



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

August 12, 2019

Limited Internal Control and Compliance Review Management Report

Hinds County School Board
13192 Highway 18
Raymond, MS 39154

Dear Members of the Hinds County School Board:

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

1. Strengthen Board and Superintendent Oversight;
2. Strengthen Internal Controls over Travel Reimbursements and the Travel Credit Card;
3. Strengthen Internal Controls over Banking Transactions and Bank Reconciliations;
4. Strengthen Internal Controls over Fuel Man Cards;
5. Strengthen Internal Controls over Sixteenth Section Lease Cash Receipts and Bank Deposits;
6. Strengthen Internal Controls over Activity Fund Cash Receipts and Bank Deposits;
7. Strengthen Internal Controls over Credit Card Usage;
8. Strengthen Internal Controls over Financial Reports;
9. Ensure Compliance with State Laws over Sole Source Purchases;
10. Ensure Compliance with State Laws over Approval and Recommendation of Contracts;
11. Ensure Compliance with State Laws over Financial Statement Filing Requirements;
12. Ensure Compliance with State Laws over the Approval of Depositories;
13. Ensure Compliance with State Laws over Annual Reconciliation of Public Funds;
14. Ensure Compliance with State Laws over Approval of Original and Amended Budgets;
15. Ensure Compliance with State Laws over Statements of Economic Interest;
16. Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists;
17. Ensure Compliance with State Laws over Sixteenth Section Shared Townships;
18. Ensure Compliance with State Laws over Sixteenth Section Taxes and Lease Payments;
19. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
20. Ensure Compliance with State Laws over Surety Bonds;
21. Ensure Compliance with State Laws over Obtaining Quotes for Purchases over \$50,000 but not over \$50,000; and
22. Ensure Compliance with State Laws over Background Checks.

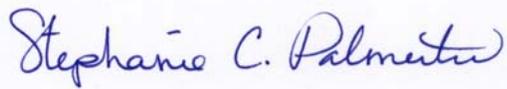
Please review the recommendations and submit a plan to implement them by 8/26/2019. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

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

I hope you find our recommendations enable the Hinds 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 written in a cursive style and is centered on the page.

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 Hinds 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 C. Mitchell, CPA; Charlotte L. Duckworth; Brooke Seals; 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 *material weaknesses* 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 and SIGNIFICANT DEFICIENCIES**.

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**.

MATERIAL WEAKNESSES

Finding 1: The School District Should Strengthen Board and Superintendent Oversight.

Executive Summary: According to the *Public School Accountability Standards*, "The local School Board and the Superintendent of Schools shall exercise due diligence in performing the respective duties of each office in accordance with applicable law. The local School Board's responsibilities shall pertain to matters of setting policy and shall not interfere in the day-to-day operations of the School District that include, but are not limited to, such duties as those relating to personnel and management decisions..." The standards also state, "The School Board assigns all executive and administrative duties to the Superintendent, who is properly licensed and chosen in the manner prescribed by law."

During our review, we noted the Chief Financial Officer (CFO) was not appropriately monitored, nor did the School Board or Superintendent take an active role in reviewing financial information, purchases, travel, etc...

Lack of appropriate oversight and appropriate "tone at the top" leadership can lead to fraud, waste, and abuse of public funds.

Recommendation: The Hinds County Board of Education and Superintendent should provide more effective and appropriate oversight of the School District. We recommend strengthening internal controls

as well as implementation of new controls, policies, and procedures where necessary. We wish to emphasize the importance of appropriate “tone at the top” leadership.

Detailed Analysis: During our review of Hinds County School District, we noted operations in the District were not appropriately overseen by the School Board and Superintendent. The test work performed at Hinds County School District confirmed a lack of oversight due to the large number of exceptions and instances of noncompliance discovered.

The actions and findings noted in this report indicate a lack of appropriate oversight and “tone at the top” leadership when considered in the aggregate.

The Hinds County School Board should strengthen controls by implementing policies and procedures to better regulate the Board’s oversight of the School District’s operations.

Finding 2: The School District Should Strengthen Internal Controls over Travel Reimbursements and the Travel Credit Card.

