

MISSISSIPPI

Leake County 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

AUDITOR

May 6, 2020

Limited Internal Control and Compliance Review Management Report

Leake County School District
109 West Main Street
Carthage, MS 39051

Members of the Leake County School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for Leake County School District for the fiscal year 2019. In these findings, the Auditor's Office recommends Leake County School District:

1. Strengthen Internal Controls over Club Fund Cash Receipts;
2. Strengthen Internal Controls over Activity Fund Cash Receipts;
3. Ensure Compliance with State Laws over Statements of Economic Interest;
4. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
5. Ensure Compliance with State Laws over Presentation of Financial Statements to the Board;
6. Ensure Compliance with State Laws over Sixteenth Section Lease and Tax Payments; and
7. Ensure Compliance with State Laws over Surety Bonds.

Please review the recommendations and submit a plan to implement them by July 17, 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.

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.

Leake County School District

July 6, 2020

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I hope you find our recommendations enable the Leake County 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 fluid and cursive, with the first name being the most prominent.

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 Leake County 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 Mitchell, CPA; Brooke Seals; Veronica Barton, and Max Seage.

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 that we consider to be a *material weakness* and a *significant deficiency*. These matters are noted under the headings **MATERIAL WEAKNESS** and **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**. The Auditor's Office has also made a recommendation for management's consideration that it is not in violation of state law.

MATERIAL WEAKNESS

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

Internal Control Deficiency: Adequate internal controls related to cash receipts for club funds should include timely deposit of cash collected and complete documentation of cash collections from initial receipt to deposit.

Finding Detail: During our review of School District's cash balances as of June 30, 2019, a reconciliation discrepancy of \$19,955 was noted between the Leake Central High School Student Activities Report and the Leake Central High School General & Activity Funds. Upon further review of fund receipts for December 2018, April 2019, and June 2019 at Leake Central High School, the following internal control concerns were noted:

- In December 2018:
 - Five (5) instances where cash receipts were deposited between four (4) and sixteen (16) business days after initial receipt instead of the same or next business day;

- Total cash receipts from the Beta Club per the Bookkeepers receipt book were \$297 more than cash receipts per the Club's receipt book; and
- Club receipts totaling \$4,533 could not be vouched to the club receipt books as the following club receipt books could not be produced at the time of fieldwork.
 - Band Club - \$184
 - FFA Club - \$120
 - Annual Club - \$1,982
 - CEEDS Club - \$863
 - Powerlifting Club - \$960
 - Girls Basketball Club - \$24
 - Baseball Club - \$400
- In April 2019:
 - Two (2) cash receipts in the amounts of \$50 and \$120 from the Science and Senior Clubs, respectively, were receipted by the Bookkeeper on 4/10/2019 and voided. Per inquiry of the Bookkeeper, the receipts were voided because the related cash came up missing before it could be deposited;
 - Five (5) instances were noted where pre-numbered receipts were issued out of sequence;
 - Total cash receipted by the Bookkeeper from the Science, Annual, and Cheerleader Clubs exceeded the Club's receipts by \$50, \$165, and \$632, respectively;
 - Cash receipts in the total amounts of \$1,986 and \$7,333 from the Softball and Baseball Clubs, respectively, could not be vouched to the Clubs' receipts because the receipt books for those clubs could not be produced; and
 - Ten (10) instances where cash receipted by a club was not turned in to the Bookkeeper and deposited to the bank on the same or next business day. These deposits ranged from three (3) to fourteen (14) business days after the initial receipt.
- In June 2019:
 - The Bookkeeper from the Cheerleading Club receipted \$315 cash; however, the receipt was voided. Per inquiry of the Bookkeeper, the receipt was voided because the related cash came up missing before it could be deposited; and
 - Two (2) receipts in the amounts of \$320 and \$328 were recorded in the Cheerleading Club receipt book on June 6 and June 11, respectively; however, no additional cash receipts from the Cheerleading Club were recorded in the Bookkeepers receipt book until August.
- In addition to the concerns noted above, similar concerns have been expressed and documented by Leake County School Districts central office. An amount of \$815 was previously identified as missing and notice was given to the Leake Central High School Bookkeeper to repay the funds to the District's central office where the funds would be deposited back to the school's account and credited to the Senior Club. At the time of our testing, we were informed that this amount had not been repaid.

These weaknesses in internal controls could lead to and may indicate fraud, theft, loss of public funds, and misappropriation of funds between student organizations.

Recommendation: We recommend the School District strengthen controls over receipt and reporting of club funds to ensure that funds are deposited timely, club sponsors are provided with accurate cash balances, and the risk of fraud or theft is minimized. Also, the School District should complete a full reconciliation of all activity funds.

Repeat Finding: No.

SIGNIFICANT DEFICIENCY

Finding 2: The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts.

Internal Control Deficiency: An effective system of internal control over the collection of revenue at school athletic events requires issuing sequentially numbered tickets to document the total number of tickets sold at each game and accurately completing School Event Receipt Forms which reconcile total tickets sold with amounts deposited. This procedure helps to ensure all monies receipted were adequately documented and provided to the School District.

