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TOP STORY

## Three Forks School District struggles with financial woes, government fines

Dennis Gaub, staff writer Jan 24, 2019



The Three Forks School District found itself in some financial hot water after a recent audit. School officials are scrambling to remedy the situation.

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### Payroll errors, uncashed checks, missing title money plague district

An October 2018 document prepared by the Three Forks School District contains a damning list of financial missteps by the district's business office in recent years. The original document, labeled "Areas of Concern," is dated Oct. 22 and includes an Oct. 31 update on findings.

When Jeff Elliott returned to the Gallatin Valley last summer and started his first superintendent job as head of the Three Forks School District, he knew the position came with promise plus a predicament.

What he didn't initially grasp was the size of the problem he inherited: a \$462,000 bill from the IRS for payroll taxes withheld from staff paychecks over a several-year period and not paid into the federal treasury. Also, a document provided by the district says Three Forks owes \$135,000 in fines and penalties for unpaid state income tax unless the district can provide a warrant showing the

The first segment includes four items:

- Montana Department of Revenue, unpaid state income tax. The district owes a total of \$135,000 for fines and penalties. It is responsible for these funds unless officials can find a warrant that shows the money was paid. The Gallatin County Treasurer's Office did not receive payment, the document says.

- Black Mountain Software. This is the Polson-based provider of the district's accounting software. Former Three Forks District Clerk Randi Strickland said revenue data from February 2017 was missing. Three Forks Superintendent Jeff Elliott, who started in July 2018, said he called BMS and was told an audit trail shows no revenue had been recorded by the software and that the clerk hadn't posted revenue "since February 2017."

- Incorrect W-2s for employees. Fourth-quarter information for earned wages in 2017 is missing, according to the Social Security Administration.

- Fines and penalties. "Since 2015, Three Forks School District has paid fines to retirement and the IRS and now will have a large penalty with the Department of Revenue," the document says. The district will have paid more than \$80,000 in fines since 2015, it adds, noting that fines and penalties are never budgeted so districts must take the funds from other accounts. Also, "very few schools ever have fines or penalties."

More detail is provided for the first three points.

Three Forks' revenue accounts in the BMS software are not current, so the district was operating without knowing how much money it actually had. Strickland claimed the data was missing, that it had "disappeared" when school

money was paid. The Gallatin County Treasurer's Office did not receive payment for this obligation, according to an October 22, 2018, document.

But when Elliott left his post as principal of Fergus County High School in Lewistown to take the helm at Three Forks, he envisioned a straightforward hurdle ahead of him.

"Our bond had gone down in May. When you're growing there's always going to be issues and challenges that you know you have to find room for your classrooms, find more teachers," Elliott said Tuesday during an interview in his office.

Getting additional space and hiring more staff would present financial issues, he realized last July, but then he learned the magnitude of the puzzle he would need to solve.

Employees had been paid. The problem was that the school failed to report money withheld for income tax, Social Security and Medicare.

"Basically, that money, we're hoping, is sitting in a tax liability, sitting in our software so we can get those bills paid. That's what we're all focusing on right now," Elliott said.

Overdue payments to the IRS couldn't be overlooked, but employees were getting their paychecks and their W-2 forms for income tax filing were correct.

"It was just that some of our withholdings hadn't been reported accurately. And they want their money," something the district is striving to resolve, Elliott said.

The Gallatin County Treasurer's Office functions as the bank for Three Forks schools, just as it does for other county schools and as other treasurer's offices in other Montana counties do for their schools.

"All our revenues, everything, goes through the county treasurer. On our end, we're pretty well caught up now," the superintendent said.

A new county treasurer elected last November means a delay in getting Three Forks' books in order, and implementation of new financial software at the courthouse created a further snag.

"They're a little behind in getting some things to us so that we can reconcile with them," Elliott said, "but once we get that then we'll have a good understanding of exactly where we sit."

Three Forks uses accounting software provided by Black Mountain, a company that has "gone out of their way to help us get on track. They've been incredible. We can contact them anytime. They've

officials met with Office of Public Instruction auditors on Oct. 16, 2018.

Strickland also said she contacted BMS, and the vendor was working on the issue. Elliott, however, said he called Black Mountain Support Manager Debbie Crippen and was told the company logs all calls, emails and other correspondence involving problems with its software.

