



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

**Shad White**  
AUDITOR

**July 6, 2020**

**Limited Internal Control and Compliance Review Management Report**

Newton County School Board  
15305 Highway 15  
Decatur, MS 39327

Dear Members of the Newton County School Board:

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

1. Strengthen Internal Controls over Activity Fund Receipts;
2. Strengthen Internal Controls and Ensure Compliance with State Laws over Sixteenth Section Cash Receipts, Bank Deposits, and Appraisals;
3. Ensure Compliance with State Laws over Statements of Economic Interest; and
4. Ensure Compliance with State Laws over Surety Bonds.

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 to enable the Newton 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".

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 Newton County School District for the year ended June 30, 2020. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA; Charlotte Duckworth; Brooke Seals; 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 a certain deficiency in internal control that we consider a *significant deficiency*. This matter is noted under the heading **SIGNIFICANT DEFICIENCY**. We also identified another deficiency that we have noted under the heading **OTHER CONTROL DEFICIENCY**.

In addition, while performing our review, we noted certain instances of noncompliance with laws and regulations that require the attention of management. These matters are noted under the headings **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.

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## **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 the 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 to be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

**Finding Detail:** During our testing of seven (7) of Newton County School District's activity funds, we noted the following:

- Three (3) instances in which deposits were less than the number of tickets sold totaling \$190; and
- Four (4) instances in which deposits were in excess of ticket sales totaling \$16.

Inadequate internal controls related to activity funds revenue collections, 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, adequately recognized, and recorded.

**District Response:** The School District concurs with this finding. The Newton County School District is aware of the significance of ensuring that all revenue is correctly recorded and deposited. Staff will be reminded of the policies to be followed in the collection and deposit of athletic gate receipts, and all applicable employees will have the importance of following these policies reiterated to them.

**Repeat Finding:** No

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## **OTHER CONTROL DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW**

**Finding 2:** The School District Should Strengthen Internal Controls and Ensure Compliance over Sixteenth Section Cash Receipts, Bank Deposits, and Appraisals.

**Internal Control Deficiency and Applicable 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. An effective system of internal control requires that bank deposits be made in a timely matter to safeguard the assets of the School District.

*Section 29-3-65, Mississippi Code Annotated (1972),* 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 our review of Sixteenth Section leases, we noted the following:

- Four (4) instances in which lease revenue deposits were held in the District office for more than three (3) days before being deposited into the School District’s bank account; and
- Three (3) instances in which no appraisal was on file for lease agreements.

Improper internal controls related to the deposit of sixteenth section revenues could result in the loss of assets and improper revenue recognition. Also, failure to appoint an appraiser resulted in noncompliance with state laws and regulations.

**Recommendation:** We recommend the School District strengthen controls to ensure deposits are made promptly, and an appraisal is obtained one year before the rental of sixteenth section land, as required by laws and regulations.

**District Response #1:** The School District concurs with this finding. The Newton County School District attempts to ensure that all deposits are made promptly. Employees will be reminded of the importance of prompt bank deposits of all cash received by the district. In some limited circumstances, such as holidays or employee absence, deposits cannot be immediately taken to the bank. However, these deposits are kept securely in a locked safe until the deposit is made.

**District Response #2:** The School District concurs with this finding. It is the goal of the Newton County School District to comply with laws relating to the issuance of 16<sup>th</sup> Section leases. We will take steps to ensure that appraisals are performed for the issuance of any new 16<sup>th</sup> Section leases. Our school district

currently has several older leases that were issued over 20 years ago. These files do contain appraisals, but appraisals will be performed when the leases expire and before new leases are issued.

**Repeat Finding:** No

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## INSTANCES OF NONCOMPLIANCE WITH STATE LAW

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

**Applicable Laws:** *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)*, 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 Statements of Economic Interest, we noted one (1) Board Member did not file the form by May 1 annually while in office, as required by state law.

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 District implement controls to ensure that Board Members file the Statement of Economic Interest annually, no later than May 1<sup>st</sup> of each year, that such official holds office, regardless of the duration.

**District Response:** The School District concurs with this finding. All Newton County School Board members will be reminded of the requirement to file an annual Statement of Economic Interest on/or before May 1<sup>st</sup> of each year. The Newton County School District will comply.

**Repeat Finding:** No

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**Finding 4:** The School Board Should Ensure Compliance with State Laws over Surety Bonds.

**Applicable 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) year 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)* state, “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.”

**Finding Detail:** During the review of surety bonds, we noted two (2) of the Board Members’ bonds are 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 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.

**Recommendation:** We recommend management should strengthen procedures to ensure officials and employees are appropriately bonded, as required by state laws.

**District Response:** The District concurs with this finding. The Newton County School District will comply with surety bond regulations. We will communicate with our bonding agent to ensure that we have appropriate coverage and that continuation certificates are not issued in lieu of actual bonds.

**Repeat Finding:** No

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#### **OTHER RECOMMENDATION MADE BY THE OFFICE OF THE STATE AUDITOR**

OSA recommends that the School Board consider obtaining surety bonds for Principals, Business Manager, and Purchasing Agents. As noted during our test work, one (1) Principal and two (2) Purchasing Agents 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**