Executive Summary: During the review of travel reimbursement forms for Hinds County School District, we noted that travel and personal reimbursements were made to the CFO without the School Board and Superintendent’s knowledge or approval. There were also travel expenses charged to the School District’s credit card by the CFO without the School Board and Superintendent’s knowledge or approval. These expenses totaled **\$18,160**. Because there were reimbursements made to the CFO and charges to the School District’s credit card without proper approval, these expenses are disallowed and should be repaid.

Recommendation: The School Board should strengthen policies and procedures surrounding reimbursements of professional travel expenses. We also recommend that the CFO repay **\$18,160** and the Assistant Business Manager repay **\$227** to the District for professional travel and other personal expenses not approved by the School Board and/or Superintendent.

Note: These items and others have been referred to the Office of Investigations of the Office of the State Auditor.

Detailed Analysis: During the testing of thirty-two (32) travel reimbursement forms, the following exceptions were noted:

- Five (5) instances where the School Board and Superintendent approved professional travel for the CFO on the understanding that it was at “no cost” to the School District. The Board approval documentation noted that the travel was at no cost to the School District. However, according to travel reimbursements to the CFO and charges to the credit card, the District paid a total of **\$3,859**, which included hotels, airfare, and per diem. These expenses were not approved by the Board or Superintendent and therefore are disallowed;
- The CFO approved four (4) travel reimbursements and charged the District’s travel credit card for professional travel totaling **\$3,821** for himself with no approval from the School Board or Superintendent;
- One (1) instance of an accounts payable check request in the amount of **\$3,938** payable to the CFO for reimbursement of registration fees for professional development with no supporting documentation or approval;
- During the month of February 2018, the CFO charged the District’s credit card for hotel lodging in Jackson in the amount of **\$576** for the Mississippi Association of School Business Officials conference, although his home is in Clinton, MS, an adjacent city in Hinds County. This expense was not approved by the School Board or the Superintendent and therefore is disallowed;

- Three (3) travel reimbursements and charges to the School District's credit card were **\$1,165** in excess of the School Board's and Superintendent's approval;
- Nineteen (19) reimbursements to the CFO that were not for the benefit of the School District totaling **\$4,233** for personal items such as books, in-flight internet access, certifications, memberships, fans, etc;
- There was a four (4) day conference attended by the CFO, Human Resource Director, and Assistant Business Manager. The CFO stayed three (3) extra days and Assistant Business Manager stayed one (1) extra day. Both stayed on the executive floors of the hotel. The CFO's suite cost the District **\$1,325**, which was **\$568** in excess of the travel amount approved by the Board, and the Assistant Business Manager's suite cost the District **\$1,135**, which was **\$227** in excess of the travel amount approved by the Board. In comparison, the Human Resource Director stayed in a regular room with double beds which cost the District **\$616**; and
- Within the reimbursements above, six (6) were approved by the CFO's Assistant Business Manager and Administrative Assistant, who are not Purchase Agents.

Management is responsible for properly safeguarding the assets of the District and ensuring all reimbursements are approved and documented. Failure to have adequate controls surrounding the District's reimbursements and credit card could result in waste, fraud, and abuse of public funds.

Finding 3: The School District Should Strengthen Internal Controls over Banking Transactions and Bank Reconciliations.

Executive Summary: During the review of January 31, 2019 bank reconciliations, we noted that the School District did not perform bank reconciliations on a monthly basis. In addition, there were large adjustments to reconcile the general ledger to the bank statements.

Recommendation: Hinds County School District should implement policies and procedures to ensure all bank statements are reconciled timely and properly with the District's general ledger. In addition, we recommend management perform monthly reconciliation of bank accounts to the general ledger by fund in order to effectively and timely account for any variance from the book balances and comply with the District's policy.

Detailed Analysis: During testing of the bank reconciliations, we noted the following:

- Twelve (12) of twenty-eight (28) bank accounts provided for the month of January 31, 2019 did not tie to the book balance for cash in the general ledger. The bank reconciliations indicated adjustments in the amount of **\$54,900**. Per the Assistant Business Manager, these adjustments were made due to deposits in the current and/or prior months that had not been recorded in the District's general ledger. We also noted the claims fund in the general ledger had a negative cash balance monthly; and
- As of April 26, 2019, not all January 31, 2019 bank reconciliations had been performed. These bank accounts included the Hinds County School District Special Account and the Claims Account. The Claims Account's bank reconciliation acquired from the Assistant Business Manager on May 13, 2019 still did not reconcile to the District's book balance.

