. Ann. § 9-1-513

<sup>2</sup> Nev. Rev. Stat. § 387.304

<sup>3</sup> Cal. Com. Code. § 42128

<sup>4</sup> 6 R.I. Gen. Laws § 16-2-9.4

<sup>5</sup> W. Va. Code § 18-9B-13, -18-19



- In North Carolina, the State Board of Education issues a warning if a local board of education willfully or negligently fails or refuses to comply with state laws. The local board is directed to take remedial action, and if they persist, the State Board of Education “shall by resolution assume control of the financial affairs of the local board of education and shall appoint and administrator to exercise the powers assumed.” This divests the local board of education of its powers to adopt a budget, spend funds, or use any other financial power otherwise granted to it.<sup>6</sup>
- In Pennsylvania, if a school district is identified for financial watch status, a financial administrator is appointed to create a financial improvement plan for the district. This administrator is given complete access to the school district’s finances. The administrator is given responsibility of assisting the district with improving its financial performance, but must also assist the district with cash flow analysis, projections of revenues and expenditures for the current and next five years, and annual training in school finance and policy for board of school directors. The financial administrator’s plan must be approved by the Secretary of Education. If the board of school directors does not comply with the provisions of the plan, then the financial administrator assumes the authority of the board so as to implement the provisions of the plan.<sup>7</sup>

### **Indiana’s Proposed Law**

During the 2018 Legislative Session, Indiana’s legislature considered House Bill 1315, which addressed concerns regarding assisting schools struggling both financially and with keeping financial records. (This bill was passed both by the state’s House and Senate, but the two bodies were unable to agree on a final version of the bill.) Among other things, the House version of this bill provided for the following:

- The bill outlines a list of fiscal indicators that may be used to evaluate the financial condition of each school corporation in the state. Distressed schools would be responsible for posting online information regarding each fiscal indicator on an “Internet dashboard,” with the assistance of a management performance hub.
- The executive director of the “distressed unit appeal board” would be empowered to reach out to the chairperson of the governing body and the superintendent of any school corporation, to assess their financial condition. The school corporation would have the responsibility to cooperate with the executive director.
- Under the bill, the executive director will prepare a report of his or her findings, and show them to the school corporation. The report’s findings would remain confidential until the school corporation is placed on the watch list. (A school corporation only appears on the watch list after the distressed unit appeal board has determined to do so, after giving the school six months’ notice and an opportunity to both meet with the board and to appeal their decision.)
- If a determination is made by the distressed unit appeal board that corrective action is appropriate for the school corporation, then the board will reach out to the school corporation and offer “technical assistance” through a technical assistance team. The school corporation then prepares a corrective action plan for review by the technical assistance team. This plan remains confidential unless and until the school corporation is placed on the watch list.

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<sup>6</sup> N.C. Gen. Stat. § 115C-451

<sup>7</sup> 24 Pa. Stat. § 6-695-A

## MEETING TESTIMONY AND DISCUSSION

### Meeting 1 – September 17, 2018

At the first meeting, the Committee heard testimony from the following individuals on behalf of the **Department of Audits and Accounts (DOAA)**:

- **Greg Griffen, State Auditor**
- **Russell Clark, Deputy State Auditor**
- **Sarah Robark, Deputy Director in Financial Audit Division**

DOAA explained that it has the responsibility to determine if a financial statement or note represents the financial position of a district, conduct audits, determine whether school districts complied with requirements for federal programs, determine what internal controls the district has over financial reporting, and remain independent of the school districts and related organizations. In addition, DOAA annually evaluates the risks that a school district has that could impact future audits. These include items such as deficiencies or misstatements in the school's financial statement, turnover in key positions, issues with accounting records or reporting, and the likelihood and magnitude of fraud, waste, and abuse. A high risk LEA (or Local Education Agency) will have incomplete and inaccurate financial statements; multiple deficiencies; untimely submissions of their financial statements; issues with accounting records; issues hiring personnel with skills, knowledge, and experience; and high turnover.

According to DOAA, audits for continually high risk school districts are more difficult, complex, and costly to complete, and when financial statements are not prepared in a timely manner, DOAA cannot complete the audit for the district since it does not have all required materials. LEAs commonly have deficiencies in regards to their financial reporting, internal control procedures and separation of duties (for example, placing in separate individuals the duties of receiving revenue and accounting for revenue), school activity accounts, and deficit fund balances.