Finding Detail: During our testing of fifteen (15) total deposits from five (5) Leake Central High School and five (5) Leake County High School home football games, we noted the following:

- One instance in which the amount deposited was less than total ticket sales by \$7;
- Eleven (11) instances in which amounts collected were more than total ticket sales by a total of \$90; and
- Eleven (11) instances in which the reconciliation forms were not completed correctly.

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: We recommend the School District 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 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)*, states, “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), states, “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 Statements of Economic Interest, we noted that four (4) Board Members did not submit their Statement of Economic Interest to the Mississippi Ethics Commission by May 1, 2019, as required by law.

Failure to file the Statement of Economic Interest results in noncompliance with *Section 25-4-25*. It could result in fines 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 file their Statement of Economic Interest no later than May 1 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 Reemployment of Retired Public Employees.

Applicable State Law: *Section 25-11-127(4), Mississippi Code Annotated (1972)*, requires the School District hiring service retirees to notify PERS in writing by completing and filing form 4B “Certification/Acknowledgement of Reemployment of Retiree” with the PERS office within five (5) days of employment. Additionally, approved annual compensation should not be exceeded.

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 our testing of eight (8) retired and rehired service employees, we noted that the School District did not maintain documentation of when 4B forms submitted to PERS. However, two (2) of the eight (8) forms were not signed by the employer representative within five (5) days of the rehire date, indicating that the forms were not filed within the period as required by statute.

Failure to file 4B forms 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 Payroll Clerk ensure the School District complies with *Section 25-11-127(4), Mississippi Code Annotated (1972)*, and *PERS Board Regulation 34, Section 105*, by properly completing and filing the prescribed 4B forms within five (5) days of rehiring and paying employees correctly.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Laws over Presentation of Financial Statements to the School Board.

Applicable State Law: *Section 37-9-18(1)(a), Mississippi Code Annotated (1972)*, states, “The State Board of Education shall promulgate rules and regulations concerning the type of financial reports required to be submitted by the Superintendent of schools to the local school board, and the frequency

with which the reports shall be submitted by the Superintendent of schools to the local school board, and the frequency with which the reports shall be submitted. The rules and regulations promulgated by the board shall include:

- i. A requirement that the reports be listed as an agenda item for discussion at a regularly scheduled meeting of the board;
- ii. A requirement that the minutes of the board meeting reflect that the reports were discussed;
- iii. A requirement that each board member present be provided a copy of all required reports; and
- iv. A requirement that a copy of all required reports be included in the official minutes of the board meeting at which the reports were discussed.”

Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, promulgates that the following financial reports be made part of the official minutes each month at the regular school board meeting: reconciled bank statements, Statement of Revenues and Expenditures, Current Budget Status, Cash Flow Statement by Month, and Combined Balance Sheet or current fund equity balances.

Finding Detail: During our review of Leake County School District, we noted that, per the official board minutes, the required financial statements were not presented to the School Board for May and June of 2019.

Failure to submit a complete set of financial reports to the School Board each month could result in loss or misappropriation of public funds, or the School Board not being appropriately and timely informed of the School District’s financial status.

Recommendation: We recommend the Superintendent and management ensure an accurate and complete set of financial reports are submitted to the School Board each month as required by law and included in the official board minutes.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease and Tax 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 taxed 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.”

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

- Six (6) lease payments more than sixty (60) days delinquent; however, the leases were not canceled; and
- Taxes were not current on one (1) lease, and the lease agreement was 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 noncompliance with state laws and regulations and could result in loss of lease revenue for the School District.

Recommendation: We recommend the School Board, Superintendent, and management implement controls to ensure lease payments are made within sixty (60) days of their due date and taxes are current, as required by state law.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Laws over Surety Bonds.

Applicable State Law: *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 (\$50,000.00), with sufficient surety, to be payable, conditioned and approved in the manner provided by law.”

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 Thousand Dollars (\$100,000.00), with sufficient surety. Such bond shall be filed and recorded in the office of the clerk of the chancery court in which the school district is located, and shall be payable, conditioned and approved in the manner provided by law.”

Per *Mississippi Attorney General Opinion Number 2011-00191*, dated May 27, 2011, surety bonds for School Board Members should be issued for their term of office.

Finding Detail: During our review of Leake County School District’s surety bonds, we noted that one (1) Board Member and the Superintendent were covered by “Continuation Certificates” instead of new bonds for a specified term.

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 office could limit the amount available for recovery if a loss occurred over multiple terms.

Failure to comply with the state statute, by being correctly and sufficiently bonded, could result in the loss of public funds.

Recommendation: We recommend the School Board strengthen controls to ensure that new bonds are secured 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 as statutorily required.

Repeat Finding: No.

