The Relationship between the Educational Qualifications of Chief Financial Officers and the Effectiveness of Local District Financial Leadership in Alabama Public Schools: A Policy Analysis

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In the early years of 2000, Alabama experienced a series of embarrassing financial incidents in local school districts. In one of the largest districts in the state, an audit discovered the finances were in such disarray that deceased employees continued to be paid, bills went unpaid, and accounts had not been reconciled in so long that no one knew the actual financial status of the school district. In the midst of this financial fiasco, the superintendent and the school board publicly acknowledged that they were not aware of the financial condition of the school system until the situation had deteriorated to the point that the state superintendent had to intervene. In several other districts, a sudden drop in expected revenues resulted in the lack of available funds to pay employees and resulted in school districts hastily making arrangements for bank loans to fund the payroll. Still in other districts, there were incidents of fraud and intentional theft of funds by school employees – most commonly bookkeepers and other employees with access to school funds.

In response to this series of embarrassing events, the state legislature passed the School Fiscal Accountability Act (Act 2006-196, §2) aimed at improving the financial management of Alabama’s public schools. Among other specifications, this law created the position of Chief School Financial Officer (CSFO) in public school districts and required the State Board of Education to establish the minimum job qualification for the position of CSFO. The Alabama State Board of Education’s current policy establishes minimum educational qualifications which require CSFOs to “hold a baccalaureate degree from an accredited four-year college or university with a concentration in a business-related curriculum (accounting, finance, business administration, etc.)” [Chief School Finance Officers, 290-2-5-.03(a)]. The purpose of this study is to test the policy assumption that requiring individuals who serve as CSFOs in Alabama public schools to hold a degree in a business-related field will result in more effective financial leadership.

Conceptual Framework

The Historical Problem

Harvey (2003), educational finance historian, describes the history of American school finance:

During the early years of American education, financial records were not extensive because local school systems were small and had relatively few financial transactions. Also during this developmental period, most school funds were derived from local sources and there was little need for comparative reporting statewide. In fact, there was no need for one state’s record keeping procedures to look like that of any other. Most local schools developed at the township level and basically comprised a self-contained financial and operational unit (Module 25, p. 1).

As schools and school districts grew and became more extensive, so did the needs for accurate financial data. In 1841, the school district in Cleveland, Ohio hired the first manager to oversee the school districts’ finances and records (Harvey, 2003). Over the remainder of the nineteenth century, districts throughout the country employed individuals to attend to the financial records as state funding
for education expanded and became more complex. The larger the school district, the more complex and substantial were the finances of the district – yet the practices continued to be unique to each school district, and the skill level of employees varied greatly from school district to school district.

In 1910, the Association of School Business Officials (ASBO) was formed to promote good financial management practices in school districts and provide professional development for school business employees. In 1953, the United States Office of Education in cooperation with ASBO began publishing a series of guidelines for a standardized accounting system in public schools and the effective use of education finances, although these recommended standards were not required to be used by each state (Harvey, 2003).

In 1927, the Alabama legislature passed legislation requiring all school boards to name a “custodian of funds” whose primary purpose was the financial record keeping of the board (School Code 1927, §297). For almost eight decades in Alabama, individuals from varied educational backgrounds continued to serve as the “custodian of funds.” These individuals were as unique as the districts they served. Some were school administrators who found themselves managing the “business side” of the district. Others were math or business teachers whose skills were needed in the district’s central office. However, many – if not the majority – were bookkeepers who developed the skills and specialized knowledge of school finance practices and procedures from their experience working in the school district. The “custodian of funds” served as the primary financial manager in Alabama public school districts (Harvey, 1989).

In 2003, in response to a series of embarrassing financial situations in Alabama public school districts, the legislature passed the School Fiscal Accountability Act (Act 2006-196, §2.) in an attempt to ensure public trust in the financial oversight and management of public schools. One of the major components of the law was the replacement of the “custodian of funds” with a “chief school financial officer” whose qualifications are established by the Alabama State Board of Education (Section 16-13A-4). The new CSFO is required to (1) have three or more years experience in a business-related field, (2) hold a minimum of a baccalaureate degree in a business-related field with specific course requirements (Chief School Finance Officers, Rule 290-2-5-.03), and (3) complete a series of courses on Alabama school finance and be certified by the state superintendent (Rule 290-2-5-.04). However, individuals who were serving at the time the law was passed were allowed to be “grandfathered” in their current positions provided that they had served for three years and met the course certification requirements (Rule 290-2-5-.06). As a result of this new law, bookkeepers, teachers, and school administrators who do not have a four-year degree in a business field are no longer eligible to serve as the school district’s financial manager.

