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FEATURED

## School district remains on fiscal watch for second year

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Lancaster County School District will continue to be under fiscal watch through this fiscal year.

S.C. Department of Education Superintendent Ellen Weaver announced her decision to leave the district on fiscal watch in a Feb. 3 letter. This continues last year's fiscal watch declaration, because the district failed to correct the issue in its 2021-22 finances.

Former S.C. Education Superintendent Molly Spearman originally placed the school district on fiscal watch Feb. 28, 2022.

A fiscal watch is the first and lowest level of concern from the state regarding a financial issue.

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In March 2022, Superintendent Jonathan Phipps said a fiscal watch is not as severe as it sounds, and has nothing to do with cash flow, but rather equipment depreciation.

In the letter addressed to Phipps, Board Chair Brad Small and the district's Chief Financial Officer Jatana Norris, Weaver said "the declaration was due to a material weakness as noted in the annual audit, which in the opinion of the South Carolina Department of Education, the aggregate effect of the reported issues has a significant effect on the financial condition of the district."

This statement is the exact same one made in last year's fiscal watch letter.

The cause for the fiscal watch was 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. The outstanding issues were attributed to accounting adjustments required to record the assets in the financial software from the fixed-asset software. The software glitch resulted in an audit adjustment of \$50,000 to the food service fixed assets.

The district has 60 days to submit its plan to the state for fixing the financial issue.

On Feb. 3, the district released a statement saying it had been made aware of the issue, and confirmed it is “a continuation of the existing declaration of fiscal watch that we have been under.” It also said more details on the process will be “disseminated as they become available,” but it had not released any further statements, as of Feb. 13.

## Audit presentation

The 2021-22 annual financial audit was presented at the Jan. 17 school board meeting by David Phillips, CPA with Greene Finney Cauley, LLP, who noted that his firm specializes in school districts and governments.

Phillips mentioned two issues with the audit. They included “some prior period adjustments” and some reports that didn’t get reconciled.

“If we end up having to make some significant adjustments, we just have to make you aware,” he said. “It’s not like money was missing or anything like that. It’s just that it’s a revenue recognition” as to what year or period they occurred in.

Phillips said the unreconciled reports between the district and county could have been due to senior position turnover at the district office. Former district CFO Jennifer White left her position in October, and was replaced by Norris in late December.

“I think, because of the turnover here at the school district...there were some reports that just didn’t get reconciled,” Phillips said. “It could have gone into an email that nobody was monitoring anymore because of transition. Once we made the staff aware of it, they reconciled it real quickly, and everything was good.”

Phillips also said they made a big change to the special revenue food service fund, which was the basis of last year's fiscal watch issue.

"We converted that enterprise food service fund to a governmental fund," he said. "So now all of your funds are on the same basis of accounting. So when it was an enterprise fund, we'd had to show capital assets on it."

## Changing procedures

Board member Melvin Stroble asked Phipps what systems or processes could be put in place to ensure that this kind of knowledge loss does not happen again, should an executive position vacate during a fiscal year.

Phipps said that is a project Norris has been working on, "looking at our systems to see what we can streamline and do a little bit differently."

"We're already working on changing this process and writing up procedures, like we just changed the fixed-asset procedures, changed system parameters," Norris said. "We sent that to Mr. Phillips today, so that they can bless it, and then we're going to execute it."

Norris said the district has been working on updating procedural systems to ensure that multiple sets of eyes are on each project and updating procedures, with the possibility of Phipps providing oversight on all reports and systems in the district office.

"Going forward, there will be a lot of key people involved in updating those procedures," Norris said. "So if one of us disappears, for some reason, there are other people that can step in and be aware of what we've changed and how we move forward."

Board member Courtney Green requested access to substantial audit and financial findings, so that board members can be aware of significant issues, like a fiscal watch.

“Let me know the findings,” Green said. “I would like, as a board member, to see that, too, since we’re accountable for when we get put on fiscal watch. It’s our fault, because we didn’t do what we were supposed to do as board members.”

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Haley