

HAZLEHURST CITY SCHOOL DISTRICT

MISSISSIPPI

COMPLIANCE REPORT

Compliance Special Reports

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
AUDITOR

July 23, 2020

Limited Internal Control and Compliance Review Management Report

Hazlehurst City School District School Board
119 Robert McDaniel Drive
Hazlehurst, MS 39083

Dear Members of the Hazlehurst City School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Hazlehurst City School District for the Fiscal Year 2020. In these findings, the Auditor's Office recommends the Hazlehurst City School District

1. Strengthen Internal Controls over Professional Service Contract;
2. Strengthen Internal Controls over Bank Reconciliations;
3. Strengthen Internal Controls and Ensure Compliance with State Laws over Depositories;
4. Ensure Compliance with State Laws over Financial Reports;
5. Ensure Compliance with State Laws over Related Party Approval;
6. Ensure Compliance with State Laws over Emergency Purchases;
7. Ensure Compliance with State Laws over Purchases Over \$5,000 But Less than \$50,000;
8. Ensure Compliance with State Laws over Financial Statement Filing Requirements;
9. Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists;
10. Ensure Compliance with State Laws over Sixteenth Section Shared Townships;
11. Ensure Compliance with State Laws over Sixteenth Section Taxes, Lease Payments, Receipts, and Appraisal;
12. Ensure Compliance with State Laws over Forestry Escrow Funds;
13. Ensure Compliance with State Laws over the Designation of Purchase Agents;
14. Ensure Compliance with State Laws over Limitation on Aggregate Receipts from Taxes for School Purpose;
15. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
16. Ensure Compliance with State Laws over Unemployment Compensation; and
17. Ensure Compliance with State Laws over Background Checks.

Please review the recommendations and submit a corrective action plan to implement them by July 23, 2020. 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.

Hazlehurst City School District

July 23, 2020

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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 Hazlehurst City 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". The signature is written in a cursive style with a large, stylized 'S' and 'P'.

STEPHANIE 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 Hazlehurst City 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; Charlotte L. Duckworth, Ashley McPherson; and Kendall Cavett.

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 headings **MATERIAL WEAKNESSES**. In addition, we noted another deficiency in internal control noted under the heading **OTHER CONTROL DEFICIENCY**.

Furthermore, 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**.

MATERIAL WEAKNESSES

Finding 1: The School District Should Strengthen Internal Controls over Professional Service Contract Terms and Agreements.

Internal Control Deficiency: *The Internal Control-Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Management is responsible for properly safeguarding the assets of the School District and ensuring the terms of professional service contracts are met and adhered to at all times.

Finding Detail: During our review of the professional service contract and claims docket with vendor Greene Education Services, we noted the School Board approved the contract in October 2019 for a one-year term at \$182,000; however, the School District paid the vendor \$258,700, which exceeded the approved contract by \$76,700. This overage was not approved by the School Board in an addendum.

Failure to adhere to the terms of the professional service contract and ensure the School Board approves the addendum to the contract resulted in an overpayment of expenses.

Recommendation: We recommend the School District strengthen controls over writing terms of professional service contracts.

District's response: The addendum was included in the contract for Greene Education Services; however, going forth management will properly safeguard the assets of the School District by ensuring the terms of professional service contracts are met and adhered to at all times.

Repeat Finding: No

Finding 2: The School District Should Strengthen Internal Controls over Bank Reconciliations.

Internal Control Deficiency: Management is responsible for ensuring that the assets of the School District are safeguarded and transactions are properly documented in the School District's financial records. A critical aspect of internal controls is reconciling the bank accounts by adding outstanding deposits and subtracting outstanding checks to the balance per bank statement to reconcile to the amount of cash that is listed on the general ledger of the School District to what is recorded at the bank. The reconciliation process enables the Business Office to make adjusting journal entries to correct any mistakes or unrecorded items in the School District's financial records.

The Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board states, "... Presentation of reconciled bank statements should be made at the next regular board meeting after the bank statements are reconciled to the district's general ledger cash balances in a timely and accurate manner."