In order to assist LEAs in general, DOAA has held workshops on financial statement preparation, conducted year-end workshops with the Georgia Department of Education (GDOE), spoken at the Georgia Accounting Information Network Support Annual Conference, and present and hold a financial workshop at the Georgia Association of School Business Officials Annual Conference. DOAA also has a large amount of material online, including forms, guides, and the same checklist which their auditors use when reviewing these financial statements.

The **Senate Budget and Evaluation Office** provided brief testimony at the request of Chairman Sims. Findings from 2017 indicate that 15 percent of all students in Georgia were in moderate or high risk school systems. For some of these districts in the moderate level, the risk is shifting, as these districts can appear or drop off the list for various reasons. One example is the departure of a key staff person and the lag time to identifying a replacement. In many cases, systems have varying levels of severity where not all students are at the same level of risk. Chairman Sims said it is common in any industry to have a few problem children; however, if you think of the education of children in the context of this study, the issue is significant and concerning. She went on to explain that in a school year of nine months, it is very hard to reeducate or provide resources and personnel that children need to



receive a quality education. The focus and goal of this study is to examine options to level the playing field for every child in Georgia.

**Ted Beck, Chief Financial Officer of the Georgia Department of Education**, provided testimony to the Committee relating to efforts on this issue in recent years. He noted that there have been improvements over the last few years, in part due to the relationship between DOE, the schools, and DOAA. Educational efforts have been bearing fruit, as the number of high risk districts has gone down. Mr. Beck also urged the Committee to not overlook that 85 to 90 percent of the districts are doing a good job on this matter and should be commended for their efforts. He went on to clarify that DOE's legal obligations for the audit process include collecting financial information from school districts and turning this information over to DOAA. While DOE can help the schools in some respects, it cannot write a district's financial statement. This would not only be in violation of state law but also usurp local control. It is essential that the local district have the ability to run operations on a day to day basis.

Mr. Beck went on to explain that DOE collects and analyzes audit exceptions, reporting those to the audit committee on the state board. If an audit exception is discovered by DOAA or DOE, the school board must report the deficit, the nature of the deficit, corrective actions, and the progress on resolving the deficit, in addition to signing a statement on these matters. Such corrective action is required under state law. In regards to financial training, DOE provides mandatory six-hour financial training to any newly elected board member in the state for the purpose of teaching the officials how to run their school on a financial basis. Other resources include multiple workshops in conjunction with DOAA and the "Findollar," a 100-page document with directives and instructions for financial directors. Looking forward to recommendations, Mr. Beck suggested impressing upon school board the importance of superintendents having the ability to speak on their financial duties upon being hired. In short, it is a red flag if the superintendent is unable to articulate an understanding of his or her role and responsibilities. In terms of legislation, DOE recommends that board members hear updates regarding school finances on a monthly or bi-monthly basis.

#### **Meeting 2 – October 4, 2018**

The Committee met a second time in Perry, Georgia, and heard testimony from **Angela Palm, Director of Policy and Legislative Services for the Georgia School Boards Association**. Ms. Palm provided suggested recommendations that differentiate among the level of audit findings for the purpose of determining any action needed. For instance, if the exceptions are limited to internal control issues due to few personnel, no state action should be needed. She went on to describe that training appears to be an issue at various times for the superintendent, finance personnel, and/or board members. The following approaches for addressing this issue in a more formal matter were offered to the Committee:

- Include a provision in the charter system and SWSS contracts requiring district participation in training by DOE/DOAA if determined to be high risk by both entities.
- Require the whole board governance training time to be with DOE/DOAA if DOE considers the district to be high risk for three consecutive years or if corrective actions have not been implemented for serious findings.
- State explicitly that the local orientation of new board members includes a review of audit findings and the status if considered high risk.

- Training for superintendents in the districts that are considered high risk. New superintendents should have training to create literacy in financial governance. There are currently no training requirements for superintendents.
- In order to enforce the training requirements, strengthen the affidavit that must be signed by school board candidates in accordance with O.C.G.A. 20-2-51(e) to reflect that they have completed the training requirements when running for a second or more term.

