



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

November 18, 2020

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

Vicksburg Warren School District  
1500 Mission 66  
Vicksburg, MS 39480

Dear Members of the Vicksburg Warren School District:

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

1. Strengthen Internal Controls over Travel Reimbursements;
2. Strengthen Internal Controls over Banking Transactions and Bank Reconciliations;
3. Strengthen Internal Controls over Payroll Transactions;
4. Strengthen Internal Controls over Investment Trust Accounts;
5. Strengthen Internal Controls over Activity Funds Cash Receipts and Bank Deposits;
6. Strengthen Internal Controls over Credit Card Purchases;
7. Strengthen Internal Controls over Maintenance and Preparation of Board Minutes;
8. Strengthen Internal Controls & Ensure Compliance over Purchasing Agents' Surety Bond;
9. Ensure Compliance with State Laws over Expenditures;
10. Ensure Compliance with State Laws over Financial Statements;
11. Ensure Compliance with State Laws over Purchasing;
12. Ensure Compliance with State Laws over Original and Amended Budget Formatting;
13. Ensure Compliance with State Laws over Statements of Economic Interest;
14. Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists;
15. Ensure Compliance with State Laws over Sixteenth Section Shared Townships;
16. Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Receipts, and Appraisals;
17. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
18. Ensure Compliance with State Laws over Surety Bonds; and
19. Ensure Compliance with State Laws over Related Party Approval.

Please review the recommendations and submit a plan to implement them by November 18, 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.

Vicksburg Warren School District

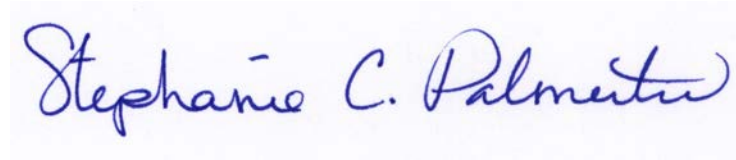
November 18, 2020

Page 2 of 23

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 Vicksburg Warren School District to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive style with a large initial 'S'.

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 Vicksburg Warren 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 L. Duckworth, Ashley McPherson; 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 Ann. (1972)*, the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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

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

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## **MATERIAL WEAKNESSES**

**Finding 1:** The School District Should Strengthen Internal Controls over Travel Reimbursements.

**Internal Control Deficiency:** Management is responsible for properly safeguarding the assets of the School District and ensuring all reimbursements are documented.

**Finding Detail:** During the testing of nine travel reimbursement forms, the following exceptions were noted:

- The Director of Financial Operations reimbursed the School District on August 14, 2019, for five (5) hotel expenses totaling \$4,142.72, which were incurred from July 2017 to May 2019. The Director of Financial Operations originally received travel reimbursements for these travel expenses. However, these travel expenses were paid by the Hinds County School District (HCSD). The Director of Financial Operations traveled with her spouse, who, at the time of travel, worked for HCSD. The Director of Financial Operations and her spouse knowingly received double reimbursement for these expenditures. Four (4) of the hotel receipts attached to

the Director of Financial Operations travel reimbursement noted Hinds County School Districts' Chief Financial Officer on the billing along with the Hinds County School District's credit card information;

- The Director of Financial Operations additionally requested reimbursement for \$5,170.16 in duplicative travel expenses for prior fiscal years. These amounts have not been reimbursed. Auditor verified these expenses were also reimbursed by HCSD and were submitted for reimbursement by the Director of Financial Operations' spouse; and
- The Director of Financial Operations reimbursed the School District for the hotel expenses on August 14, 2019. However, the Director of Financial Operations failed to repay the School District \$300 for two separate parking receipts that were paid by Hinds County School District.

The District's Chief Financial Officer knowingly requested and received duplicative reimbursement for travel expenses. The District's Chief Financial Officer and the former Chief Financial Officer of HCSD were not entitled to both receive reimbursement for the same expenditure. These transactions and the actions of the Chief Financial Officer resulted in fraud, waste, and abuse in the amount of \$9,612.88, \$4,172.72 of which has been repaid.

**Recommendation:** We recommend the School Board strengthen policies and procedures surrounding reimbursements of professional travel expenses. We also recommend that the Director of Financial Operations be required to repay any additional illegal payments received back to the School District for professional travel already paid by another School District. This matter has been referred to the OSA Investigative Division.