District policy *Section Code DIB for Financial Reports and Statements* states, "...All bank statements shall be reconciled within thirty (30) days of receipts. Presentation of reconciled bank statements shall be made at the next regular board meeting after the bank statement are reconciled..."

Finding Detail: During the testing of bank reconciliation, we noted the bank statements were not properly reconciled for June 30, 2019. The incorrect bank balance was used in the performance of the bank reconciliation process, which resulted in a difference totaling \$180,683.

Failure to properly reconcile bank statements could result in the misstatement of the School District's financial statements, errors, or fraud occurring without being detected in a timely manner.

Recommendation: We recommend the School District implement policies and procedures to ensure all bank statements are correctly reconciled with the School District's general ledger book balances.

District's Response: The Business Manager will strengthen internal control to ensure the correct bank balance is used to reconcile all bank accounts.

Repeat Finding: No

OTHER CONTROL DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW

Finding 3: The School District Should Strengthen Internal Controls and Ensure Compliance with State Laws over Its Depositories.

Internal Control Deficiency and Applicable State Law: The *Internal Control-Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Management is responsible for properly safeguarding the assets of the District and ensuring all authorized signers on the District's bank accounts are current employees.

Section 37-7-333, Mississippi Code Annotated (1972), requires all public funds to be placed in the depository or depositories selected by the School Board in the same manner as provided in *Section 27-105-305, Mississippi Code Annotated (1972)* for the selection of county depositories. *Section 37-7-333, Mississippi Code Annotated (1972)*, also requires the bids of the financial institutions keeping school funds be effective on July 1st of each year.

Finding Detail: During the review of depositories for Hazlehurst City School, we noted the following:

- Two (2) authorized signors on the Hancock Bank account are not current employees for the School District; and
- The School District's funds are deposited in both Whitney Hancock and Trustmark National Bank; however, the name of the approved depository approval was not spread upon the School Board's minutes.

Failure to have adequate controls surrounding the School District's authorized signors on all depositories in the School District's name and tax identification number could lead to the loss of public funds or fraud. Additionally, failure to approve and spread upon the minutes the School District's depository resulted in the School District's noncompliance with *Section 37-7-333, Mississippi Code Annotated (1972)*.

Recommendation: We recommend School District strengthen controls to ensure compliance with *Section 37-7-333, Mississippi Code Annotated (1972)*, by properly including the approval of the depository within the School Board's minutes. Also, the School Board should implement policy and procedures to ensure all authorized signors on all of the School District's depositories are current employees approved by the School Board.

District's Response #1: The Business Manager has contacted Hancock Bank several times to change the signatures and to get info on the account; however, Hancock Bank would not release any information due to the fact that none of the authorized signatures are current employees. It wasn't until the Business Manager took a letter from OSA to Hancock Bank that they released the information. We are currently in the process of changing the authorized signatures and closing the account.

District's Response #2: Hazlehurst City School District will spell out in its board minutes the name of the approved bank depositories going forth.

Repeat Finding: No

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

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

Applicable Law: *Section 37-9-18, Mississippi Code Annotated (1972)*, requires all financial reports be submitted to the local school board. According to the board's policy, financial reports that shall be submitted to the Board includes reconciled bank statements, statement of revenues and expenditures, current budget status, monthly cash-flows, and combined balance sheet or current fund equity balances at each regular monthly school board meeting. A copy of all required financial reports shall be included in the official minutes of the board meeting at which the reports were discussed.

Finding Detail: During the review of Hazlehurst City School District's board minutes, we noted the financial statements required to be submitted to the School Board monthly were not presented for June 2019.

Failure to submit a complete set of financial reports to the School Board monthly could result in the loss or misappropriation of public funds.

Recommendation: We recommend the School District ensure all monthly financial reports are submitted to the School Board monthly, as required by law.

District's Response: The June 2019 financial reports were presented to the Board; however, the financial reports were removed from the bound books to be scanned to a removable disc for the auditors. The June 2019 financial reports were not placed back into the June 2019 Board book. After discovering that the financial reports were not in the presented 2019 June Board book. They were given to the auditors and placed back into the Board's book.