Another component of the law was the requirement that each public school district in Alabama shall “establish and maintain a minimum reserve fund equal to one month’s operating expenses” (Act 2006-196, §2., Section 16-13A-9). The Alabama State Department of Education calculates the required financial reserves for each district using the following formula: The district’s anticipated revenues for the current school year plus any reserves carried over from the previous fiscal year minus the current year’s anticipated expenditures. This amount must be equal to or greater than the anticipated expenditures divided by twelve, or one month’s anticipated expenditures. (For the purposes of this formula, capital outlay and bus fleet renewal are excluded from the main budget.)

To determine compliance with the law, the actual reserve is divided by the anticipated one month’s
To determine compliance with the law, the actual reserve is divided by the anticipated one month’s expenditure to give the total number of months of reserves available for the district. If the number is less than one, the district does not meet the requirements of the law. Districts not meeting the requirement of the law must develop a financial recovery plan stating how the district will decrease expenditures and save the additional required reserves – or the board will potentially face state take-over of the school district’s finances. If the state is forced to take over a school district’s finances, a financial officer is appointed by the State Superintendent of Schools to administer the district’s finances, and the CSFO and the local school superintendent lose control of the day-to-day operations of the school district’s finances.

Theoretical Rationale

The changing role of the financial manager in school districts reflects the historical evolution of organizational theory and is reflective of the practices in business and industry. Classic organizational theorists such as Babbage (1832), Taylor (1911), and Weber (1937) emphasized the basic structure of the organization and the importance of each member’s contribution to the overall organization. Mintzberg (1979) described the bureaucratic structure of organizations which gives rise to specialized knowledge. The more complex and bureaucratic the organization, the more specialized knowledge individual players develop (Mintzberg, 1983). Jacques (1990) actually praises bureaucratic hierarchy as “layers of accountability and skill” (p. 127). Bolman and Deal (1991) described structure as fundamental to the functioning of organizations.

Following the logic of these organizational theorists, it is to be expected that as school districts become more complex and bureaucratic that knowledge will become more specialized. In the natural evolution of the organization, expertise becomes valued and rewarded. The logical assumption is that individuals with educational qualification in financial management are better financial leaders than individuals who have less education and training.

In the field of education, researchers have studied the relationship between educational qualifications and job performance, such as the relationship between the educational degree of the teacher and student achievement. Recent research does not support the notion that an advanced degree leads to increases in student achievement. Hanushek and Rivkin (2007) found that “a master’s degree has no systematic relationship to teacher quality as measured by student outcomes” (p. 1061), and Croninger, Rice, Rathbun, and Nishto (2007) found that an advanced degree actually had a negative effect on the relationship with first-graders’ achievement in mathematics. However, research considering the implications of the educational qualifications of non-educators who work in public schools is rare. Currently, no research has addressed the effectiveness of the policy change which required specific educational qualifications of the CSFOs who work in Alabama public schools. This study will address this policy change by examining the relationship between the educational qualifications of CSFOs and the effectiveness of local district financial leadership in Alabama’s public schools.

Research Questions

1. Are school districts employing CSFOs with educational qualifications in business and finance less likely to experience adverse audit findings than districts employing CSFOs with other educational qualifications?

2. Are school districts employing CSFOs with educational qualifications in business and finance more
likely to accumulate the state required financial reserves than districts employing CSFOs with other educational qualifications?

Methodology

Correlational analysis was used to determine if a relationship exists between the educational qualifications of CSFOs and the effectiveness of local district financial leadership.

In this study, the educational qualifications of the CSFOs from the 67 county districts is the independent variable. There are two dependent variables: (1) the number of adverse audit findings of the individual school districts and (2) the individual district’s maintenance of the state-required financial reserves.

