INTRODUCTION

Infrequently, some Georgia local units of administration (LUAs) face various issues/obstacles that result in an increased risk of financial misappropriation or inaccurate reporting. Increased risk is assessed via the annual audit process. Georgia law (O.C.G.A. §50-6-6) requires the Georgia Department of Audits and Accounts (DOAA) to conduct an annual financial audit of the books and accounts of LUAs. The statute also includes a provision allowing LUAs to engage a certified public accountant (CPA) to provide an “additional audit”. By strict interpretation, this “additional audit” would not relieve the GA DOAA from the legal requirement to perform the audit. However, to prevent duplicity, the GA DOAA has maintained a practice of accepting audits of LUAs conducted by CPAs but continue to maintain the responsibility of reviewing and publishing the audits on the public searchable website. In performance and review of audit engagements, the DOAA assess the risk of financial misreporting based on the results of the audits. If the LUA is determined to be a high or moderate-risk entity, there are certain training and reporting requirements an LUA must meet, which are discussed in this chapter.

Additionally, LUAs can incur fund balance deficits in their governmental funds. A fund balance deficit occurs when an LUA incurs expenditures more than revenues over the life of the fund (i.e., from the time the fund was created). Even though LUAs must adopt balanced budgets (see Chapter IV-2) (which if followed will not create fund balance deficits), some incur fund balance deficits because of collecting less revenues than estimated or over-expenditure of the budgeted appropriation. In addition, general fund deficits can be caused by deficits in other funds, particularly in school food service funds or capital projects funds. If overspending in a major construction project (i.e., a capital project fund) occurs, the deficit must be eliminated by an interfund transfer from the general fund.
The seriousness of fund balance deficits cannot be overstated. Deficits can only be eliminated by increasing revenue (property taxes) or reducing expenditures (decrease employment, instructional supplies, increase classroom sizes). Operating deficits decreases the public’s confidence in the LUA to operate efficiently and effectively, as stewards of taxpayer’s dollars. Because of the impact of deficits on an LUA’s current and future operations, the Georgia Department of Education (GaDOE) requires those LUAs with deficit governmental fund balances to meet certain reporting requirements. This chapter illustrates these reporting requirements in addition to the reporting requirements of high or moderate risk LUAs.

HIGH OR MODERATE RISK LUA DETERMINATION AND REPORTING REQUIREMENTS
The Official Code of Georgia Annotated (O.C.G.A.) Section 20-2-67 requires the Department of Audits and Accounts to designated local school systems that have reported irregularities or budget deficits for three or more consecutive years as high-risk local school systems and designate local school systems that have had reported irregularities or budget deficits for one year or two consecutive years as moderate-risk local school systems.

Irregularities are defined by the DOAA, based on significant deficiencies or material weaknesses in internal control noted during an audit engagement.

If an LUA is designated as high- or moderate-risk by DOAA, the LUA and the State Board of Education and Department of Education are notified. The State Board of Education is then required to inform the superintendent of the LUA of any irregularities or budget deficits, including if a local school system has been designated as a high-risk local school system or moderate-risk local school system. The superintendent is required to submit to the GaDOE a response to the findings and a corrective action plan approved by the local board of education at a board meeting within 120 days of the notification. These corrective action plans are collected and reviewed by the GaDOE Financial Review Division, with updates reported to the State Board of Education.

The risk designation of a local school system is considered when negotiating the systems flexibility contract, either as a charter system or a strategic waiver system.

Additionally, LUAs determined to be high-risk must require all members of the local boards of education to complete training on his or her own local school system’s most recent audit findings and the risk status of the local school system as determined by the Department of Audits and Accounts or the Department of Education. The training shall also include the role of the local school superintendent with respect to financial management and financial governance of the local school system.

BUDGET DEFICITS
An LUA is prohibited from purposely budgeting into a fund balance deficit. This means that beginning fund balance (or equity) plus anticipated revenues cannot be less than anticipated expenditures for any fund category. When an audit of the financial statements reports an LUA
is operating in a fund balance deficit situation, there are certain requirements related to the irregularity that must be met, in addition to the reporting requirements of high- or moderate-risk LUAs.

O.C.G.A. § 20-2-67 requires that any local school system with a budget deficit reported by its auditor must comply with the following -

1. The local school superintendent shall present to each member of the local board of education for his or her review and written acknowledgement a monthly report containing all anticipated expenditures by budget function for such school or school system during the current month. The report shall be presented to local board members on or before the tenth business day of each month. Each monthly report shall be signed by each member of that local board and recorded and retained in the minutes of the meeting of the local board of education.

2. Not later than September 30 of the year, each local board shall cause to be published in the official county organ wherein the local school system is located once a week for two weeks a statement of actual financial operations for such schools or school system identified by the Department of Audits and Accounts as having financial irregularities. Such statement of actual financial operations shall be in a form to be specified and prescribed by the state auditor for the purpose of indicating the current financial status of the schools or school system. Prior to publication, such form shall be executed by the local board of education and signed by each member of said board and the local school superintendent.

3. A copy of the actual financial operations form required to be published by subsection (c) of this Code section shall be mailed by each local board of education to the Department of Education and the local county board of commissioners or local municipal governing authority. A current copy of said form shall be maintained on file in the central administrative office of the local school system for public inspection for a period of at least two years from the date of its publication. Copies of the statement shall be made available on request.