Auditor's Note: For purposes of clarity :

- Upon request of the financial statements, the Board Clerk did not locate June 30, 2019, financial statements in the minutes;
- Per review of the information presented to the auditors, June 30, 2019, financial statements were not on the removable disc that was presented to the auditors; and
- Additionally, the School District's controls over the maintenance of its Board minutes should be strengthened, which has been recommended to the District verbally.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Laws over Nepotism.

Applicable Law: *Section 37-9-21, Mississippi Code Annotated (1972)* states, "It shall be illegal for any superintendent, principal or other licensed employee to be elected by the school board if such superintendent, principal or licensed employee is related within the third degree by blood or marriage according to the common law to a majority of the member of the school board. No member of the school board shall vote for any person as a superintendent, principal or licensed employee who is related to him within the third degree by blood or marriage or who is dependent upon him in a financial way. Any contract entered into in violation of the provisions of this section shall be null and void."

Mississippi Ethics Opinion 14-051-E requires "...*Section 25-4-105(1), Miss. Code of 1972*, prohibits a school board member from using his or her official position to obtain or attempt to obtain a pecuniary benefit for his or her relatives. The term relative is defined in *Section 25-4-103(q)* and includes the board member's child. Therefore, the school board member, if elected cannot participate in any matter which would create a monetary benefit for his or her child. Examples of actions in which board member should not participate include, but are not limited to, the selection or promotion of a relative or adjustments to his or her salary, benefits or other compensation and any other action which is a necessary predicate to the relative's compensation, and any claims docket or budget from which the relative is paid, including approval of the annual school district budget. A total and complete recusal requires the board member leave the meeting room before the matter comes up for discussion and remain absent until the vote is concluded... Furthermore, any minutes or record of the meeting or other proceeding should state the recusing board member left the room before the matter came before the board and did not return until after the vote..."

Finding Detail: During the review of related party questionnaires, board minutes, and contracts, we noted one member of the Board of Education voted for the approval of the reappointment of his brother as the Board's Attorney, which is a violation of the nepotism statute.

Failure of the one Board Member from recusing himself during the vote for a relative resulted in the violation of *Mississippi Ethics Opinion 14-051-E* and *Mississippi Code Section 37-9-21*.

Recommendation: We recommend the School District ensure compliance with *Mississippi Ethics Opinion 14-051-E* and *Mississippi Code Section 37-9-21*, by recusing themselves during the vote of relatives within the third degree.

District's Response: The School Board was unaware of the *MS Ethics opinion 14-051E*. Now that the opinion has been brought to the Board's attention, the Board member in question will recuse himself from all voting as it pertains to the Board Attorney. The Board will have a *Nun Pro Tunc* vote on the next scheduled Board meeting, and the Board member in question will also recuse from this vote. Additionally, the Board Member in question will also recuse himself from voting on all future claims dockets pertaining to the Board Attorney.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Laws over Emergency Purchases.

Applicable Law: *Section 31-7-13(c), Mississippi Code Annotated (1972)*, requires the District may obtain from the lowest and best bidder after advertising for two consecutive weeks in the local newspaper when the expenditure is in excess of \$50,000 exclusive of freight and shipping charges.

Section 31-7-13(k), Mississippi Code Annotated (1972), states, "If the governing authority, or the governing authority acting through its designee, shall determine that an emergency exists in regard to the purchase of any commodities or repair so that the delay incident to giving opportunity for competitive bidding would be detrimental to the interest of the governing authority...At the board meeting next following the emergency purchase or repair contract, documentation of the purchase or repair contract, including a description of the commodity purchased, the price thereof and the nature of the emergency shall be presented to the board and shall be place on the minutes of the board for such governing authority."

Finding Detail: During our testing of purchasing, we noted the School Board approved the repairs of the High School's cafeteria totaling \$276,636; however, the Board did not obtain competitive bids or declare an emergency.

Failure by the School District to advertise purchases for competitive bids or declare an emergency resulted in the District noncompliance with state purchasing laws.