The unit of analysis is the CSFO of each of the 67 county school districts.

Selection of School Districts

Alabama has 131 independent school districts. Each district operates as a K-12 district. Sixty-seven of the districts are county school districts. The remaining 64 districts are city school districts. There are differences in the laws governing the existence of the county and city school districts, but all districts operate under the authority of the Alabama State Board of Education. One of the primary financial differences between county and city districts is that county school districts are required to be audited annually by the Office of the Auditor of Public Accounts whereas the city districts are allowed to employ private certified public accounting firms to conduct audits (Act 2006-196, §2., Section 16-13A-7). As such, the finances of the county school districts are often more systematically and closely scrutinized.

This study includes all sixty-seven county districts in Alabama because: (1) The auditing process was standardized among all the county districts and conducted by the same state agency. (2) The sixty-seven county districts represent all the regions of the state. (3) There are several county districts which include both large metropolitan areas and the outlining rural areas, thus ensuring that this study contains both rural and urban school districts and districts of various size.

The Collection of Data

A. Educational Qualifications of Chief School Financial Officers

The sixty-seven county school districts were contacted by phone. In all but a few cases, the researcher spoke directly with the CSFO. (If he or she could not be contacted, an employee with access to personnel records was requested.) The following questions were asked:

1. How long have you been employed as the Chief School Financial Officer in your district?

2. What is your highest educational degree, and if you have a four-year college degree or higher what was your major area of study?

If the CSFO had been employed less than a year and after the time of the last audit, information was gathered on the CSFO serving at the time of the audit.

The educational levels of the CSFOs were coded into four categories: High school only was coded as a 1; some college, but without a four-year degree was coded as a 2; a four-year degree or higher in a
field of education was coded as a 3; and a four-year degree or higher in accounting, business, finance, or other related field was coded as a 4. These codes were used to identify the categories of CSFOs.

B. Audit Reports for Each County School District

Audit reports for each of the sixty-seven county school districts were obtained from the Office of the State Auditor. The county districts are required to be audited annually, and the most recent audit for each district was used for this study. As such, some audits are from the 2008 fiscal year while others are from the 2007 fiscal year.

In reviewing the most recent audit reports of school districts in Alabama, the findings were sometimes shocking: A district payroll clerk who did not have any payroll taxes withheld from her paycheck; a principal who used school funds to buy a tractor and then, a year later, sold it for less than its value to another school employee; a school board member who attended a school board conference and was reimbursed for what the auditor referred to as “excessive” charges for golf fees and long distance telephone calls; and numerous school club sponsors who could not account for school funds. However, the most common audit findings were for a lack of internal control and following proper accounting procedures: not receipting money, not making deposits in a timely manner, and not following correct purchase order procedures.

All adverse findings as categorized in the “Audit Findings Report” were counted for each district. Each category potentially contained several adverse findings of the same topic. For example, “Lack of Internal Control” may be listed as an adverse finding if only one school in the district had issues of internal control or if five schools within the district were listed as having issues of internal control. “Lack of Internal Control” only counted as one adverse finding regardless of the number of incidents of “Lack of Internal Control.”

C. Financial Data for Current Budget Year

A statement of finances was obtained from the Alabama State Department of Education. This document listed financial information for all Alabama school districts for the current fiscal year including the maintenance of the required one month’s financial reserve.

Hypotheses

H1: There will be a significant negative correlation between educational qualifications and the number of adverse audit findings in the district.

H2: There will be a significant positive correlation between educational qualifications and whether the district has complied in having the required reserves.

H3: Educational qualifications will have a significant effect on the number of adverse audit findings in the district.

H4: Educational qualifications will have a significant effect on whether or not the districts are found in compliance in having the required reserves.

Results
The first level of analysis involved obtaining descriptive statistics for the variables included in this study. As can be seen from Table 1 below, there were eight CSFOs who had only obtained a high school diploma; five CSFOs who had some college, but had not obtained a bachelors degree; four CSFOs who had a four-year degree or higher in a field of education; and fifty CSFOs who had a four-year degree or higher in accounting, business, finance, or other related field.

