



Forest Municipal School District

COMPLIANCE REPORT

Limited Internal Control and Compliance Review Management Report

For the year ended *June 30, 2019*

SHAD WHITE

State Auditor

Stephanie C. Palmertree, CPA, CGMA

Director, *Financial and Compliance Audit Division*

Derrick Garner, CPA, CFE

Director, *Compliance Audit Division*





STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

November 18, 2019

Limited Internal Control and Compliance Review Management Report

Forest Municipal School District
325 Cleveland Street
Forest, MS 39074

Members of the Forest Municipal School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Forest Municipal School District for the Fiscal Year 2019. In these findings, the Auditor's Office recommends the Forest Municipal School District:

1. Strengthen Internal Controls over Activity Fund Cash Receipts;
2. Ensure Compliance with State Laws over Obtaining Quotes for Purchases over \$5,000 but not over \$50,000; and
3. Ensure Compliance with State Laws over Statements of Economic Interest;
4. Ensure Compliance with State Laws over Approval of Original and Amended Budgets;
5. Ensure Compliance with State Laws over Surety Bonds;
6. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
7. Ensure Compliance with State Laws over Sixteenth Section Forestry Escrow Funds.
8. Ensure Compliance with State Laws over Sixteenth Section Taxes, Lease Payments, and Appraisals.

Please review the recommendations and submit a plan to implement them by (Date). The enclosed findings contain more information about our recommendations. During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, individuals charged with governance and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Forest Municipal School District to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

STEPHANIE C. PALMERTREE, CPA, CGMA
Director, Financial and Compliance Audit
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the Forest Municipal School District for the year ended June 30, 2019. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA; Travis C. Mitchell, CPA; Charlotte L. Duckworth; Brooke Seals; Kendall Cavett; Veronica Barton and Gloria Whitten.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Mississippi Code Annotated (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We identified certain deficiencies in internal control over financial reporting that we consider to be a *material weakness* in internal control and certain deficiencies in internal control that we consider to be *significant deficiencies* in internal control. These matters are noted under the heading **SIGNIFICANT DEFICIENCY**.

In addition, while performing our review, we noted certain instances of noncompliance with State laws that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

SIGNIFICANT DEFICIENCY

Finding 1: The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts.

Internal Control Deficiency: The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of Treadway Commission specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Good internal controls require the functions of processing, recording transactions, and maintaining custody of related assets be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

Finding Detail: During our testing of twenty-four (24) of Forest Municipal School District's activity funds, we noted the following:

- Thirteen (13) instances in which deposits were less than the number of tickets sold totaling **\$91.20**.
- Ten (10) instances in which deposits were in excess of ticket sales totaling **\$914.32**.
- Five (5) overage instances were due to tickets not issued at the time of sell totaling **\$872.32**.

Inadequate internal controls related to activity funds revenue collection, proper receipting, and depositing could result in a loss of assets and improper revenue recognition.

Recommendation: The School District should strengthen controls and enforce policies and procedures to ensure receipts from all activity funds are safeguarded, properly recognized, and recorded.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Laws over Obtaining Quotes for Purchases Over \$5,000 but Not Over \$50,000.

Applicable State Law: *Section 31-7-13(b), Mississippi Code Annotated (1972)*, requires the District to obtain at least two competitive written bids for purchases over \$5,000 but not over \$50,000 exclusive of freight and shipping charges. The District is required to accept the lowest and best competitive written bid.

Finding Detail: During our testing of purchases, we noted the School District made a purchase for Apple iPads, totaling \$14,920, under Mississippi Informational Technology' Services' (ITS) Express Product List (EPL). However, ITS sent a letter stating effective September 1, 2018 Apple product were no longer allowed to be purchase under the EPL. The purchase order was dated October 10, 2018, and the School Board approved the claim on November 12, 2018. Therefore, the School District should have obtained two competitive written bids for the purchase instead of using the expired EPL.

Failure to obtain at least two written competitive bids resulted in the District not being in compliance with state purchasing laws.