Recommendation: We recommend the School District ensure compliance with *Mississippi Code Sections 31-7-1(c)* or *31-7-13(k)* by properly obtaining competitive bids or declaring an emergency for purchases over \$50,000. Additionally, the Board should spread these actions upon its minutes.

District's Response: Going forth, Hazlehurst City School District will ensure that the Board declared emergencies are spread on the minutes or advertise for bids if not declared an emergency.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Laws Over Obtaining Quotes for Purchases Over \$5,000 But Not Over \$50,000.

Applicable 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 bet competitive written bid.

Finding Detail: During the testing of purchasing, we noted the following instances of noncompliance:

- Three (3) vendor purchases did not have quotes or bids totaling \$20,163; and
- The lowest bids were not accepted for two vendor purchases totaling \$42,603.

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

Recommendation: We recommend the School District ensure compliance with *Section 31-7-13(b), Mississippi Code Annotated (1972)*, by properly obtaining at least two bids for purchases over \$5,000 but not over \$50,000, as required by law.

District's Response: The three vendor purchases were part of the emergency not declared by the School Board. Going forth, the School District will comply with the purchasing law and obtain two quotes for any amount over \$5,000.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Laws Over Statement of Economic Interest.

Applicable 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 the following noncompliance:

- Two (2) Board Member has not filed a Statement of Economic Interest while serving on the School Board.
- One (1) Board Member has not filed a Statement of Economic Interest since 2015.
- One (1) Board Member did not file his form by the May 1st deadline for the current year.

Failure to file the Statement of Economic Interest, as required by state law, results in noncompliance 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: We recommend the School Board Members file the Statement of Economic Interest annually, no later than May 1st of each year, that such official hold office, regardless of the duration.

District's Response: The Superintendent and Board Clerk will ensure all Board Members file the Statement of Economic Interest on or before May 1st of each year as required by State Law.

Repeat Finding: No.

Finding 9: The School District Should Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists.

Applicable Law: *Section 29-3-121, Mississippi Code Annotated (1972)*, states, "It shall be the duty of the superintendent of each school district to make or cause to be made annual lists of the children enrolled in the schools of such district and

who reside in such district, which lists shall be based upon the end of the first month enrollment required to be reported to the State Department of Education for the then current school year. The lists shall be made separately as to the townships in which such children reside. Such lists shall be filed with the superintendent of the custodial school district on or before December 31 of each year and the lists shall be used in making the division of the available funds of each township during the ensuing calendar year as provided by *Section 29-3-119, Mississippi Code Annotated (1972)*.”

Finding Detail: During our review of Hazlehurst City School District Educable Child Lists, we noted the following:

- The School District did not submit its Educable Child List for December 2018 to Claiborne County School District; and
- The Educable Child List provided to Copiah County School District for December 2018 was not accurate and complete.

Failure to file the educable child lists with other school districts could result in forfeiting funds that the School District would otherwise be entitled to.

Recommendation: We recommend the School District implement policies and procedures to ensure all lists are prepared and filed with the Superintendents of custodial districts by December 31st of each year, by following *Section 29-3-121, Mississippi Code Annotated (1972)*.

District’s Response: The Sixteenth Section Clerk and Business Manager will ensure that all neighboring School District receive a completed Educable Child Lists by December 31st as required by *Section 29-3-121*. Management will also ensure that the neighboring School District receives Sixteenth Section revenue according to the list.

Repeat Finding: No.

Finding 10: The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

Applicable Law: *Section 29-3-119 Mississippi Code Annotated (1972)*, states, “The school district having jurisdiction and control of the sixteenth section or lieu lands in the township (the “custodial school district”) shall pay to each other school district lying wholly or partly in the township which is entitled to a part of the township funds the district’s pro rata share of the available township, as determined from the lists of children prepared pursuant to *Section 29-3-121, Mississippi Code Annotated (1972)*, promptly after collecting such funds.”