Management is responsible for ensuring that the assets of the District are safeguarded and transactions are properly documented and recorded in the 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 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 District's financial records.

District policy *Section Code DIB for Financial Reports and Statements* states, "... All bank statements shall be reconciled within thirty (30) days of receipt. Presentation of reconciled bank statements shall be made at the next regular board meeting after the bank statements are reconciled..." Failure to record all transactions in the general ledger and reconcile bank statements in a timely manner could result in the misstatement of the District's financial statements, errors, or fraud occurring without being detected in a timely manner.

Finding 4: The School District Should Strengthen Internal Controls over Fuelman Cards.

Executive Summary: During our review of Hinds County School District's Fuelman card expenditures, we noted inadequate controls surrounding the issuance of Fuelman cards, pin number usage, the safeguarding of cards, and reimbursements. This lack of controls resulted in significant abuse of the School District's Fuelman cards.

Recommendation: The School District should ensure that policies and procedures are strengthened surrounding the disbursements and usage of Fuelman cards. Additionally, the CFO should repay the District **\$1,953** for Fuelman charges.

Detailed Analysis: While reviewing Fuelman expenditures, we noted the District had inadequate controls with regards to properly documenting and expending district funds. The following weaknesses were noted:

- The same pin numbers are used by all personnel, which are traceable only to the vehicles;
- Fuelman usage is not reviewed each month for reasonableness to ensure all gas purchases are legitimate; and
- Fuelman cards have been issued for the personal vehicles of both the Superintendent and the CFO. Furthermore, the CFO made fuel purchases totaling **\$1,953** with his Fuelman card for his personal vehicle.

Management is responsible for ensuring that all expenditures are correctly recorded and expensed in order to safeguard the assets of the District. Weaknesses in internal controls related to Fuelman card disbursements and usage could result in fraud, misappropriation, waste, and abuse of public funds.

SIGNIFICANT DEFICIENCIES

Finding 5: The School District Should Strengthen Internal Controls over Sixteenth Section Lease Cash Receipts and Bank Deposits.

Executive Summary: During our testing of sixteenth section lease payments for Hinds County School District, we noted that revenue collected from sixteenth section leases was being held in the office before being deposited in the District's bank account. We noted instances in which revenue was held for one (1) week before being deposited. This weakness occurred due to inadequate internal controls surrounding the deposit of sixteenth section revenue.

Recommendation: The School District should implement procedures to ensure that assets are adequately safeguarded and revenue is properly receipted, deposited, recognized, and recorded.

Detailed Analysis: During our testing of twenty (20) sixteenth section leases, we noted ten (10) lease payments were held in the District's central office for a week before being deposited in the bank account.

Management is responsible for ensuring that all revenue is deposited in a timely manner in order to safeguard the assets of the district. District policy *Section Code DIAB for Internal Control of Cash Receipts* states, "All funds collected shall be deposited on a daily basis." Improper internal controls related to the deposit of sixteenth section revenues could result in the loss of assets and improper revenue recognition.

Finding 6: The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts and Bank Deposits.

Executive Summary: During our testing of Hinds County School District's activity funds, we noted collections were not correct and deposits were regularly made more than a week after the revenue was collected. These weaknesses occurred due to inadequate internal controls related to the collection and deposit of receipts and personnel not following district policy surrounding activity funds.

Recommendation: The school district should strengthen controls and enforce policies and procedures to ensure receipts from all activity funds are safeguarded, properly recognized, recorded, and deposited in a timely manner.

Detailed Analysis: During our testing of twenty-six (26) activity funds, we noted the following:

- Three (3) instances in which deposits were less than the number of tickets sold totaling **\$30**;
- Five (5) instances in which deposits were in excess of ticket sales totaling **\$211**; and
- Ten (10) instances in which deposits were not made in a timely manner. In some cases, deposits were made a week later.

Management is responsible for ensuring that all revenue is correctly earned, recorded, and deposited in order to safeguard the assets of the school district. Inadequate internal controls related to activity funds revenue collection, proper receipting, and depositing could result in a loss of assets and improper revenue recognition.