In addition to the suggestions above, Ms. Palm recommended that there should be a template for monthly and quarterly financial reports to the local board. Audit information and financial statements must meet certain standards that may not make their financial status clear. This would help the superintendent and financial personnel know what and how to communicate regularly in a clear, concise manner for school board members. GSBA, DOE, and other trainers could use these to help board members know what to expect. Finally, Ms. Palm urged the Committee to explore funding for regional financial consultants or reimbursing expenses for a formal volunteer group of retired, skilled specialists.

**Jim Smith, Superintendent of Griffin-Spalding County School System and Josh Hooper, COO of Georgia School Superintendents Association** also served as a resource to the Committee, presenting information specific to trainings offered for aspiring superintendents as well as the financial training provided at the district office. A summary chart for required school board training as of July 1, 2011 was provided to the Committee and attached in Appendix A.

### **Meeting 3 – November 13, 2018**

The Committee met a final time, at the Capitol in Atlanta, Georgia, to discuss findings, recommendations, and adopt a final report. Chairman Sims hosted the meeting in Room 125 of the Capitol and was joined by Senators Harper, Walker, and Wilkinson. The vote to adopt the final report and recommendations was unanimous.



## RECOMMENDATIONS

The recommendations below reflect input by Ted Beck (Department of Education), Greg Griffin and the Education Audit Division at the Georgia Department of Audits and Accounts, Angela Palm (Georgia State Board Association), and other education stakeholders.

**1) *Require training courses from the Department of Audits and Accounts (DOAA) or the Department of Education (DOE) for high risk districts***

- a) "The General Assembly should amend O.C.G.A. § 20-2-230, so as to direct State Board of Education to require local boards of education to complete their required training courses with either the Department of Education or the Department of Audits and Accounts, if the district for the board has been classified by either entity as a high risk district for the previous three years, or DOAA has determined that corrective actions have not been implemented or devised to correct serious findings in the district's DOAA audit report from the previous year."
- b) "The General Assembly should reference financial training under duties of local school boards for "trustees of public funds" as referenced in O.C.G.A. §20-2-49.

**2) *Require training courses from DOAA or DOE for high risk Charter Systems or Strategic Waivers School Systems***

- a) "The General Assembly should amend O.C.G.A. § 20-2-82, and O.C.G.A. § 20-2-2063.3 and include in the contract terms for local school systems requesting flexibility that they are not considered a financial high risk system as determined by DOAA and DOE or if they are considered high risk that they have a written corrective action plan and require annual district participation in trainings offered to address the risk.

**b) *Specify in Contracts:***

**i) *For Charter School Systems:*** The Committee recommends further amending O.C.G.A. § 20-2-2063.3(a)(3) regarding financial performance to include they are not considered a financial high risk system as determined by DOAA and DOE or if they are considered high risk that they have a written corrective action plan and require annual district participation in trainings offered to address the risk.

**ii) *For Strategic Waivers School Systems:*** The Committee recommends amending O.C.G.A. § 20-2-83 (b) to include financial stability as a term of the contract to include they are not considered a financial high risk system as determined by DOAA and DOE or if they are considered high risk that they have a written corrective action plan and require annual district participation in trainings offered to address the risk. Additionally, O.C.G.A. § 20-2-84.2 which includes the annual State Monitoring of the system's progress toward meeting performance goals, should also include the financial stability of the system.

**3) *The local orientation of new board members must include "a review of audit findings and include the status if considered high risk."***

- a) "The General Assembly should also amend O.C.G.A. § 20-2-230, so as to direct the State Board of Education to require new members of a local board of education to receive guidance and training regarding their own district's most recent audit findings and the risk status of the district as determined by DOAA and DOE."