Finding Detail: During our testing of sixteenth section revenues, we noted revenues from two (2) sixteenth section townships were not shared with neighboring School Districts, as required by *Section 29-3-119, Mississippi Code Annotated (1972)* for an estimated total of \$5,273.

Failure to properly share sixteenth section revenue as the Custodial School District could result in misappropriation of public funds.

Recommendation: We recommend that the School District ensure all revenue is promptly shared with appropriate Districts by following *Section 29-3-119, Mississippi Code Annotated (1972)*.

District’s Response: The Sixteenth Section Clerk and Business Manager will ensure that revenue from sixteenth section townships is shared with the neighboring school district in accordance with *Mississippi Code Section 29-3-119*.

Repeat Finding: No.

Finding 11: The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Taxes, and Appraisals.

Applicable Laws: *Section 29-3-57, Mississippi Code Annotated*, 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 land 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 taxes 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 state, "Lessee shall pay all taxes levied, if any, on said property on time to prevent default."

Section 29-3-65, Mississippi Code Annotated (1972), states, "One (1) year prior to the date, when any such lands, not subject to competitive bids procedures, shall become available for lease, the Board of Education shall appoint a competent appraiser 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*." Additionally, management is responsible for ensuring adequate internal controls over the collections for sixteenth section lease revenue.

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

- Three (3) lease payments had not been received at all for the current fiscal year; however, the lease was not canceled;
- Three (3) lease payments were more than sixty (60) days late; however, the lease was not canceled;
- Taxes were not current on three (3) leases, and the lease agreements were not terminated; and
- There were no appraisals noted in the files for all twenty (20) lease agreements prior to entering into new lease agreements.

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

Recommendation: We recommend the School District ensure lease payments are made within sixty (60) days, taxes are current, and an appraiser is appointed one (1) year before to the rental of sixteenth section land, as required by laws and regulations.

District's Response: The Sixteenth Section Clerk and Business Manager will ensure that all lease payments, as well as taxes that are more than sixty (60) days delinquent, will be forwarded to the Board for cancellation. Going forward, Hazlehurst City School District will ensure that land appraisals are obtained and filed for all new leases. All lease payments will be deposited on the day of receipt or the very next day in accordance with *Mississippi Code Sections 29-3-57, 29-3-71, 29-3-63, and 29-3-65*.

Repeat Finding: No

Finding 12: The School District Should Ensure Compliance with State Laws over Forestry Escrow Funds.

Applicable 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 the forestry escrow fund, we noted 15% of timber’s sales were not correctly recorded or deposited into the forestry escrow fund.

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

Recommendation: We recommend the School District ensure 15% of all timber sales are deposited and recorded in the Forestry Escrow Fund, as required by law

District’s Response: The Business Manager deposited all timber sales into the money market account; however, when receipted in 15% were deposited into the escrow fund. The journal entry was entered at the end of the year to capture the 15% that was not deposited in the escrow fund. Going forth, the Business Manager will make sure the sixteenth section clerk deposit 15% of all timber sales into the escrow fund.

Repeat Finding: No.

Finding 13: The School District Should Ensure Compliance with State Laws over Designation of Purchase Agents.

Applicable Law: *Section 37-39-15, Mississippi Code Annotated (1972)*, states “In connection with the purchase of necessary supplies or equipment for the conduct of regular school operations, school boards may, in their discretion, designate as their purchasing agent or agents such school official or officials as they see fit and may authorize such agent or agents to make purchases of supplies and equipment subject to competitive bid requirements...”

Finding Detail: During the review of the board minutes, we noted the School Board did not approve or designate the School District’s two (2) Purchasing Agents.

Failure to ensure all District’s Purchasing Agents are approved and designated could result in the loss of public funds.

Recommendation: We recommend the School District ensure all Purchase Agents are approved and designated.

District’s Response: The Board Clerk, Superintendent, and Business Manager will ensure that the Purchasing Agents are approved by the Board and in compliance with *Mississippi Code Section 37-39-15*.

Repeat Finding: No.

Finding 14: The School District Should Ensure Compliance with State Laws over Limitation on Aggregate Receipts from Taxes for School Purpose.