**District's Response #1:** For each of the noted trips, the Director of Financial Operations conferred with business office staff of the referenced school district to ensure there was no duplication of reimbursements. When it was established that VWSD would pick up specific costs, the Director of Financial Operations presented her personal credit card at check-in; however, never looked to verify the card information at check-out. When rooming together, both names are added to the billing to ensure no issues with getting access to the rooms. Finance did a self-review of all Director of Financial Operations' travel prior to OSA's announcement of review and noted that the credit card information had different last 4 digits than her credit card. It was at that time she paid VWSD back the amounts reimbursed to correct the initial oversight of not verifying the credit card information. This issue was also self-reported to the auditors during the interview process. Although these were approved travel expenses approved by the school board, it was not an expense for VWSD and was paid back. This issue had already been corrected prior to OSA arrival.

**District's Response #2:** These two parking receipts were linked to two of the hotel stay mentioned above. When the Director of Financial Operations reimbursed VWSD for the hotel cost, it was not noted that the parking was on the same hotel receipt. This was a complete oversight that should have been included in the reimbursement back to VWSD in August. This issue has been corrected and the amount owed has been paid back in full on December 3, 2019.

**Auditor's Note #1:** On August 14, 2019, State Auditor Shad White made a public announcement regarding the alarming business practices of the Hinds County School District's Assistant Superintendent. Subsequent to the announcement and to the notification of OSA that the Vicksburg Warren School District would be reviewed, the Director of Financial Operations repaid Vicksburg Warren School District. The Director of Financial Operations repaid the District for the same travel vouchers audited for the Hinds County School District's report. Due to the known illegal reimbursements made by the Director of Financial Operations at VWSD, auditors reviewed additional reimbursements and compared those to other reimbursements at the Hinds County School District and discovered over \$5,000 in additional reimbursements that had not been identified or paid back by the VWSD Director of Financial Operations.

**Repeat Finding:** No.

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**Finding 2:** The School District Should Strengthen Internal Controls over Banking Transactions and Bank Reconciliations.

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

*The Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board* states, "Presentation of reconciled bank statements should be made at the next regular board meeting after the bank statements are reconciled..."

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

**Finding Detail:** During testing of the bank reconciliations, we noted the following:

- The bank statements for District Maintenance, Accounts Payable Clearing, and Payroll Clearing Fund were not reconciled to the cash balance in the general ledger for July 2019. The bank reconciliations indicated a difference of \$262,242, which were not presented to the School Board during the September 24, 2019 board meeting. The unexplained discrepancies could not be explained because of an accumulation of past journal entries and the use of two separate accounting systems. Innovak is utilized for payroll, and MUNIS is utilized for all other accounting transactions.
- We also noted negative cash balances in the general ledger for the Athletic Fund totaling \$17,424 and Accounts Payable Fund \$396,994;
- Per review of the Board minutes, the complete bank reconciliations were not presented to the School Board. These reconciliations noted material inconsistencies and differences that should be investigated by management;
- The June 30, 2019 bank reconciliation was not presented to the Board until August 27, 2019; and
- Bank balances presented to the Board do not agree with current bank reconciliations, indicating banking records were modified or changed after the Board received a copy.

Failure to record all transactions in the general ledger and accurately reconcile bank statements could result in the misstatement of the School District's financial statements, errors, or fraud occurring without being detected promptly.

**Recommendation:** We recommend the School Board implement policies and procedures to ensure all bank statements are reconciled timely and adequately with the School District's general ledger. Also, we recommend management perform monthly reconciliation of bank accounts to the general ledger by the fund to adequately and timely account for any variance from the book balances to comply with the School District's policy. These matters have been referred to the OSA Investigative Division.

**District's Response:** In transitioning to the new system, the Finance department began using the general ledger phase of the new financial system; however, payroll was still operating on the old system which was later migrated. During this transition, payroll was uploaded from the old system into the new system via journal imports. These imports created an extra balance sheet entry that should not have been brought over. The monthly bank reconciliation carried a balance of entries that could not be fully verified. The finance team had identified the source of the issue and was waiting for assistance from the CPA firm to complete prior period adjustments to clear balances. Those balances have now been resolved and approved by the Board. With each monthly reconciliation, the board is informed that entries are still to be made and bank reconciliation will not be final until we have fully closed the books and submitted financials to MDE. At that time reconciliations will be brought back for their review and approval.

