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FEATURED

District says it has corrected fiscal watch issues

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Jatana Norris



Jonathan Phipps





Melvin Stroble

Lancaster County School District was placed on fiscal watch in February 2022 by the S.C. Department of Education and it remains there this year, although district officials say they have corrected the issues that led to the continuation.

State Education Superintendent Ellen Weaver announced her decision to leave the district on fiscal watch in a Feb. 3 letter. The issue is continued documentation of significant material weaknesses, an issue persisting for multiple years now.

Financial statement restated

In a video announcement released Feb. 27 and posted to the district's website, district Chief Financial Officer Jatana Norris and Superintendent Dr. Jonathan Phipps said the district's financial statement was restated by auditors at Greene Finney and Cauley, LLC.



Financial statement restatements take place when there is an error or misstatement in previously issued statements.

At the Feb. 21 school board meeting, Norris said there was a major finding by auditors in the original audit report, related to county revenue. The county revenue in question was an \$842,000 increase on the general fund account and a roughly \$227,000 increase on the debt service account and fund balance account.

“In a nutshell, after meeting with the county, we decided that — and I verified this through follow-up emails and two, three visits — that really was an adjustment they (the auditors) did on their side,” Norris said. “It hit our report, but it shouldn’t have. So we feel very comfortable we didn’t have that information at the time they were doing the audit.”

The importance of clarifying the fund increase detail is because those two monetary increases improved the district's financial standing, but it was not properly reported and documented. The two increases, totaling roughly \$1.1 million, improved the district's financial standing for the current budget year, but should not have been included on last year's report.

The second finding by auditors came from a misallocation of funds on the financial statement. This misallocation does not change the district's financial standing, but leads to an inaccurate financial report.

Norris called this an accounting preference, and that the auditors wanted revenue credited in local revenue that's purpose-driven, which is different from what other auditors have asked for in the past.

"There's really no reason to keep us on fiscal watch continuation," Norris said. "I had a conversation with someone at the State Department of Education, and told them we were getting our financial statements restated and that finding was removed, so they wanted documentation."

Phipps said the financial restatement began after the district found something in the original statement that the auditors had missed, and sent it back for them to review. The information that the auditors missed was new information provided by the county.

It remains unclear what exactly that new information was, and district communications director Bryan Vaughn declined to comment, redirecting questions on the fiscal watch to the Feb. 27 video.

"The hope is it'll be an all clear in regards to fiscal watch very soon, but we just want to let folks know what's happening," Phipps said.

Board asks for clarification

School Board Chair Brad Small asked Norris at the Feb. 21 meeting to confirm that the original finding, a misallocation of funds in the food-service account, which is what originally put the district on fiscal watch, had been fixed.

“My question is, how have we changed on when we declare revenue,” Small asked Norris. “I just want to know what procedures you and your staff have implemented, to make sure that this funding does not show back up on the audit next year.”

Norris said she “promises” this finding will not show up on next year’s audit report, and that fixing that misallocation error is “the easiest thing I will do all year long.”

No software glitch?

District 3 board member Courtney Green asked Phipps to clarify if this conversation was regarding the “software glitch” in relation to the food-service fund, which misallocated \$50,000 into the food-service fixed assets.

Phipps said Feb. 21 that he was not aware of a “software glitch.”

“What we’ve said with it is the time that audit took place, when it was for the third year, as you said in that area, that month that we were planning, the COVID kind of hitting, the schools shut down on March 2019,” Phipps said.

The schools actually closed in 2020.

“The agenda that we had was actually to bring to the board to change that name of the account from a business enterprise to a special revenue,” he said. “That was the mistake that we made. We were planning on doing that. That particular month we didn’t have a board meeting; we started meeting virtually (due to COVID-19). With all that was going on, we truly put that on the back burner.”

And that caught up with us, Phipps said. “If we would simply have changed that account, we would have been off fiscal watch,” he said.

Green asked why, if the district knew it needed to change it after the first time, how did it end up making the same mistake a third time?

“I don’t know,” Phipps said. “I think it was just a mistake that we made.”

When it was finally fixed, “It was one meeting, one vote, one change, and it was fixed,” he said.

Phipps said that the district has put practices in place to ensure it does not happen again.

The district was originally placed on fiscal watch due to an internal process of reconciling food service capital assets for the third quarter of the 2020-21 fiscal year. No theft, misappropriation or fraud was found or alleged, but the outstanding issues were attributed to the accounting adjustments required to record the assets in the financial software from the fixed asset software. This so-called “software glitch” resulted in an audit adjustment of \$50,000 to the food-service fixed assets.

In March 2022, Alex Sherard with White and Story attorneys, which represented the district in the appeal, said, “We are talking software glitches and internal control processes issues.... If there was someone stealing money, than yeah, they would need some oversight, but we are talking software glitches. Let’s fix the problem and move along.”

Future action

District 1 School Board member Melvin Stroble also had questions regarding confirmation that the district had cleaned up the financial statement to the satisfaction of the Department of Education, so the district could come off of fiscal watch.

“I move that the board comprise a letter in response to the fiscal watch continuation letter to be signed by the board chair, acknowledging the revised audit finding, and re-asking for Lancaster County to be removed from fiscal watch continuation,” Stroble said.

This motion passed unanimously, requiring the district to specifically draft a request to be removed from fiscal watch.

Sherard pointed out that the fiscal watch continuation could not be appealed.

Stroble said he was not asking the district to appeal, but rather to provide information to the Department of Education on the restatement of district financials, as they have 60 days to respond to the fiscal watch declaration, and hopefully fix the cause.

Haley