Applicable Law: *Section 37-57-107(3), Mississippi Code Annotated (1972)*, states “... if revenues collected as the result of the taxes levied for the fiscal year pursuant to this sections and Section 37-57-1 exceed the increase limitation, then it shall be the mandatory duty of the school board of the school district to deposit such excess receipts over and above the

increase limitation into a special account and credit it to the fund for which the levy was made...Under no circumstances shall such excess funds be expended during the fiscal year in which the excess funds are collected.”

Finding Detail: During the testing of Ad valorem limitation, we noted per review of the 2018-2019 Ad valorem request, the School District calculated an escrow totaling \$60,447; however, these funds were not restricted in the School District’s audit report for 2017-2018 or general ledger.

Failure to restrict the excess Ad valorem fund in a special account resulted in the School District spend restricted funds and not being in compliance with state laws with limitation on aggregate receipts from taxes for school purposes and dispositions of excess receipts.

Recommendation: We recommend the School District ensure compliance with *Section 37-57-107(3), Mississippi Code Annotated (1972)*, by restricting excess Ad valorem taxes. Additionally, the School Board should restrict the \$60,447 excess funds from 2017-2018 and hold the funds for one (1) year.

District’s Response: The escrow amount was restricted in 2016-2017. Going forth, the District will ensure that any escrow amount is restricted in the District’s audit report and/or general ledger.

Repeat Finding: No.

Finding 15: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Applicable 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 review of four (4) Hazlehurst City School District’s PERS Form 4Bs, we noted the following exceptions:

- Three (3) employees were overpaid, totaling \$1,898;
- Four (4) form 4Bs were not filed within five (5) days of rehiring the employees;
- Four (4) form 4Bs did not indicate evidence of the filing date to PERS; and
- Two (2) form 4Bs did not indicate the retirement date of employees.

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

Recommendation: We recommend the School District ensure the School District compliances with *25-11-127(4)* and PERS by properly completing and filing the Form 4Bs within five (5) days, paying employees properly, and accurately completing the Form 4Bs.

District's Response: The District will ensure that Form 4B is complete and faxes to PERS within five days of signature. Human Resources personnel will ensure to file within five days. Human Resource will also contact PERS to ensure that all retirees returning to work will not exceed the minimum wages that can be earned annually.

Repeat Finding: No.

Finding 16: The School District Should Ensure Compliance with State Laws over Unemployment Compensation Fund.

Applicable Law: *Section 71-5-359(5), Mississippi Code Annotated (1972)*, "Each political subdivision, unless it elects to make contributions to the unemployment compensation fund as provided in subsection (9) of this section, shall establish a revolving fund and deposit an amount equal to two percent (2%) of the first Six Thousand Dollars (\$6,000.00) paid to each employee thereof during the next preceding year. However, the department shall by regulation establish a procedure to allow reimbursing political subdivisions to elect to maintain the balance in the revolving fund as required under this paragraph or to annually execute a surety bond to be approved by the department in an amount not less than two percent (2%) of the covered wages paid during the next preceding year.

Finding Detail: During the review of the Unemployment Compensation Funds, we noted the School District does not have sufficient funds within this fund, as required by law.

Failure to maintain sufficient funds within the unemployment compensation fund resulted in the District noncompliance with state law.

Recommendation: We recommend the School District ensure compliance with *Section 71-5-359(5), Mississippi Code Annotated (1972)*, by maintaining a sufficient amount of funds in the Unemployment Compensation Fund.

District's Response: The Business Manager calculated the Unemployment and was unaware that there was a minimum amount that must be retained per the state law of \$29,640. Going forward, the District will comply with state law by maintaining the minimum amount.

Auditor's Note: Under *Section 71-5-359(5), Mississippi Code Section*, the District is required to maintain 2% of the coverage wages paid during the next preceding year.

Repeat Finding: No.

Finding 17: The School District Should Ensure Compliance with State Laws over Background Checks.