- 4) ***Require local superintendents to complete training courses in regards to their obligations for the finances of the district:***
  - a) ***Require training for superintendents:***
    - i) "The General Assembly should [pass legislation / amend O.C.G.A. § 20-2-230(b)] so as to direct the State Board of Education to create a training program for local superintendents [located in a district which has been classified as high risk for the previous three years], and to require each local board of education to adopt this training program for their local superintendents."
  - b) ***Also require that local school board members receive training on financial responsibilities of superintendent:***
    - i) Amend O.C.G.A. § 20-2-230 so that new local school board members are instructed in the duties which a superintendent must fulfill, including their duties towards the finances of the district.
- 5) ***Strengthen the affidavit that school board candidates must currently sign to qualify for election or reelection to also require financial training:*** "The General Assembly should amend O.C.G.A. § 20-2-51(e), so that any candidate running for reelection as a member of a local board of education must certify, by affidavit, that they have completed the annual training requirements for their position as required both by state law and by the local board of education. [This statute should be further amended / new legislation should also be passed] such that any individual making a false statement on this affidavit, or that is unable to certify that they have completed the training required by law, shall be disqualified from running for reelection as a member of the local board of education for the year in question."
  - a) ***Strengthen the oath that Superintendents sign under O.C.G.A. §20-2-103*** so that they are not the holder of any unaccounted public money due the state or any political subdivision or authority thereof and that they affirm to operate the finances of the local education authority in compliance with applicable laws and regulations.
- 6) ***Require monthly and/or quarterly financial reports to the local board of education:***
  - a) ***Mandatory reports from superintendent and empowering the creation of a template:***
    - i) "The General Assembly should amend O.C.G.A. § 20-2-58 so as to require local boards of education to review the financial status of their district on a [monthly or no less than quarterly] basis. The [State Board of Education / DOE] should also be directed to create a template which [can/should] be used by local superintendents while informing the local board of education regarding the financial status of the district which should include at minimum a statement of revenues, expenditures and encumbrances."
    - ii) "The General Assembly should amend O.C.G.A. § 20-2-67(b) and define "high-risk districts" and "moderate-risk districts" that ties into recommendation number eight below.
    - iii) "The General Assembly should amend O.C.G.A. §20-2-61 so as to define that presentation or information of a financial nature requested by the School Board does not fall under "micromanagement."

- iv) "The General Assembly should amend O.C.G.A. §20-2-109 to require superintendents to have the duty to report to the local School Board the financial status of the system in compliance with item (i) above."

**7) *Appropriate funds to assist high risk school districts***

**a) *Grant program for outside consulting (one-time funding):***

- i) Appropriate \$500,000 in one-time funds to the Department of Education and create a grant program for districts to hire an outside consultant or accounting firm to assist districts in writing/working on actionable corrective action plans to address risks. Grant awards will range from \$500 to \$20,000 based on current determinations made by DOAA and DOE of risk assessment, risk history, and needs outlined in the grant application. Grants will be awarded on a first-come, first-serve basis.

**b) *Grant program for travel hardships for districts to attend training:***

- i) Appropriate \$50,000 to the Department of Education for travel, per diem payments, and training fees associated with school board members that complete financial training of high risk systems and demonstrate a financial hardship.

**8) *Require the School Board hold a meeting addressing their corrective action plan to audit exceptions.***

- a) "The General Assembly should amend O.C.G.A. § 20-2-58 so that if the local school system is designated as high risk by DOE/DOAA, that a board meeting specifically address the system's corrective action plan within 120 days of the release of a report that has audit exceptions."

**9) *Require the Georgia Leadership Academy (HB338) to include finance as a component of that training for future principals and other school leaders.***

Respectfully Submitted,

**FINAL REPORT OF THE SENATE STUDY COMMITTEE ON  
CONTINUAL AUDIT EXCEPTIONS ON LOCAL SCHOOL SYSTEMS**

A handwritten signature in cursive script, reading "Freddie Powell-Sims", written over a horizontal line.

Honorable Freddie Powell-Sims, Chair

Senator, District12

## APPENDIX

### Summary Chart for Required School Board Training July 1, 2011

Minimum Training Requirements for Local School Board Members	Newly Elected Board Members (within one year of taking office)	Board members with one or more years of board service (annually)
School finance and budgeting	Six hours required. Five from training provided by the Finance and Budget Office of the Georgia Department of Education. In addition, one hour to be included in local district orientation focused on the local district's most recent audit, financial statement and budget.	As identified in Local Board Training Program Plan
Local district orientation and additional training credit courses aligned with SBOE adopted "Standards"	Three hours in district orientation training (see above for hour on district finances) and four hours required from approved training credit course(s) by DOE approved providers.	Six hours required annually from approved training credit course(s) by DOE approved providers.
Whole Board Governance Team Training on identified credit courses as reported in LBOE Annual Training Plan	Three hours required from approved credit courses by DOE approved providers.	Three hours required from approved credit courses by DOE approved providers.
Total Required Training Hours	Fifteen Hours within one year of taking office	Nine Hours annually

The effective date of this adoption is July 1, 2011.