**Auditor's Note:** As noted in the finding above, the complete bank reconciliation, which included the material unexplained differences, was not presented to the Board members or spread upon the Board minutes as required. Without actual and complete bank reconciliations, the Board members do not or cannot know the financial status of the District, which would assist them in properly making financial decisions regarding the day to day operations.

**Repeat Finding:** No.

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**Finding 3:** The School District Should Strengthen Internal Controls over the Payroll Transactions.

**Internal Control Deficiency:** A critical aspect of effective payroll management is the preparation of accurate payroll transactions. Management does not have personnel who possessed the necessary expertise to prepare and distribute all payroll transactions for the School District. Additionally, an effective system of internal control should include adequate segregation of duties.

**Finding Detail:** During the procedures performed on payroll, we noted the following internal control weaknesses in the payroll function:

- The Payroll Coordinator maintains the general ledger, prepares the payroll, make journal entries, and distributes the payroll checks;
- Payroll records are not checked for computations for each payroll period, which resulted in overpayments, known as voids, totaling \$89,901 and underpayments, known as makeup payroll, totaling \$168,364 for the fiscal year 2019;
- In August 2019, the Payroll Coordinator overpaid federal taxes \$496,694; and
- The Payroll Coordinator does not have the necessary training to run all payroll reports from the School District's accounting software.

Failure to have adequate controls over the School District's payroll functions could result in waste, fraud, and abuse of public funds.

**Recommendation:** We recommend the School Board implement a system of internal controls that will ensure that proper segregation of duties exists with respect to control of general ledger, the processing of payroll, and other payroll duties. Also, the School District should ensure employees have the proper training so that employees can perform required and necessary job duties.

**District's Response #1:** The Payroll Clerk does not maintain any general ledger accounts. Those functions are performed at the Director of Accounting and/or at the Director of Financial Operations level with the Financial Accountant serving as backup in emergency cases. Also, the only entries made at this level are bank transfers to cover payroll liabilities. These transfers are reviewed and approved with each

monthly payroll cycle by the Director of Financial Operations along with all corresponding backup documentation to support the transfer.

**District's Response #2:** The payroll system from which the District is currently transitioning required significant manual input and was open to human error. Although the reported errors were less than 1% of the total annual payroll, the District recognized this issue early and made the decision to make the transition to a system with more automation and better controls. The District will exercise its best effort to ensure all employees are paid timely and accurately. With the implementation of the new financial system in January 2020, various controls were implemented to minimize risk around the payroll process. Process updates included monthly review meetings with HR and payroll before payroll is processed to ensure employees are paid correctly and on time.

**District's Response #3 and #4:** Because of the aforementioned incompatibility of the two financial systems, this processing error was caused by the Payroll Clerk picking up an extra batch number in her liability report. We immediately contacted the IRS and were instructed to include payment with quarterly 941's which would show an amount due to VWSD and a refund will be issued. Again, system controls implemented in the new financial system will create additional checks and balances that will help catch these types of issues going forward.

**Repeat Finding:** No.

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**Finding 4:** The School District Should Strengthen Internal Controls over the Investment Trust Account Balances and Transactions.

**Internal Control Deficiency:** An effective system of internal control over the recording of transactions for the School District's investment trust accounts should include proper classification of revenues, expenditures/expenses, gains, and losses. Management is responsible for accurately reporting year-end balances on its investments in the financial statements.

**Finding Detail:** During the review of Vicksburg Warren School District's investment trust accounts, we noted the following discrepancies in the recording of investment balances:

- The School District's Wells Fargo statement has a year-end investment balance of \$12,510,897; however, the School District's financial statement reported an investment balance totaling \$10,945,676 which is an understatement by \$1,565,221;
- The School District's first Regions Bank statement has a year-end investment balance of \$25,682,154; however, the School District's financial statement reported an investment balance totaling \$25,643,790 which is an understatement by \$38,363;
- The School District's second Regions Bank statement has a year-end investment balance of \$24,620,860; however, the School District's financial statement reported an investment balance of \$23,961,138 which is an understatement of \$659,722; and
- The School District's BancorpSouth statement has a year-end investment balance of \$32,014,742; however, the School District's financial statement reported an investment balance totaling \$31,329,378, which is an understatement of \$685,364.

Failure to reconcile and record all transactions within the general ledger from its investment trust accounts resulted in the School District reporting the investments balance incorrectly at year-end and misrepresenting its financial statements, which could result in the misappropriation or loss of public funds.