SIGNIFICANT DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 7: The School District Should Strengthen Internal Controls over Credit Card Usage.

Executive Summary: During our testing of Hinds County School District's credit cards, we noted the statements were destroyed once paid, there were no planned events identified or explanations for purchases of food, and purchases were made without the approval of a bonded Purchase Agent. In addition, credit cards were not signed in and out; purchases were made without purchase orders; purchase orders had fabricated numbers; and some purchase order numbers were for vendors other than the vendor the purchases were made from.

Recommendation: The School Board, Superintendent, and management should implement and enforce policies and procedures to strengthen controls concerning its credit card usage.

Detailed Analysis: During the review of thirty-four (34) credit card expenditures, the following exceptions were noted:

- The Accounts Payable Clerk stated that the District's procedure was to destroy all credit card statements once paid. Therefore, financial documentation is not being maintained for five (5) years as required by state law;

- There are no events or explanations for justification of all thirty-three (33) credit card purchases made by the Information Technology Department totaling **\$5,878**;
- There were thirty-two (32) credit card expenditures approved by the Information Technology Director, who is not bonded as a purchase agent;
- The credit cards were signed-out and to date never signed back in;
- There were thirty-two (32) purchases made without an approved purchase order number being presented to vendor;
- Four (4) open purchase orders' limits were exceeded by a total of **\$3,333**; and
- The CFO purchased items for door prizes for the Mississippi Association of School Business Officials with District funds, on February 5, 2018 in the amount of **\$379**, which were not approved by the School Board. The Mississippi Association of School Business Officials repaid the District on June 24, 2019. This was repaid after we noted the issue.

Section 39-5-9, Mississippi Code Annotated (1972), and the Mississippi Department of Archives and History states, financial records should be retained five (5) years following submissions of all final financial reports on federal grant projects providing audit has been released one (1) year. All financial records of school districts and local schools includes purchase orders, material receipts, invoices, receivable reports, receipt copies, etc.

Attorney General Opinion 1999 WL 791737, states, "... school districts, in an effort to achieve a particular goal or perform a particular function which has been imposed upon them by legislative enactment, may lawfully purchase coffee, coffee supplies, and soft drinks to be consumed by participants in a meeting, seminar, workshop, or similar event provided the proper responsible officer or governing entity makes the determination, consistent with the facts, that the activity in question is reasonably related and incident to said goal or function..."

District policy *Section Code DJE-E for Purchase Law Policies* states, "No purchase shall be made without prior approval of the Business Manager." Ultimately, management is responsible for implementing proper internal controls surrounding the cash disbursement functions. Strong internal controls require management's oversight concerning credit card expenses. Because of inadequate controls regarding credit card expenses, the District did not comply with *Section 39-5-9, Mississippi Code Annotated (1972)*, and district policy. Additionally, the lack of controls surrounding purchase orders could lead to fraud, waste, and abuse of public funds.

Finding 8: The School District Should Strengthen Internal Controls over Financial Reports.

Executive Summary: During our review of the financial reports provided to Hind County School District's Board Members at the monthly board meetings, we noted that the Board was not provided with an accurate and complete set of financial reports each month.

Recommendation: The Superintendent and management should ensure an accurate and a complete set of financial reports are submitted to the Board each month as required by law.

Detailed Analysis: During our review of the monthly financial reports in the board minutes, we noted the following exceptions:

- None of the required financial reports for the month of June 2018 were presented to the Board as of the date of fieldwork.
- Financial reports presented to the School Board for the months of June 2018 through March 2019 did not include current reconciled bank statements for all bank accounts as required by law.

Section 37-9-18, Mississippi Code Annotated (1972), requires the Mississippi Department of Education to 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.

The *Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board* states that, at minimum, the Superintendent should provide reconciled bank statements, a statement of revenues and expenditures, current budget status, a cash flow statement by month, and a combined balance sheet or current fund equity balances. Failure to comply with the financial reporting requirements established by the State Board of Education constitutes a violation of the *Mississippi Public School Accountability Standards*.