Table 2 below shows that thirty-six of the districts had no adverse findings, nine of the districts had 1 adverse finding, eleven districts had 2 adverse findings, eight districts had 3 adverse findings, and three districts where found to have more than 3 adverse findings. The range of adverse audit findings was 0 to 7.

As can be seen from Table 3 below, nineteen of the districts had no reserves and forty-eight of the districts had the required one month reserve.

Table 4 cross-tabulates the educational qualifications of CSFOs from each of the four categories and the number of adverse audit findings received by their school districts. Fifty percent of CSFOs with a high school diploma only, a college degree in education, and a college degree in a business-related field received no adverse audit findings. One-hundred percent of CSFOs with only some college, but without a degree received no adverse audit findings. Ironically, the CSFOs of school districts with four, five, or seven adverse findings all possessed a college degree in a business-related field.
The number of CSFOs with a college degree in a business-related field is larger than the number of CSFOs in the other three categories combined. However, as a group the CSFOs with a degree in a business-related field did no better than the CSFOs in the other categories. The school districts employing CSFOs with a high school diploma only; some college, but without a degree; and a college degree in education seem to be performing as well or better than the school districts employing CSFOs with a college degree in a business-related field.

Table 5 cross-tabulates the educational qualifications of CSFOs from each of the four categories and the maintenance of the required financial reserves. The required financial reserves were maintained by 62.5 % percent of CSFOs with a high school diploma only; 80% of the CSFOs with some college, but
without a degree; 100% of the CSFOs with a college degree in education; and 70% of the CSFOs with a college degree in a business-related field. Ironically, the CSFOs with a college degree in a business-related field were less likely to maintain the required financial reserves than CSFOs with some college or a degree in education, and CSFOs with a college degree in a business-related field were only slightly more likely to maintain the required financial reserves than CSFOs with only a high school diploma.

<p>| Table 5: Educational Qualifications of CSFOs * Required Financial Reserves Crosstabulation |
|---------------------------------------------------------------|---------------------------------|-------------------|</p>
<table>
<thead>
<tr>
<th>Educational Qualifications of CSFOs</th>
<th>Required Financial Reserves</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>High school only</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>% within Educational Qualifications of CSFOs</td>
<td>37.5%</td>
<td>62.5%</td>
</tr>
<tr>
<td>% within Required Financial Reserves</td>
<td>15.8%</td>
<td>10.4%</td>
</tr>
<tr>
<td>% of Total</td>
<td>4.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Some college, but without a degree</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>% within Educational Qualifications of CSFOs</td>
<td>20.0%</td>
<td>80.0%</td>
</tr>
<tr>
<td>% within Required Financial Reserves</td>
<td>5.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>% of Total</td>
<td>1.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>A college degree in education</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>% within Educational Qualifications of CSFOs</td>
<td>0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>% within Required Financial Reserves</td>
<td>0%</td>
<td>8.3%</td>
</tr>
<tr>
<td>% of Total</td>
<td>0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>A college degree in the area of business, finance, or accounting</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>% within Educational Qualifications of CSFOs</td>
<td>30.0%</td>
<td>70.0%</td>
</tr>
<tr>
<td>% within Required Financial Reserves</td>
<td>78.9%</td>
<td>72.9%</td>
</tr>
<tr>
<td>% of Total</td>
<td>22.4%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>48</td>
</tr>
<tr>
<td>% within Educational Qualifications of CSFOs</td>
<td>28.4%</td>
<td>71.6%</td>
</tr>
<tr>
<td>% within Required Financial Reserves</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>% of Total</td>
<td>28.4%</td>
<td>71.6%</td>
</tr>
</tbody>
</table>

The school districts employing CSFOs with some college, but without a degree and a college degree in education seem to be more likely to have the required reserves than the school districts employing CSFOs with a college degree in a business-related field.

The second level of investigation involved obtaining bivariate correlations as well as the mean and standard deviation for each of the variables included in this study. As can be seen from Table 6 below educational qualifications was not correlated with adverse findings ($r = .169, p > .05$) nor with financial reserves ($r = .007, p > .05$). Additionally there was no correlation between the
number of adverse findings and whether or not a district complied with having the required financial reserves ($r = .049, p > .05$). Most of the CSFOs had at least a four-year degree in education.