**Recommendation:** We recommend the School Board implement a system of internal controls that will ensure all transactions in the School District's investments trust accounts to correctly record the year-end balances in the financial statements and general ledger.

**District's Response #1:** The Delta reflected is due to an outstanding draw request on VWSD books. The District submitted a payment request to Wells Fargo for disbursement to be paid to contracting vendors. However, since Wells Fargo had not released the funds for payment, disbursements were not reflected on the bank statement. This was considered a reconciling item to be discussed with our Financial Statement CPA firm to determine if a prior period adjustment needed to be made.

**District's Response #2:** The difference reflects the non-booking of net gains and losses for the month of June. Since the Bond closed in June, the bank did not initially provide a quarterly statement. Therefore, the District booked the amount at closing and did not recognize any net changes (gains or losses).

**District's Response #3:** There doesn't appear to be any deduction applied to the bank statements to reflect the amount of closing cost for this Bond. Additionally, there was no disbursement applied to this bond as of June 30, 2019, and the bank posted net gains over the three quarters.

**District's Plan of Action:** Continue to work with a Financial Statement CPA firm to review processes for booking entries for Bond Project and to determine if any prior period adjustment is needed. Going forward, the District will perform a quarterly reconciliation of investment accounts and work with the Bank to understand any variances prior to booking year-end entries. This issue has been turned over to the District's CPA firm to calculate all required prior period adjustments to record dividends and any net gains or losses occurred.

**Repeat Finding:** No.

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## SIGNIFICANT DEFICIENCIES

**Finding 5:** The School District Should Strengthen Internal Controls over Receipts and Deposits for Athletic Events.

**Internal Controls Deficiency:** Management is responsible for ensuring that all revenue is correctly earned, recorded, and deposited to safeguard the assets of the School District.

Board Policy *DK (Student Activities Fund Management)* states, "A person remitting activity funds to the principal for deposit will be given the original receipt, the second copy will be attached to the transmittal report to the central office, and the third copy will be kept in the book and on permanent file in the principal's office. All of these pre-numbered receipts must be accounted for ... All fund collected within the school must be deposited daily..."

**Finding Detail:** During our testing of seventy-seven (77) athletic fund revenue, we noted the following weaknesses in internal controls:

- Twenty-one (21) instances in which general admission ticket sales forms totaling \$15,657 did not have the beginning and ending ticket numbers;
- Twenty-five (25) deposits were more than the ticket sales totaling \$6,164;
- Ten (10) deposits were less than the ticket sales totaling \$2,390;
- Three (3) games did not have a receipt or transmittal report totaling \$3,326;
- One game did not have a deposit or general ledger entry totaling \$77;
- Three (3) games' revenue was not found or recorded in the general ledger totaling \$3,689;



- One (1) instance in which deposit was seven days late; and
- All reserved and season tickets sold were not pre-numbered and not correctly accounted for in the financial records.

Inadequate internal controls related to athletic fund revenue collection and receipting could result in a loss of assets and improper revenue recognition.

**Recommendation:** The School Board should strengthen internal controls to ensure the District's assets are properly accounted for and safeguarded. Additional policies and procedures should be written and implemented to specifically address funds collected at school events, such as games.

**District's Response #1:** After review of the ticket sales sheets from the FY19 school year, the instances in which ticketing accounting sheets did not have a beginning and ending ticket number were from football reserved seat tickets. Our general admission tickets are numbered 1-500 per roll; however, the reserved tickets use a section, row, and seat number to identify each ticket. The VWSD ticket sales sheets were labeled as general admission ticket sales for both reserved and general admission tickets. On the RESERVED ticket sheet there is no beginning and ending ticket number because of the random sales of those tickets based on purchaser seat options. Some of these reserved seats were sold as season tickets as a presale option for many school supporters. The District started working with GoFan online ticket sales in the later part of 2019 to facilitate selling season tickets and reserve seating. This online option generates a report of tickets sold and a check is mailed to the District and is receipted and deposited per the cash management process. As of August 2020, the District does 100% of its tickets sales via GoFan online tickets sales.

**Auditor's Note #1:** During the inquiry and testing procedures of the athletic events, there was no evidence of the statement presented above concerning the reserve seat sales. The District did not record and maintain evidence of reserve seat numbers that would correspond with a ticket number.