Failure to reconcile all bank accounts and submit a complete and accurate set of financial reports to the Board each month could result in the loss and misappropriation of public funds. Additionally, presenting false or inaccurate information to the Board could lead to the School Board not being appropriately and timely informed of the District's financial status, which would influence decisions made by the Board concerning claims.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 9: The School District Should Ensure Compliance with State Laws over Sole Source Purchases.

Executive Summary: During our testing of Hinds County School District's purchasing, we noted that the Board approved a purchase of iPads and MacBooks based on a letter provided by Apple stating that the company is a sole source.

Recommendation: The School Board, Superintendent, and management should ensure compliance with *Section 31-7-13(c)(iv)(1), Mississippi Code Annotated (1972)*, by properly advertising for competitive sealed bids for purchases over \$50,000, as required by state law.

Detailed Analysis: During our testing of purchasing, we noted the School Board approved a sole source purchase of Apple Mac Books and iPads totaling **\$1,947,082**, instead of advertising for bids as required by *Section 31-7-13(c)*. Failure to properly advertise for competitive sealed bids resulted in the District not being in compliance with state purchasing laws.

The District relied on a letter from Apple, Inc. which stated that Apple, Inc. was a sole source provider; however, by definition of sole source in Mississippi purchase law and as defined by the Attorney General of Mississippi, vendors cannot claim sole source distinction based on trademark or copyright of a brand. While Apple, Inc. produces Apple products such as the Mac Book and iPad, similar laptops and tablets are produced by other vendors. Additionally, Apple products can be purchased from third party vendors and are not distinctly sold by Apple, Inc.

Attorney General Opinion No. 2012-00158, states, "The ultimate goal of the public purchasing statute, found at *Mississippi Code Annotated Section 31-7-13*, is to encourage competition to ensure efficiency and economy in purchases made by public entities. In fact, *Section 31-7-13(c)(iv)(1)*, specifically prohibits a public entity from writing bid specifications that exclude comparable equipment. However, clearly, the Legislature intended, in its adoption of *Section 31-7-13(c)(iv)(1)*, to create an exemption to that prohibition. *Section 31-7-13(c)(iv)(1)* provides the following: Specifications pertinent to such bidding shall be written so as not to exclude comparable equipment of domestic manufacture. However, if valid justification is presented, the Department of Finance and Administration or the board of a governing authority may approve a request for a specific equipment necessary to perform a specific job. Further, such justification,

when placed on the minutes of the board of a governing authority, may service as authority for that governing authority to write specifications to require a specific item of equipment needed to perform a specific job...”

Finding 10: The School District Should Ensure Compliance with State Laws over Approval and Recommendation of Contracts.

Executive Summary: During our testing of Hinds County School District’s personnel contracts, it was noted that the CFO has a car allowance contract in the amount of **\$6,000** annually, which has not been approved by the School Board nor entered in the board minutes. Because the Superintendent did not recommend the original contract to the School Board for approval in March 2014, this contract is not valid; therefore, the CFO was improperly paid **\$33,000**.

Recommendation: We recommend the Superintendent ensures all contracts are approved by the Board of Education at the recommendation of the Superintendent and entered into the minutes, as required by law. Additionally, we recommend the CFO repay the District **\$33,000**.

We also recommend the Board of Education and Superintendent review travel expenditures to ensure reasonableness and prudence. Reimbursement of travel to and from one’s home to his/her place of work should not be considered reimbursable travel; moreover, the Board and Superintendent should implement policies to ensure personal travel of employees has neither been reimbursed nor charged to the School District. Such use of public funds for personal travel is considered abuse.

Detailed Analysis: During our review of personnel contracts, we noted that the CFO has a car allowance contract in the amount of **\$6,000** annually that has been signed by the Superintendent; however, the recommendation of this contract has not been approved by the School Board nor entered into the board minutes. This contract has been paid to the CFO since March 2014 totaling **\$33,000**.