“At no time did the clerk call or email any Black Mountain employee about missing data from 2017,” the document says.

The district is working with the Social Security Administration to resolve the W-2 issue. Both “our clerk,” apparently Strickland at that time, and Elliott called SSA and provided new W-2s in an attempt to remedy the matter.

Strickland’s profile on LinkedIn, the professional network, says she was Three Forks School District Clerk from November 2013 through November 2018.

The Belgrade News attempted to contact Strickland Wednesday for comment by making multiple calls and leaving voice mail on her cell phone number. She did not reply before the paper’s deadline at midafternoon on Wednesday.

The Oct. 31 update says the district gained a new outside set of eyes to look at its finances: Donna Tandy, a consultant from Red Lodge, who started her work two days earlier.

One of the first things Tandy did was to join Elliott in working with the Department of Revenue to devise a plan to get the state bill paid and “hopefully alleviate some of the penalties and fines.”

To support his school’s cause, Elliott wrote a “Just Cause” letter explaining Three Forks’ circumstances.

worked to get us back to where we need to be.”

Although the company is based in Polson, the Three Forks school office can work with its vendor remotely via the Internet. Black Mountain can be contacted at any time and has worked “really well on our behalf,” Elliott said.

Three Forks hired a consultant from Red Lodge, Donna Tandy, to help get the school’s finances in order.

“She was amazing. She did an incredible amount of background work to get things back to where they needed to be so we could reconcile with the county,” Elliott said.

Still, it will take time to assess Three Forks’ financial picture, he said.

“I think financially we’re going to be in a good place. We’re getting the money that’s owed to us through federal grants, through our state funding, ... so we’re progressing forward.”

Although schools are required to undergo audits every three years, Three Forks has its books audited annually. Also, the district worked with the state Office of Public Instruction to increase the chance for success during its latest financial review, according to Elliott.

“At this point, because of the situation with our audit, we are considered high risk. We are working with them to remedy those findings in that audit so we can get out of that situation. The one nice thing about working with OPI is as soon as they placed us in high risk, they were here and ready to help us.”

All entities Three Forks has worked with have been helpful, he said, because “they want to get us out of the situation we’re in. They want us to be successful.”

Three Forks’ financial mess apparently stemmed from a combination of rapid growth – total enrollment at the school has been growing about 10 percent annually for several years – and inadequate staffing in the administration’s business office.

Previously, “We had a business manager, and she handled everything,” Elliott said. Now, two people handle those duties “as another set of checks and balances to make sure things are getting taken care of. It was all handled by one and since we’re a growing district, those are things that we need to look into. We need to make sure we’re taking care of our employees.”

Enrollment at the school totals 704 students, including 325 in elementary (K-5), 185 in the middle school (6-8) and 202 in the high school.

Several employees checked their earnings at the SSA web site and found information was missing, which they reported to Elliott last August.

“Upon looking into the situation, we found that all the employees we checked were missing approximately 20 percent of their 2017 earnings on the SSA site,” the document says.

Elliott asked the affected employees to provide their W-2s, which showed correct 2017 earnings. Thus, the amount reported to SSA was incorrect, so the district turned to Black Mountain to find out how the error occurred.

“At this time, we don’t have any definitive findings but it looks like we didn’t pay (electronically) the fourth quarter Social Security Administration (withholding),” the document says, adding that the district has continued to work with BMS and the federal agency to solve the problem.

Missing checks or checks not deposited are a problem that plagued the district. Elliott said one of the first issues he confronted last summer when he came to Three Forks was lost checks written to the district. Four retirees contacted him and said their health insurance checks had not cleared, causing them to worry they had lost coverage.

When Elliott asked Strickland about this, she told him the mix-up might have been arisen during recent mergers involving several local banks. First Security Bank might be at fault, the clerk claimed.

“This caused the president of the bank to make several trips to our office to discuss the situation,” Elliott said. He asked Strickland to document that the checks were deposited, and she said she would provide documentation promptly.

The bank president called several hours later and said he had never received

Elementary school principal Steve Fanning, who was in Elliott’s office during the interview, said elementary enrollment stood at about 260 students when he started seven years ago. “We’ve gained 65 kids, give or take a few, in seven years,” he said.

