

**Bertie County Public Schools (BCS) Financial Recovery Plan  
Summary  
Fiscal year ended June 30, 2016  
April 17th, 2017**

**I. Issue**

Based on the 2016 audit financial statements for BCS, the system is in significant financial distress and has been cited with 6 material weaknesses and 4 significant deficiencies.

The following is a summary of the issues (details are in the DPI correspondence to Bertie dated March 27<sup>th</sup>, 2017):

- Deficit Fund Balance as of June 30, 2016, \$704,995 in the General Fund (total State, federal and local revenue approx. \$25m)
- Deficit fund balance of \$135,078 in the restricted fund (total revenues \$1.3m)
- Lack of Financial Management and oversight resulting in specific general statutes being violated.

Some of the underlying causes were present in BCS in prior years, but were not identified by the prior auditor who was engaged by the Bertie Board of Education to perform the financial statement audit.

**II. General Statutes that have been violated**

BCS expended more than the appropriation in the budget resolution

**§ 115C-441. Budgetary accounting for appropriations.**

(a) *Incurring Obligations. - Except as set forth below, no obligation may be incurred by a local school administrative unit unless the budget resolution includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year. Nothing in this section shall require a contract to be reduced to writing.*

....

- (b) When a bill, invoice, or other claim against a local school administrative unit is presented, the finance officer shall either approve or disapprove the necessary disbursement. The finance officer may approve the claim only if all of the following apply:
- (1) The amount claimed is determined to be payable.
  - (2) *The budget resolution includes an appropriation authorizing the expenditure.*
  - (3) Either (i) an encumbrance has been previously created for the transaction or (ii) an unencumbered balance remains in the appropriation sufficient to pay the amount to be disbursed.

A bill, invoice, or other claim may not be paid unless it has been approved by the finance officer or, under subsection (c) of this section, by the board of education. The finance officer shall establish procedures to assure compliance with this subsection, in accordance with any rules adopted by the Local Government Commission.

**§ 115C-432. The budget resolution; adoption; limitations; tax levy; filing.**

(a) After the board of county commissioners has made its appropriations to the local school administrative unit, or after the appeal procedure set out in G.S. 115C-431 has been concluded, the board of education shall adopt a budget resolution making appropriations for the budget year in such sums as the board may deem sufficient and proper. The budget resolution shall conform to the uniform budget format established by the State Board of Education.

- (b)
- (5) *The sum of estimated net revenues and appropriated fund balances in each fund shall be equal to appropriations in that fund.*

**§ 115C-425. Annual balanced budget resolution.**

- (a) *Each local school administrative unit shall operate under an annual balanced budget resolution adopted and administered in accordance with this Article. A budget resolution is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations. Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year. The budget resolution shall cover one fiscal year.*

**III. Actions taken by Financial and Business Services (FBS) as of April 17<sup>th</sup>, 2017**

The Director of School Business and the Director of Fiscal Management at the Local Government Commission met in Bertie County with Dr. Hill, BCS Superintendent, Lisa Rabon, Finance Officer and the BCS independent auditor to discuss the fiscal year 2016 financial statement audit, the corrective actions taken and the current financial status.

At the request of the Bertie County Commissioners, the Director of School Business attended their meeting and fielded questions.

In response to specific findings in the audit and the accompanying management letter, FBS Child Nutrition Section performed a site visit to provide technical assistance.

Division of School Business sent a letter to Dr. Hill with a c: to Bertie Board Chair, requiring a financial recovery plan to be submitted to the DPI by April 15. This requirement is in addition to the required audit resolution process.

Division of School Business continues to provide technical support to BCS, and complete the post audit analysis of the audit findings related to State and federal funds.

**IV. Actions taken by BCS**

- Replaced the Superintendent with Dr. Steven Hill effective December 2016
- Replaced the finance officer with Lisa Rabon who has been in the position since February 2017
- Engaged a new audit firm effective for the fiscal year 2016 financial statement audit
- Recommended a 6.16% personnel reduction starting in 2017-18. These reductions have been approved by the Bertie Board of Education and communicated to the BCS employees
- Collecting unrecognized revenue, including 4 years of sales tax refunds and indirect cost for both federal programs and child nutrition
- Reduction in contracted services.
- Implemented accounting procedures and internal controls to support sound financial management.

The BCS leadership estimates that the fund balance deficit will increase to approximately \$828,379 by June 30, 2017.

## Responsibility of the State Board of Education

### § 115C-447. Annual independent audit.

- (b) When the State Board of Education finds that incidents of fraud, embezzlement, theft, or management failures in a local school administrative unit make it appropriate to review the internal control procedures of the unit, the State Board of Education shall so notify the unit. *If the incidents were discovered by the firm performing the audit under subsection (a) of this section, the board of the local school administrative unit shall submit the audit together with a plan for any corrective actions relative to its internal control procedures to the State Board of Education and the Local Government Commission for approval and shall implement the approved changes prior to the next annual audit.* Where the firm preparing the audit under subsection (a) of this section identifies significant problems with internal control procedures the local school administrative unit shall submit the audit together with a plan for any corrective actions relative to its internal control procedures to the State Board of Education and the Local Government Commission for approval and shall implement the approved changes prior to the next annual audit.

### § 115C-451. Reports to State Board of Education; failure to comply with School Budget Act.

- (a) The State Board of Education shall have authority to require local school administrative units to make such reports as it may deem advisable with respect to the financial operation of the public schools.
- (b) *The State Board of Education shall be responsible for assuring that local boards of education comply with State laws and regulations regarding the budgeting, management, and expenditure of funds. When a local board of education willfully or negligently fails or refuses to comply with these laws and regulations, the State Board of Education shall issue a warning to the local board of education and direct it to take remedial action. In addition, the State Board may suspend the flexibility given to the local board under G.S. 115C-105.21A and may require the local board to use funds during the term of suspension only for the purposes for which they were allotted or for other purposes with the specific approval from the State Board.*
- (c) If the local board of education, after warning, persists in willfully or negligently failing or refusing to comply with these laws and regulations, the State Board of Education shall by resolution assume control of the financial affairs of the local board of education and shall appoint an administrator to exercise the powers assumed. The adoption of a resolution shall have the effect of divesting the local board of education of its powers as to the adoption of budgets, expenditure of money, and all other financial powers conferred upon the local board of education by law. (1975, c. 437, s. 1; 1981, c. 423, s. 1; 1991, c. 529, s. 5; 1997-443, s. 8.7.)

### Next Steps

- BCS is requesting approval of the financial recovery plan, dated April 13, 2017, including the 5 year plan to reduce the general fund deficit.