4. Submit to the Georgia Department of Education (GaDOE) a Deficit Elimination Plan.

5. Present to each school board member for review and written acknowledgment a monthly report containing all actual expenditures by budget function for the system during the current month and compare to the year-to-date budget expenditures. The monthly reporting is required until the next audit report indicates the deficit has been eliminated. The GaDOE Financial Review Division does exercise judgement in suspending the monthly reporting prior to an issued
audit report, depending on the status of the monthly reports and the timing of the audit. This report will be presented at each board meeting. The report must be signed by each board member and retained in the minutes of the board of education. The report shall also be forwarded to DOE monthly until the deficit is eliminated.

6. If the audit reports a significant deficiency (finding) the LUA is required to advertise in the school system’s official county organ once a week for two weeks, a statement of actual financial operations in a form to be specified by the state auditor for the purpose of indicating the financial status of the school system not later than September 30 of the year in which the deficit is reported. Prior to publication, this statement must be executed by the local board of education and signed by each member of the board and the local school superintendent.


7. Provide a copy of the published statement of actual financial operations to DOE, the local county commissioners, and local municipal authority.

8. Maintain a copy of the published statement of actual financial operations on file in the central administrative office of the local school system for public inspection for at least two years from the date of publication. Copies of the statement shall be made available upon request.

**UNAUDITED DEFICITS REPORTED TO GaDOE**

Because of the seriousness of operating in a fund balance deficit situation, the GaDOE Financial Review Division also reviews the unaudited annual financial report that is submitted each fiscal year to determine if any LUAs have a deficit situation, or fund balance is declining at such a rate that a fund balance deficit appears probable. If it is determined that the LUA has a deficit situation, GaDOE will require the LUA to meet the following reporting requirements of O.C.G.A. §20-2-67:

1. The local school superintendent shall present to each member of the local board of education for his or her review and written acknowledgement a monthly report containing all anticipated expenditures by budget function for such school or school system during the current month. The report shall be presented to local board members on or before the tenth business day of each month. Each monthly report shall be signed by each member of that local board and recorded and retained in the minutes of the meeting of the local board of education.

2. Submit to the Georgia Department of Education (GaDOE) a Deficit Elimination Plan.
3. Present to each school board member for review and written acknowledgment a monthly report containing all actual expenditures by budget function for the system during the current month and compare to the year-to-date budget expenditures. The monthly reporting is required until the next audit report indicates the deficit has been eliminated. This report will be presented at each board meeting. The report must be signed by each board member and retained in the minutes of the board of education. The report shall also be forwarded to DOE monthly until the deficit is eliminated. This monthly report is required until the LUA has eliminated the deficit for at least one year or until it ends a fiscal year with an operating reserve of at least 10% of the property tax revenues collected during the calendar year. The GaDOE Financial Review Division exercises judgement of continued or suspended monthly reporting, based on the information provided. These reports are due to the GaDOE Financial Review Section immediately after board approval.

REDUCTION OF DEFICITS

Fund Balance deficits can only be eliminated by increasing revenue or reducing expenditures. If an LUA determines they have a deficit situation, they only have a few options for eliminating that deficit.

If an LUA begins a fiscal year with a deficit the equivalent of a major fraction of a mill (.5 plus mill), the budget for that year must provide for a reduction in the deficit of at least the equivalent of one tax mill. Georgia tax rates are expressed in terms of mills (i.e., One mill equals $1.00 of property taxes for every $1,000 of assessed value). Georgia property is assessed at 40% of market value. The equivalent of one mill is calculated in the following example:

The amount of the cumulative deficit is $30,000.

The amount of assessed valuation is $20,000,000.

The total deficit converted to mills.

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\frac{30,000}{20,000,000} = .0015 \text{ or } 1.5 \text{ mills}
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One mill would equal $20,000,000 x .001 = $20,000.

If an LUA begins the fiscal year with a deficit the equivalent of less than a major fraction of a mill (less than .5 mill), the budget for that year must provide for the elimination of the deficit during the same fiscal year. Any general fund balance deficits incurred are determined by the GA DOE when the adopted budgets are submitted to the GA DOE.

If an LUA is setting the maximum maintenance and operation (M & O) millage levy allowed by law, then that LUA must reduce anticipated expenditures in the budget until the revenue from
the maximum levy plus all other revenues will cause the deficit to be reduced or eliminated as outlined above.

If the fund deficit is reported for school nutrition, the LUA must determine if meal prices should be increased, staffing levels reduced, or if there are any other cost-cutting measures that can be implemented. The local board of education will also need to approve a line item in the General Fund budget to supplement the operating costs of the nutrition program with the local tax revenue.

If a fund deficit is reported for capital projects, the LUA must determine if other planned projects with the SPLOST dollars must be eliminated before contracts are entered into or determine how much of the General Fund operating budget must be approved by the local board of education to cover the excess capital project expenditures.

SUMMARY

It is emphasized that financial stability of LUAs is critical to the state’s commitment to Georgia’s children for a quality education. Irregularities in financial operations and reporting, as well as fund deficits require swift action by the LUA to implement corrective measures, and those action plans must be monitored by the Georgia Department of Education. The reporting and financial training requirements for LUAs with a high or moderate risk designation or reported governmental fund deficits are quite stringent. LUAs with financial irregularities must ensure management (superintendent and board members) are notified and are aware of the audit issues noted and are actively managing a corrective action to eliminate the irregularities. Management must also make every effort to eliminate governmental fund deficits as quickly as possible. However, most deficits were not created in a single year. Therefore, it may require several years to eliminate these deficits. LUAs that do not monitor their deficits and implement budget cuts to eliminate the deficits as quickly as possible could face even more strict reporting requirements, at the discretion of the State Board of Education. Additionally, the State Board of Education may request an LUA to attend a State Board Audit Committee meeting to discuss the status of the irregularities and deficits.