Recommendation: The Board, Superintendent, and Management should strengthen controls to ensure compliance with *Section 31-7-13(b), Mississippi Code Annotated (1972)*, by properly obtaining at least two written competitive bids for purchase over \$5,000 but not over \$50,000, as required by law.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Applicable State Law: *Section 25-4-25, Mississippi Code Annotated (1972)*, provides that "Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter: a) Persons elected by popular vote..." *Section 25-4-29, Mississippi Code Annotated (1972)*, provides that "1) Required statements hereunder shall be filed as follows: a) Every incumbent public official required....to file a statement of economic interest shall file such statement with the commission on or before May 1 of each year that such official holds office, regardless of duration.....2) Any person who fails to file a statement of economic interest within thirty (30) days of the date of the statement is due shall be deemed delinquent by the commission...a fine of Fifty Dollars (\$50) per day, not to exceed a total fine of One Thousand Dollars (\$1,000) shall be assessed against the delinquent filer for each day thereafter in which the statement of economic interest is not properly filed. The commission shall enroll such assessment as a civil judgment with the Circuit Clerk in the delinquent filer's county of residence..."

Finding Detail: During our review of the Statement of Economic Interest, we noted two (2) Board Members did not file by May 1st, 2019, as required by State law.

Failure to file the Statement of Economic Interest, as required by state law, results in non-compliance with *Section 25-4-25* and could result in fines being assessed and a civil judgment being enrolled against the delinquent filers, as allowed by *Section 25-4-29 (2)*.

Recommendation: The School District should strengthen controls to ensure that all Board Members file the Statement of Economic Interest annually, no later than May 1st of each year that such official holds office, regardless of the duration.

Repeat Finding: No.

Finding 4: The School District Should Ensure Compliance with State Laws over Expenditures.

Applicable State Law: *Section 37-61-19, Mississippi Code Annotated*, states, "It shall be the duty of the superintendents of school and the school board of all school districts to limit the expenditure of school funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures from a fund in excess of the resources available within the fund."

Finding Detail: During our review of the amended budget for Forest Municipal School District, we noted the District Maintenance Fund and Food Service Fund expenditures exceeded resources available from their budgeted amounts totaling **\$17,721.87**.

Failure for the District to ensure there are available resources for all expenditures could result in deficit fund balances.

Recommendation: The Board and the Superintendent should strengthen controls to ensure all funds have available resources before expenditures are approved as required by *Mississippi Code Section 37-61-19*.

Repeat Finding: No.

Finding 5: The School Board Should Ensure Compliance with State Laws over Surety Bonds.

Applicable State Laws: *Section 25-1-15(2), Mississippi Code Annotated (1972)* states, "A new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four (4) years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee."

Section 37-6-15, Mississippi Code Annotated (1972) states, "Before entering upon the discharge of the duties of his office, each member of the school board shall give a surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety, to be payable conditioned and approved in the manner provided by law. The school board may execute a blanket bond for each school district official and employee (including school business managers and any other employee who receipts and/or disburses school district funds) in the penalty of Fifty Thousand Dollars (\$50,000), unless a different penalty is prescribed by statute, to be payable, conditioned and approved in the manner provided by law. The premium on said bond shall be paid out of the school district maintenance fund."

Section 37-9-27, Mississippi Code Annotated (1972) states, "The superintendent of any school district, before entering upon the duties of his office, shall furnish a good and sufficient surety bond in the penal sum of One Hundred Dollars (\$100,000.00), with sufficient surety."

Finding Detail: During the review of surety bonds, we noted the following exceptions with the District's surety bonds:

- Three (3) of the Board Members' bonds are continuation certificates.
- The Assistant Superintendent's bond is a continuation certificate.

A "Continuation Certificates" is a document that extends the life of the original surety bond. A "Continuation Certificate" only covers the current bonding periods.

Failure to have a bond in place for a specific term of office could limit the amount available for recovery if a loss occurred over multiple terms. Additionally, failure to comply with the state statute, by being correctly and sufficiently bonded, could result in the loss of public funds.

Recommendation: Management should strengthen procedures to ensure officials and employees are properly bonded, as required by state laws.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Applicable State Law: *Section 25-11-127(4), Mississippi Code Annotated (1972)*, states, "Notice shall be given in writing to the executive director, setting forth the facts upon which the employment is being made, and the notice shall be given within five (5) days from the date of employment and also from the date of termination of the employment."

PERS Board Regulation 34, Section 105, states, "To lawfully employ a PERS service retiree under *Section 103*, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of a \$300 penalty per occurrence payable by the employer."

Finding Detail: During the testing of retired and rehired service employees, we noted seven (7) out of eighteen (18) forms were not filed within five days of the rehire date.

Failure to file form 4B as required by PERS and comply with *25-11-127(4)* could result in overpayment of a retiree and the School District being assessed penalties by PERS.

Recommendation: The Payroll Clerk should ensure the School District complies with *25-11-127(4)* and PERS by properly completing and filing of the Form 4Bs within five (5) days of rehire and paying employees properly.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Laws over Forestry Escrow Funds.