Applicable Law: *Section 37-9-17, Mississippi Code Annotated (1972)*, states "current criminal records background checks and current child abuse registry checks are obtained, and that such criminal record information and registry checks are on file for any new hires applying for employment as a licensed or non-licensed employee at a school and not previously employed in such school under the purview of the State Board of Education or at such local school district prior to July 1, 2000." Ultimately, the criminal records information and registry must be kept on file for any and all new hires.

Finding Detail: During the testing of twenty (20) certified employees, we noted the District did not obtain background checks to maintain on file for five (5) of its certified employees.

Failure to obtain background checks for all new hires could result in a wrongful hire of an individual.

Recommendation: We recommend the School District obtain and maintain on file a current criminal background check for all new hires as required by law.

Official Response: The Human Resource Specialist will strengthen controls to ensure that all employees are fingerprinted.

Repeat Finding: No.

End of Report



Hazlehurst City School District

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Cloyd Garth, Jr., Superintendent

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BUSINESS SERVICES

COMPLIANCE REVIEW FINDINGS

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

Finding 1: The School District Should Strengthen Internal Controls over Professional Service Contract Terms and Agreements.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Business Manager will strengthen controls over writing terms of professional service contracts.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager
Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020

Finding 2: The School District Should Strengthen Internal Controls over Bank Reconciliations.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The Business Manager has also strengthened internal control and procedures to ensure that bank statements are properly reconciled to the School District's general ledger book balances.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager
Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

December 31, 2019



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BUSINESS SERVICES

Finding 3: The School District Should Strengthen Internal Controls and Ensure Compliance with State Laws over Its Depositories.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The Board Clerk has strengthened the District controls to ensure the District is in compliance with *Section 37-7-333, Mississippi Code Annotated (1972)*, by properly including the approval of the depository within the School Board's minutes. The District has also strengthen its policy and procedure to ensure all authorized signors on all of the School District's depositories are current employees and are approved by the School Board.

Name of contract person responsible for corrective action:

Bobbie Washington, Board Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 09, 2020

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

Responses: The District agrees with the finding. The June 2019 financial reports were presented to the Board and approved; however, the financial reports were removed from the Board books to be scanned to a removable disc for the auditors. The June 2019 financial reports were not placed back into the June 2019 Board book in error.

Corrective Action Plan: The Business Manager and Board Clerk will continue to ensure all monthly financial reports are submitted to the School Board monthly, as required by law. Additionally, the School District will strengthen the controls over the maintenance of its Board minutes.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager

Bobbie Washington, Board Clerk

Cloyd Garth, Jr., Superintendent



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BUSINESS SERVICES

Anticipated completion date for corrective action:

December 31, 2019

Finding 5: The School District Should Ensure Compliance with State Laws over Nepotism.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The Board has had a Nunc Pro Tunc vote and the Board member in question recused him/herself from the vote and has recused him/herself from voting on all claims dockets pertaining to the Board Attorney. The District will continue to compliance with *Mississippi Ethics Opinion 14-051-E* and *Mississippi Code Section 37-9-21*, by recusing themselves during the vote of relatives within the third degree.

Name of contract person responsible for corrective action:

Hazlehurst City School Board Members/ Superintendent

Anticipated completion date for corrective action:

January 09, 2020

Finding 6: The School District Should Ensure Compliance with State Laws over Emergency Purchases.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Business Manager, Board Clerk and Board will ensure that the District compliances with *Mississippi Code Sections 31-7-1(c)* or *31-7-13(k)* by properly obtaining competitive bids or declaring an emergency for purchases over \$50,000. Additionally, the Board will spread these actions upon its minutes.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager

Bobbie Washington, Board Clerk

Cloyd Garth, Jr., Superintendent



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BUSINESS SERVICES

Anticipated completion date for corrective action:

January 09, 2020

Finding 7: The School District Should Ensure Compliance with State Laws Over Obtaining Quotes for Purchases Over \$5,000 But Not Over \$50,000.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Business Manager will ensure that it is in compliance with *Section 31-7-13(b), Mississippi Code Annotated (1972)*, by properly obtaining at least two bids for purchases over \$5,000 but not over \$50,000, as required by law.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 30, 2020

Finding 8: The School District Should Ensure Compliance with State Laws Over Statement of Economic Interest.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Board Clerk will send a reminder to each Board member concerning filing their Statement of Economic Interest on or before May 1st of each year in accordance with *Section 25-4-29(2)*.