Section 37-7-301, Mississippi Code Annotated (1972), states, “The School Boards of all School Districts shall have the following powers, authority and duties in addition to all others imposed or granted by law, to wit:... (p) To select all school district personnel in the manner provided by law, and to provide for such employee fringe benefit programs, including accident reimbursement plans, as may be deemed necessary and appropriate by the Board; ...” *Section 37-9-15, Mississippi Code Annotated (1972)*, and *AG Opinion 1991 WL 577900*, states only after the Board of Education has approved the Superintendent’s recommendation, may the Superintendent enter into a contract and have it entered in the minutes. Due to noncompliance with state laws and regulations and lack of internal controls surrounding the car allowance contract, public funds were misappropriated.

Finding 11: The School District Should Ensure Compliance with State Laws over Financial Statement Filing Requirements.

Executive Summary: During our review of the Hinds County School District’s 2018 financial statements, we noted that financial statements were not compiled as of May 8, 2019. Upon arrival at Hinds County School District on April 23, 2019, we requested the District’s financial statements from the District’s accounting software, MUNIS and the School District’s Certified Public Accountant.

Recommendation: The School Board, Superintendent, and management should ensure year-end financial statements are completed on or before October 15th of each year, as required by *Section 37-61-21(2), Mississippi Code Annotated (1972)*.

Detailed Analysis: During the review of the year-end financial statements, we noted the June 30, 2018 financial statements were not ready and available for review as of May 8, 2019. Furthermore, the Financial Exchange Transaction System (FETS) information submitted to the Mississippi Department of Education on September 21, 2018 was not accurate due to final adjustments to the financial statements. Consequently, the FETS information sent to MDE is not considered the District's financial statements. This report does not reflect the requirements of generally accepted accounting principles, because they only include revenues, expenditures, and fund balance.

Section 37-61-21(2), Mississippi Code Annotated (1972), states, "... On or before the fifteenth day of October of each year, the school district shall prepare and file with the State Department of Education year-end financial statements and any other budgetary information that the State Board of Education may require. No additional changes may be made to the financial statements after October 15th of each year." Failure to complete the financial statements by October 15th could result in errors or misappropriation of public funds.

Finding 12: The School District Should Ensure Compliance with State Laws over the Approval of Depositories.

Executive Summary: During our review of Hinds County School District's depository bids, we noted that the Board did not approved its depository bids until November 8, 2018, which was four (4) months after the statutory approval deadline of July 1st.

Recommendation: The School Board, Superintendent, and management should ensure compliance with *Section 37-7-333, Mississippi Code Annotated (1972)*, by properly accepting bids for depositories by July 1st every three (3) years.

Detailed Analysis: During our review of the depository bids, we noted the Board advertised for depository bids on June 14, 2018. However, proposals from Bank Plus, BancorpSouth, Merchants and Planters, Regions, and Trustmark were accepted on November 8, 2018 for the 2019-2021 fiscal years. Therefore, from July 1, 2018 through November 8, 2018, none of the School District's bank accounts were covered as approved depositories.

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. Further, School Boards are allowed to advertise and accept bids for depositories, not less than once every three (3) years, when the School Board determines that it can obtain a more favorable rate of interest and less administrative processing. Not approving depository bids by July 1st results in noncompliance with *Section 37-7-333, Mississippi Code Annotated (1972)*.

Finding 13: The School District Should Ensure Compliance with State Laws over the Annual Reconciliation of Public Funds.

Executive Summary: During our review of Hinds County School District's Public Depositor Annual Report, it was noted the report was not received by the State Treasurer's Office within thirty (30) days of the District's fiscal year end.

Recommendation: Management should develop control procedures to ensure that the Public Depositor Annual Report is submitted to the State Treasurer's Office within thirty (30) days of fiscal year end, as required by law.

Detailed Analysis: During the review of the District's Public Depositor Annual Report, we noted the report was not submitted to the State Treasurer's office within thirty (30) days of fiscal year end. The District submitted the annual report on August 24, 2018, which was two (2) months late.

Section 27-105-5(6) (b), Mississippi Code Annotated (1972), requires that not later than thirty (30) days following its fiscal year end, a public depositor shall notify the State Treasurer of its official name, address, federal tax number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end.

Failure to submit the Public Depositor Annual Report in a timely manner could result in the State Treasurer's Office having inaccurate records and increase the risk that the District's total deposits may not be properly collateralized.

Finding 14: The School District Should Ensure Compliance with State Laws over Approval of Original and Amended Budgets.