The high school will graduate 41 students this spring – and pick up 64 eighth-graders, pushing high school enrollment to about 220 students.

Elliott said a “crazy thing” about the district is its constant growth throughout the year, as opposed to the pattern the veteran educator has seen of school growth spurts at the start of the year and sometimes right after Christmas.

“We’re definitely busting at the seams. We’ve gotta find places to put kids,” he said.

The district is looking at using portable classrooms next year because it must have a plan ready for further growth.

State education officials in Helena recently reported that high schools across the state had pushed their average high school graduation to slightly above 86 percent, but Three Forks has gone above and beyond.

“We’re at about 94 percent. We’re one of the higher ones in the state,” Elliott said.

Elliott taught for two decades at Belgrade Middle School and was assistant principal there when he accepted the high school principal position in Lewistown in 2013. When Three Forks offered him its top job, Elliott considered what a district 20 miles west of his former teaching base had to offer.

“When I looked at this position, it was great teachers, great kids. Everything (was) in place to be a great school,” he said.

anything from the school, so Elliott wrote the bank and the affected former employees, explained that the district had lost their checks and would do whatever was necessary to right the situation.

Elliott met with each retiree, got them on track with insurance payments and affirmed that their insurance checks had been deposited. Several retirees had to pay a stop-payment fee on their checks, which the district covered.

When Tandy began work, she and the elementary school secretary went through paper piled in the clerk's office and found numerous checks written to the school that had not deposited. The uncashed checks totaled \$25,157.37 and ranged from a \$166.23 check to one for \$11,261.98.

Also, the consultant found several outstanding but missing checks, one for \$6,650, written by the high school secretary to pay for driver's education, and the other for an unknown amount written by the Three Forks Education Foundation.

Additional findings from Tandy mentioned in the document:

- Fines and penalties from the Montana Public Employees Retirement System, which totaled \$35,840 through the last fee paid on Sept. 20, 2018

- Six employees paid incorrectly, getting \$13.11 per hour instead of \$13.31 as called for under their contract

- Missing funds for two new sports at the school, tennis and wrestling, which began in 2017. The clerk was directed to write a check to the high school to deposit in the activity account but didn't, causing that account to show a negative balance. In September 2018, she transferred money from the general fund to the activity account and back dated the transaction to the previous

fiscal year. The county treasurer got no notice of the transfer.

- An employee without health insurance coverage, which will cost the district two years payment into a Health Savings Plan the employee thought he was signed up for. Another employee did have health insurance but was not receiving the savings-plan benefit.

- Three Forks district incorrectly managing employee benefits. For example, life insurance premiums were paid for several employees who hadn't worked in the school for several years; one former administrator had an insurance policy for which the district paid six years' worth of premiums

- No Title IA or Title II money from 2017. The former clerk and former superintendent completed the application but did not request the money. Elliott said he called OPI, which told him the money likely had been appropriated for other uses or given to another school. "My heart sank as that was almost \$120,00 that we used to supplement the general fund to pay salaries for Title and special ed (teachers)," he said, adding that after two weeks of letter-writing and "throwing ourselves on the mercy of OPI," Three Forks was allowed to collect the Title 1A money but not the Title II allotment.

- On December 13, 2018, the discovery that Strickland did not file deposits for federal Employers Quarterly Federal Tax Return on Form 941 for district employees for the previous 1-1/2 years. Tandy then learned that not only were filings missing, but because the district was in arrears, the IRS took collection action. That will result in penalties for not depositing federal taxes by deadlines. Tandy began filing the 941 forms but because this wasn't originally done through the school's

accounting system, she had to calculate the amount due manually with Black Mountain's help.

Finally, on Jan. 7, the district was billed by Beyond the Chalk, its professional development provider, which sends a consultant to Three Forks twice a month to teach technology to staff members. Elliott said this bill probably can be paid from the school's REAP money, a federal grant program, as was done in the past. The grant money is deposited in either elementary school or high school miscellaneous funds, but, "with all of our issues, those two funds were in some of the worst disarray."

Three Forks didn't request REAP money in 2016 and 2017, a total of \$106,988 due the school. Elliott said he will try to recoup some of the money. He planned to write the Department of Education, explaining that other funds were used instead of REAP to pay for programs eligible for funding with that grant money.

*—Dennis Gaub, staff writer*