Name of contract person responsible for corrective action:

Bobbie Washington, Board Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

A reminder will be sent to each Board member on April 1st of each year starting with April 01, 2020



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BUSINESS SERVICES

Finding 9: The School District Should Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The 16th Section Clerk will develop a policy and procedure to ensure that all lists are prepared and filed with the Superintendent of custodial districts by December 31st of each year, as required by *Section 29-3-121, Mississippi Code Annotated (1972)*.

Name of contract person responsible for corrective action:

Terry Bridges, 16th Section Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

December 31, 2019

Finding 10: The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The 16th Section Clerk and Business Manager will ensure that all revenue is properly shared with appropriate Districts by following *Section 29-3-119, Mississippi Code Annotated (1972)*.

Name of contract person responsible for corrective action:

Terry Bridges, 16th Section Clerk

Sherry Terry, Business Manager

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

June 30, 2020



Hazelhurst City School District

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BUSINESS SERVICES

Finding 11: The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Taxes, and Appraisals.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. Additionally, the 16th Section Clerk has put procedures in place to ensure that all lease payments are made within sixty (60) days, taxes are current, and appraisers are completed prior to the rental of sixteenth section land, as required by laws and regulations.

Name of contract person responsible for corrective action:

Terry Bridges, 16th Section Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020

Finding 12: The School District Should Ensure Compliance with State Laws over Forestry Escrow Funds.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The 16th Section Clerk ensures that 15% of all timber sales are deposited and recorded in the Forestry Escrow Fund, as required by law.

Name of contract person responsible for corrective action:

Terry Bridges, 16th Section Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020



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BUSINESS SERVICES

Finding 13: The School District Should Ensure Compliance with State Laws over Designation of Purchase Agents.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The District has corrected this finding. The Board Clerk will continue to ensure that the Purchasing Agents are approved by the Board accordance with *Mississippi Code Section 37-39-15*.

Name of contract person responsible for corrective action:

Bobbie Washington, Board Clerk

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020

Finding 14: The School District Should Ensure Compliance with State Laws over Limitation on Aggregate Receipts from Taxes for School Purpose.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Business Manager will compliance with *Section 37-57-107(3), Mississippi Code Annotated (1972)*, by restricting excess Ad valorem taxes.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020



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BUSINESS SERVICES

Finding 15: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Human Resource Specialist has put procedures in place in which PERS Forms 4B will be properly completed and filed within five days of Board approval of the employee. The District will also ensure retiree is properly paid in accordance with *Section 025-11-127(4)*.

Name of contract person responsible for corrective action:

Jacqueline Price, Human Resource Specialist

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020

Finding 16: The School District Should Ensure Compliance with State Laws over Unemployment Compensation Fund.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Business Manager will ensure that the District stay in compliance with *Section 71-5-359(5), Mississippi Code Annotated (1972)*, by maintaining a sufficient amount of funds in the Unemployment Compensation Fund.

Name of contract person responsible for corrective action:

Sherry Terry, Business Manager

Cloyd Garth, Jr., Superintendent

Anticipated completion date for corrective action:

January 31, 2020



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BUSINESS SERVICES

Finding 17: The School District Should Ensure Compliance with State Laws over Background Checks.

Responses: The District agrees with the finding and recommendation.

Corrective Action Plan: The Human Resource Specialist has put procedures in place to ensure that criminal background checks are obtained on all new hire as required by law. Additionally, the District is in the process of reviewing all current employees' files and obtaining background checks on ones that do not have one on file.

Name of contract person responsible for corrective action:

Jacqueline Price

Human Resource Specialist

Laura Perry

Human Resource Specialist

Cloyd Garth, Jr.

Superintendent

Anticipated completion date for corrective action:

August 30, 2020

Educationally,

Cloyd Garth, Jr.

Superintendent