Executive Summary: During our review of Hinds County School District's budgets, we could not verify that the original budgets for 2017-2018 and 2018-2019 were approved by the Board as the approval was not spread upon the minutes. Also, the original and amended budgets were not in the format required by state statute. This noncompliance occurred due to inadequate controls with respect to budgeting laws and district policy and because the District's accounting software, MUNIS, is unable to produce the budget format required by state law.

Recommendation: The School Board, Superintendent, and management should ensure compliance with *Section 37-61-9, Mississippi Code Annotated (1972)* and district policy *Section Code DC for Annual Operating Budget*, by properly approving all required budgets and reflecting them in the minutes. Also, we recommend the District ensures that its accounting software prints the budget in the format required by law.

Detailed Analysis: During review of the budgets, we noted the original budgets for 2017-2018 and 2018-2019 were not approved nor reflected in the minutes after the public hearings. Also, the combined final amended budget schedule for 2017-2018 supporting detail for each fund was not included in the minutes. Additionally, we noted the District's budgets are not in the format required by state law, which requires the signatures of the Board President and Secretary. Failure to comply with budgeting laws and district policy could result in errors or misappropriation of public funds.

Section 37-61-9, Mississippi Code Annotated (1972) provides the original budget is filed and approved by August 15th, and district policy *Section Code DC for Annual Operating Budget*, requires the Board to adopt an original budget by July 15th of the current fiscal year and spread upon the minutes or attach them as an addendum. The budgets should be signed and dated by the Board's President and Secretary.

Finding 15: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Executive Summary: During the review of Hinds County School District, we noted that three (3) Board Members did not submit their Statement of Economic Interest with the Mississippi Secretary of State by May 1, 2018.

Recommendation: The School Board members should file the Statement of Economic Interest annually, no later than May 1st of each year that such official holds office, regardless of the duration.

Detailed Analysis: During our review of the Statements of Economic Interest, we noted three (3) School Board Members did not file by May 1st, 2018, as required by State law.

Section 25-4-25, Mississippi Code Annotated (1972), provides that “Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter: a) Persons elected by popular vote...” *Section 25-4-29, Mississippi Code Annotated (1972)*, provides that “(1)Required statements hereunder shall be filed as follows: a) Every incumbent public official required...to file a statement of economic interest shall file such statement with the commission on or before May 1st 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...” Failure to file the Statement of Economic Interest, as required by state law, results in non-compliance with *Section 25-4-25* and could result in fines being assessed and a civil judgment being enrolled against the delinquent filers, as allowed by *Section 25-4-29 (2)*.

Finding 16: The School District Should Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists.

Executive Summary: During our review of the Hinds County School District’s sixteenth section educable child lists, it was noted that the lists were not filed by December 31st for 2017 and 2018.

Recommendation: The Superintendent and management should implement controls, policies, and procedures to ensure all lists are prepared and filed with the Superintendents of custodial districts by December 31st of each year, in accordance with *Section 29-3-121, Mississippi Code Annotated (1972)*.

Detailed Analysis: During our review of the Educable Childs Lists for Hinds County School District, we noted Hinds County School District submitted its Educable Child Lists for December 2017 on February 20, 2018; however, no lists were submitted to Claiborne County School District and Yazoo County School District for 2017. Subsequently, the December 2018 Educable Child lists were not submitted to other school districts within its shared townships until April 30, 2019.

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 31st of each year and the lists shall be used in making the division of the available funds of each township during the ensuring calendar year as provided by *Section 29-3-119, Mississippi Code Annotated (1972)*.” Failure to file the educable child lists with the custodial school district could result in forfeiting funds that the District would otherwise be entitled to.

Finding 17: The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

Executive Summary: During the review of Hinds County School District's sixteenth section shared townships, it was noted the District did not share sixteenth section revenues with other Districts within its shared townships. Due to inadequate controls, policies, and procedures, the District did not share sixteenth section revenue with neighboring school districts, as required by *Section 29-3-119, Mississippi Code Annotated (1972)*.

Recommendation: We recommend that the District strengthen controls to ensure all revenues are promptly shared with appropriate Districts in accordance with *Section 29-3-119, Mississippi Code Annotated (1972)*.