OTHER RECOMMENDATION MADE BY THE OFFICE OF THE STATE AUDITOR

The Office of the State Auditor recommends that the School Board consider obtaining new surety bonds for Board Members, Superintendent, Principals, and Purchasing Agents that provide the statutory amounts of coverage for a specific term. As noted during our test work, the School District currently has a Board Member, the Superintendent as well as Principals and Purchase Agents covered by “Continuation Certificates”. 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. In the event of fraud or misappropriation of funds, having “Continuation Certificates” instead of new bonds could limit the amount available for recovery if the loss occurred over multiple terms.

End of Report

Leake County
Department of Education

*The mission of the Leake County School District is
to provide a high quality education that will increase the learning of all students.*

Post Office Drawer 478
Carthage, Mississippi 39051
www.leakesd.k12.ms.us
Phone: (601) 267-4579 Fax: (601) 267-5283

COMPLIANCE REVIEW FINDINGS

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

July 21, 2020

Dear Mr. White:

Please find below the District's responses and corrective action plans for findings made during the FY19 State Compliance audit. The audit identified some weaknesses that have been corrected or will be corrected.

AUDIT FINDINGS:

The School District Should Strengthen Internal Controls over Club Fund Cash Receipts

Response: The district agrees with this finding and recommendation that controls over receipts and reporting of club funds be strengthen and timely deposits should be made.

Corrective Action Plan:

- A. The District has put measures in place to correct this finding. The District has implemented a club receipt check in/check out system that will be managed at the Central Office. Club sponsors will be responsible for obtaining receipt books from Central Office each year. School bookkeepers have been trained on how to reconcile monthly with sponsors so that any discrepancies can be noticed and rectified in a timely manner. School administrators have been informed of the importance of making timely daily deposits.
- B. Contact: Deneshia Harlson, Business Manager
- C. Anticipated completion date for corrective action: August 3, 2020.
- D. n/a

The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts

Response: The district agrees with this finding and recommendation to strengthen controls and enforce policies and procedures to ensure funds are safeguarded, properly recognized and recorded.

Corrective Action Plan:

- A. The District will put measures in place to train teachers on completing event forms correctly and ensuring that the number of tickets sold matches the funds received from an event. The Central Office secretary will be responsible for ensuring that all reconciliation forms are completely correctly.
- B. Contact: Deneshia Harlson, Business Manager
- C. Anticipated completion date for corrective action: August 3, 2020.
- D. n/a

The School District Should Ensure Compliance with State Laws over Statements of Economic Interest

Response: The district agrees with this finding and recommendation that School Board members file their Statement of Economic Interest by May 1st of each year.

Corrective Action Plan:

- A. The District has already corrected this finding. The Business Manager has requested School Board Members send a copy of their filings to Central Office to be placed on file prior to May 1st of each year. Reminders were sent out to each member to correct this finding.
- B. The District Contact: Deneshia Harlson, Business Manager
- C. Anticipated completion date for corrective action: April 1, 2020.
- D. n/a

The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees

Response: The district agrees with this finding and recommendation that the payroll clerk should ensure that all retired employees complete for 4B and to file forms within 5 days of the rehiring of the employee.

Corrective Action Plan:

- A. The District has already corrected this finding. The payroll clerk has implemented filing a copy of the fax confirmation with the employee's form. The payroll clerk will ensure that the forms are filed within 5 days of the employees rehiring.
- B. The District Contact: Krystia Griffin, Payroll Clerk
- C. Anticipated completion date for corrective action: April 1, 2020.
- D. n/a

The School District Should Ensure Compliance with State Laws over Presentation of Financial Statements to the School Board

Response: The district agrees with this finding and recommendation that the Superintendent and management ensure an accurate and complete set of financial reports are submitted to the School Board each month as required by law and to be included in the official board meetings.

Corrective Action Plan:

- A. The District has already corrected this finding. Financial reports are submitted to the board each month and are included in the official board minutes.
- B. The District Contact: Deneshia Harlson, Business Manager
- C. Anticipated completion date for corrective action: October, 2019.
- D. n/a

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

Response: The district agrees with this finding and recommendation that the School Board, Superintendent and management implement controls to ensure lease payments are made within 60 days of their due date and taxes are current as required by state law.

Corrective Action Plan:

- A. The District has already corrected this finding. The 16th Section secretary and board attorney are responsible for ensuring that delinquent leases are sent to the Board to be cancelled if over 60 days' delinquent. The board attorney is now responsible for ensuring that taxes are current on all leases each year.
- B. The District Contact: Stephanie Pickle, 16th Section secretary.
- C. Anticipated completion date for corrective action: October, 2019.
- D. n/a

The School District Should Ensure Compliance with State Laws over Surety Bonds.

Response: The district agrees with this finding and recommendation that the School Board strengthen controls to ensure that new bonds are secured every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee as statutorily required.

Corrective Action Plan:

- E. The District has already corrected this finding. The District has communicated with its bonding company to ensure that new bonds are issued each year for those bonded.
- F. The District Contact: Deneshia Harlson, Business Manager.
- G. Anticipated completion date for corrective action: October, 2019.
- H. n/a


Yvette B. Young
Superintendent of Education