Applicable State Law: *Section 29-3-47, Mississippi Code Annotated (1972)*, states, "For its service the state forestry commission shall be entitled to receive its actual expenses incurred in the discharge of the duties herein imposed. In order to provide funds with which to pay for the general supervision and sale of forest products, fifteen percent (15%) of all receipts from the sales of forest products shall be placed by

the board in a forestry escrow fund and reserved to pay for work performed by the state forestry commission. Such payments shall be equal to the actual expenses incurred by the commission as substantiated by itemized bill presented to the board.”

Finding Detail: During our review of timber sales, we noted timber sales in the amount of **\$531.81**. However, the School District did not record or deposit the required fifteen percent (15%) into the forestry escrow fund. Since the School District did not record or deposit fifteen percent (15%) of its timber sales in the forestry escrow fund, the School District is not in compliance with *Mississippi Code Section 29-3-47*.

Failure to deposit the required 15% could result in funds not being available to pay the State Forestry Commission for work performed.

Recommendation: The Board, Superintendent, and Management should ensure fifteen percent (15%) of all timber sales are deposited and recorded in the Forestry Escrow Fund, as required by law.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Laws over Sixteenth Section Tax and Lease Payments.

Applicable State Law: *Section 29-3-57, Mississippi Code Annotated (1972)*, states, “Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the Board of Education finds extenuating circumstances were present, and the Board shall inaugurate the proper legal proceedings to terminate such lease.” *Section 29-3-71, Mississippi Code Annotated (1972)*, states, “Sixteenth section lands reserved for the use of schools, or lands reserved or granted in lieu of or as a substitute for the sixteenth sections, shall be liable, after the same shall have been leased, to be taxes as other lands are taxed during the continuance of the lease, but in case of sale thereof for taxes, only the title of the lessee or his heirs or assigns shall pass by the sale.” In addition, the standard lease agreement used by the district between the lessee and lessor states, “Lessee shall pay all taxes levied, if any, on said property on time to prevent default.” *Mississippi Code Section 29-3-65*, states, “One (1) year prior to the date, when any such lands, not subject to competitive bid procedures, shall become available for lease, the Board of Education shall appoint a competent appraiser to appraise the land and report to the Board his recommendation for the fair market rental amount. The Board shall then determine whether the same be a reasonable amount, and shall grant the lease pursuant to *Section 29-3-63*.”

Finding Detail: During the review of twenty (20) sixteenth section land leases, the following instances were noted:

- Four (4) lease payments more than sixty (60) days delinquent; however, the leases were not cancelled.
- There were no appraisals noted in the files for four (4) lease agreements prior to entering into new lease agreement.
- Taxes were paid more than sixty (60) days after the due date on three (3) leases and the lease agreements were not terminated.

Failure to terminate lease agreements due to the non-payment of property taxes and rental payments, and appoint a component appraiser resulted in non-compliance with state laws and regulations.

Recommendation: The School Board, Superintendent, and Management should strengthen controls to ensure lease payments are made within sixty (60) days, taxes are current, and an appraiser is appointed one year prior to rental of sixteenth section land, as required by laws and regulations.

Repeat Finding: No.

Other Recommendations by Office of the State Auditor

OSA recommends that School Board consider obtaining surety bonds for Principals, Business Manager, and Purchasing Agents. As noted in during our test work, the Principals, Business Manager, and Purchasing Agent are covered under a "Continuation Certificate". A "Continuation Certificate" is a document that extends the life of the original surety bond. A "Continuation Certificate" only covers the current bonding period rather than both the current and previous periods. Failure to have a bond in place for a specific term of employment could limit the amount available for recovery if a loss occurred over multiple terms.

End of Report

FOREST MUNICIPAL SCHOOL DISTRICT

♦ 325 Cleveland Street ♦ Forest, Mississippi 39074 ♦
♦ Office: (601) 469-3250 ♦ FAX: 601-469-3101 ♦

COMPLIANCE REVIEW FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

Dear Mr. White,

The Forest Municipal School District would like to thank the Mississippi State Auditor's Office for the professionalism that your employees provided during our 2018-2019 state legal compliance audit. Your focused work has helped to identify weaknesses of which some have already been corrected and others will be corrected. Our mission at the Forest Municipal School District is to provide the best quality education for our students while adhering to laws set before us by the State of Mississippi. We will continue to strive for excellence in handling taxpayer's dollars and serve out students while providing strong internal controls.