Detailed Analysis: During our testing of sixteenth section revenue, we noted there was no revenue from sixteenth sections shared with neighboring school districts, as required by *Section 29-3-119, Mississippi Code Annotated (1972)* for an estimated total of **\$273,624.50**.

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." Failure to properly share sixteenth section revenue as the custodial school district could result in the misappropriation of public funds.

Finding 18: The School District Should Ensure Compliance with State Laws over Sixteenth Section Tax and Lease Payments.

Executive Summary: During the review of sixteenth section land for Hinds County School District, it was noted that the district did not cancel lease agreements for unpaid annual property taxes. Also, there were no appraisals in the sixteenth section files.

Recommendation: The School Board, Superintendent, and management should ensure lease payments are made within sixty (60) days, taxes are current, and an appraiser is appointed one (1) year prior to the rental of sixteenth section land, as required by laws and regulations.

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

- Five (5) lease payments were more than sixty (60) days delinquent; however, the leases were not cancelled.
- There were no appraisals noted in the files for all twenty (20) lease agreements prior to entering into new lease agreements.
- Taxes were not current on four (4) leases and the lease agreements were not terminated.

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

Finding 19: School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Executive Summary: During the review of Hinds County School District’s rehiring of retired employees, it was noted that the School District did not properly complete and submit the required Form 4Bs “Certification/Acknowledgement of Reemployment of Retiree” to the Public Employee Retirement System of Mississippi.

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

Detailed Analysis: During the testing of retired and rehired service employees, we noted the following instances of noncompliance:

- All three (3) 4B forms were not filed within five (5) days of rehiring the employees; and
- Two (2) employees were overpaid for a total of **\$3,597**.

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

Finding 20: The School Board Should Ensure Compliance with State Laws over Surety Bonds.

Executive Summary: During our review of Hinds County School District’s surety bonds, we noted that surety bonds had not been filed in the Chancery Clerk’s office since 2015. In addition, one (1) principal was not properly bonded as required by state law.

Recommendation: Management should implement procedures to ensure officials and employees are properly bonded and bonds are filed in the Chancery Clerk’s office, as required by state laws.

Detailed Analysis: During the review of surety bonds, we noted the following instances of noncompliance:

- The District had not filed bond certificates with the Chancery Clerk’s office since 2015 for its School Board Members and employees.
- One (1) principal is bonded for \$25,000 instead of being bonded for \$50,000.

Section 25-1-19, Mississippi Code Annotated (1972), requires all bonds be filed and recorded in the Chancery Clerks’ Office. Also, *Section 37-9-31*, requires all principals to furnish a bond not less than

\$50,000, to be payable, conditioned, and approved in the manner provided by law. Failure to file bonds with the Chancery Clerk's office and properly bond the principal for the sufficient amount could result in the officials and other district employees not being properly bonded and limit the amount available for recovery if a loss occurred.

Finding 21: The School District Should Ensure Compliance with State Laws over Obtaining Quotes for Purchases Over \$5,000 but Not Over \$50,000.

Executive Summary: During the testing of Hinds County School District's expenditures exceeding \$5,000 but not over \$50,000, we noted that the District made a purchase of an access control card reader without obtaining two competitive bids as required by state law.

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

Detailed Analysis: During our testing of purchases, we noted the District did not obtain two competitive written bids for the purchase of an access control card reader in the amount of \$15,960 for the fieldhouse at Terry High School. Failure to obtain at least two written competitive bids resulted in the District not being in compliance with state purchasing laws.

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

Finding 22: The School District Should Ensure Compliance with State Laws over Background Checks.

Executive Summary: During our testing of Hinds County School District's certified employees, we noted one (1) instance in which the required background check was not obtained. Since the District did not obtain a background check to have on file in Human Resources for the certified employee, the district is not in compliance with *Section 37-19-7, Mississippi Code Annotated (1972)*.

Recommendation: The Superintendent and management should obtain and maintain on file a current criminal background check for all new hires as required by law.

Detailed Analysis: During our testing of twenty (20) certified employees, we noted the District did not obtain a background check to maintain on file for one (1) of its certified employees. Failure to obtain background checks for all new hires could result in a wrongful hire of an individual.

Section 37-9-17, Mississippi Code Annotated (1972), states that "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.