Hypothesis H1 which stated that there will be significant negative correlations between educational qualifications and the number of adverse audit findings in the district was not supported by these findings. Hypothesis H2 which stated that there will be significant positive correlations between educational qualifications and whether the district has complied in having the required reserves was also not supported by these findings.

Table 6: Bivariate Correlations & Descriptive Statistics for Educational Qualifications, Adverse Audit Findings, and Required Financial Reserves

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>Educational Qualifications of CSFO's</th>
<th>Adverse Audit Findings</th>
<th>Required Financial Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.43</td>
<td>1.06</td>
<td>Educational Qualifications of CSFO's</td>
<td>.169</td>
<td>.007</td>
</tr>
<tr>
<td>1.06</td>
<td>1.46</td>
<td>Adverse Findings</td>
<td></td>
<td>.049</td>
</tr>
<tr>
<td>1.72</td>
<td>.45</td>
<td>Required Financial Reserves</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N = 67  *p < .05  **p < .00

Hypotheses H3 and H4 could not be statistically tested due to the categorical nature of the variables which prohibited regression applications and an analysis of variance would not be valid due to the small cell sizes.

Conclusion and Discussion

Research Limitations

The size of the school district was not considered as an independent variable. The larger the organization, the more likely the organization is to have a bureaucratic organizational structure which requires specialized knowledge (Mintzberg, 1979). The sixty-seven county districts represented systems of various sizes both in terms of enrollment and geographically. Additional research should consider the size of the district as an independent variable.

The years of work experience of the CSFOs was not considered as an independent variable. It is feasible that years of experience may be positively correlated to effective leadership. This variable should be considered in future research. However, the CSFOs in categories 1, 2, and 3 all have five or more years of experience because the law prohibiting new CSFOs with educational qualifications from these categories has been in existence for five years – potentially skewing the experience variable in favor of the CSFOs in these categories.

Policy Implications

No relationship between the educational qualifications of the CSFOs and the dependent variables was found in this research study. These findings question the policy of prohibiting individuals who do not hold a baccalaureate degree in a business-related field from serving as CSFOs in Alabama public school districts.

In raising the standards for individuals who serve as CSFOs in Alabama’s public schools, many
potentially capable people may have been eliminated. Historically, individuals with extensive experience working in education finance have risen to the ranks of school district financial leaders – regardless of their educational backgrounds. Many school districts have valued experience and skill more than educational qualifications. In demanding specialized education in business and financing along with three years of experience working in business or finance outside of education, the state is excluding many individuals who may possess extensive knowledge of and experience working in educational finance. Additionally, Alabama’s approach of disqualifying from the ranks of CSFOs individuals who hold advanced degrees within the field of education and have proven themselves successful as leaders in education is somewhat radical. Historically, many of these individuals have been successful as school district and state level financial leaders. Additional, the new recruits from the field of business and finance often have no experience working with education finance and no specific knowledge of the highly specialized accounting procedures which are unique to education finance in the state of Alabama.

The state had a compelling interest in tightening the financial practices within schools and school districts due to the many embarrassing incidents of incompetence and even deliberate fraud in the area of school finance. Public trust was eroding. However, increasing financial oversight, providing extensive professional development and training for all individuals involved in school finance from the local school bookkeeper, the central office payroll clerk, to the CSFO may have been a better policy decision than establishing standards which reward individuals with specific backgrounds while prohibiting others who may have extensive experience and specialized knowledge from ascending the ranks of financial management.

Distinguishing between financial management and financial leadership is important in understanding the implications of the policy change. Individuals trained in accounting and finance may be more focused on the process of managing the district’s finances – following proper procedures and standards – and may view themselves in more of a regulatory role. The individuals who posses lower levels of education and have served as bookkeepers may be more focused on procedures and standards. However, individuals who are trained and experienced as educational administrators may be more focused on the financial leadership of the district – the outcomes attained by good financial practices and planning. These individuals may view themselves more as leaders. The differences between the philosophies of financial management and financial leadership may greatly impact the contributions CSFOs make to their respective school districts.

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References


Jossey-Bass: CA.


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