AUDIT FINDINGS:

Finding 1: The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts.

Response: The District concurs with the finding and recommendation and will strengthen internal controls to ensure compliance.

Corrective Action Plan:

- A. The Superintendent, Athletic Director, and Business Manager shall meet to discuss the finding and determine procedures to strengthen internal controls regarding gate receipts.
- B. The Athletic Director and Principals will meet with Game Administrators and Gate Workers to emphasize internal controls regarding ticket sales and discuss changes determined necessary during the meeting between the Superintendent, Athletic Director, and Business Manager.

Finding 2: The School District Should Ensure Compliance with State Laws over Obtaining Quotes for Purchases over \$5,000 but not over \$50,000.

Response: The District concurs with the finding and will strengthen internal controls to ensure compliance.

Corrective Action Plan:

- A. The Business Manager discussed this finding with Purchasing and the Technology Director. The EPL was in effect when the project began, but delays occurred in the SPED Department and no one obtained a current EPL quote before going forward with the purchase.
- B. The Business Manager met with Purchasing and technology emphasizing the importance of verifying the EPL expiration date before submitting a purchase requisition.

Finding 3: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Response: The District concurs with the finding and recommendation and will strengthen internal controls to ensure compliance.

Corrective Action Plan:

- A. The District shall remind the Board to file their Statement of Economic Interest timely.
- B. The Business Manager has set calendar reminders to place an item on the March and April Board agendas to remind Board members to file their Statement of Economic Interest timely.

Finding 4: The School District Should Ensure Compliance with State Laws over Expenditures.

Response: The District concurs with the finding and recommendation and will strengthen internal controls to ensure compliance.

Corrective Action Plan:

- A. The Business Manager will follow all steps in the software manual when submitting FETS to ensure the situation does not occur again.

Finding 5: The School Board Should Ensure Compliance with State Laws over Surety Bonds.

Response: The District concurs with the finding and recommendation that management should strengthen procedures to ensure officials and employees are properly bonded.

Corrective Action Plan:

- A. District has already complied. The Insurance agent has already provided the District with insurance bonds to replace the continuation certificates on file.

Finding 6: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Response: The District concurs with the finding and recommendation the PERS Form 4Bs be filed within five (5) days of rehire.

Corrective Action Plan:

- A. The District has always faxed and mailed the PERS Form 4Bs on the day they receive them from the employee.

- B. The District has amended its procedures to ensure a PERS Form 4B has been completed and received by Payroll before a person can be recommended to the Board for approval.

Finding 7: The School District should Ensure Compliance with State Laws over Forestry Escrow Funds.

Response: The District concurs with the finding and recommendation that management comply with *Section 29-3-4, Mississippi Code Annotated (1972)*.

Corrective Action Plan:

- A. The District did make a mistake when the receipt was keypunched. However management does have internal controls in place to catch such mistakes. In this instance, all 16th Section transactions are reviewed when preparing the 16th Section Revenues and Expenditures Report due to the Secretary of State's Office by October 15th each year. This report is completed in September once the Reconciliation of State and Federal Revenue has been completed and the 16th Section Secretary has had a chance to review the 16th Section Lease ledger. That State Auditor's Office Compliance Audit fieldwork was completed in July and early August before the District's internal controls were allowed to work.

Finding 8: The School District Should Ensure Compliance with State laws over Sixteenth Section Tax and Lease Payments.

Response: The District concurs with the finding and recommendation the District should strengthen controls to ensure lease payments are made within 60 days, taxes are current, and an appraiser is appointed one year prior to rental of sixteenth section land.

Corrective Action Plan

- A. The District has strengthened internal controls to ensure Board permission is obtained and reason stated before allowing a lessee to become delinquent without following proper cancellation procedures. The Business Manager has also discussed this topic with the Board Attorney to ensure this occurs.
- B. The leases in question were renewed before the current Sixteenth Section Secretary was hired, but the 16th Section Secretary has been counseled regarding compliance with reappraisal requirements per *Section 29-3-63, Mississippi Code Annotated (1972)*.
- C. The 16th Section Secretary shall contact the Tax Collector and obtain a list of 16th Section lease holders with delinquent taxes in February.

Again, The Forest Municipal School District would like to thank you for assistance during this compliance audit. The Forest Municipal School District will continue to work toward excellence handling the taxpayer's dollars and serving our student's. Please contact us if we may be of further assistance.

Sincerely,



Dr. Karen Norwood
Superintendent of Education.