**District's Response #2:** For these instances, on special game nights, elementary students who presented a student ID were allowed to pay a reduced price with each parent who purchased a ticket. The total amounts collected at those games were deposited with the regular game tickets versus separating those sales to reflect the special student admission funds collected. Currently, all ticket purchases, including special discount tickets, will be purchased and accounted for via the GoFan online option. With the inclusion of discount tickets, students will be required to add their student id online in the area designated for "discounts" and must show their ID at the gate for admission.

**Auditor's Note #2:** At the time of testing and inquiry of the Athletic Director, he did not have an explanation for the excess deposits as noted above. Additionally, there were no notes on the Count Sheets for special tickets with different prices.

**District's Response #3:** There was a miscalculation in the recording of the number of tickets sold during football games. In some instances, if tickets were sold out on the home side, the security team would go get tickets from the visitor's side and did not properly account for the reduction on the visitor's tickets sold. This resulted in an overage on one side and a shortage on the other side; however, the recording and reconciliation of total tickets sold for that game balanced. The District mitigated the risk from the security company by moving the process to the GoFan online option.

**Auditor's Note #3:** The District's response above does not explain the deposits being less than the tickets sales. During testing, we reconciled the total ticket sales and total deposits, which resulted in deposits being \$2,390 less than ticket sales.

**District's Response #4:** District deposits are made after each Friday game via bank drop box; however, deposit receipts were not picked up from the bank until later the following week. Some receipts and/or transmittals were missed and not turned into Finance for recording. It is the District's process to have all funds collected properly receipted, deposited, and documented for recording into the District's general ledger in a timely manner. This issue has been resolved with the implementation of GoFan online process.

**Repeat Finding:** No.

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**Finding 6:** The School District Should Strengthen Internal Controls over Credit Card Purchases.

**Internal Control Deficiency and State Law:** *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 include purchase orders, material receipts, invoices, receivables reports, receipt copies, etc.

Management is responsible for implementing proper internal controls surrounding the cash disbursement functions. Strong internal controls require management's oversight concerning credit card expenses.

**Finding Detail:** During the review of twenty (20) credit card expenditures, the following exceptions were noted:

- All of the Walmart credit card statements for the audit year were destroyed in violation of state law; therefore, the financial documentation was not maintained for five (5) years; and
- Five (5) purchase order limits exceeded the original purchase order by a total of \$1,317.

Lack of controls surrounding purchase orders could lead to fraud, waste, and abuse of public funds. The destroying of credit card receipts and documents could indicate the effort to conceal purchases.

**Recommendation:** We recommend the School Board implement policies and procedures to strengthen controls concerning its credit card usage and retainage of financial documents.

**District's Response #1:** Because monthly statements are used to verify purchase receipts and can be viewed online via the vendor website, the paper copies are discarded. The purchase receipts show details of actual credit card purchases and they are uploaded in the financial system as backup for payments instead of monthly statements. Processes were updated to retain all credit card statements and to upload them into the financial system along with the purchase receipt as another point of documentation. The District immediately implemented this process and statements are being retained, both digitally and on paper, as a part of the payment backup documentation.

**District's Response #2:** In some instances, employees estimated the overall need and cost of supplies/items needed when generating a purchase order to accompany the District's credit card for purchases. When the District identified multiple occurrences of overspending, processes were updated to have employees either put any item(s) back that would cause the purchase to exceed what was on the purchase order or pay the difference out of pocket. This was communicated throughout the District and also each employee utilizing the District credit card is asked to sign a "Credit Card Use Acknowledgement" statement that addresses this exception.

**Repeat Finding:** No.

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**Finding 7:** The School District Should Strengthen Internal Controls over Maintaining and Preparing Board Minutes.

**Internal Control Deficiency:** Management is responsible for ensuring the assets of the School District are safeguarded, and transactions are properly documented and recorded in the School District's board minutes. A critical aspect of internal controls includes numbering the Board minute pages.

**Finding Detail:** During the review of Vicksburg Warren School District's Board minutes, we noted the official Board minutes were not numbered.

Inadequate internal controls surrounding the maintenance and preparation of the Board minutes could result in the State Laws and Regulations being circumvented.

**Recommendation:** We recommend the School Board implement policies and procedures to ensure all Board minutes in the future are correctly numbered.

**District's Response:** The current School Board secretary worked diligently to make sure minutes were up to date and inclusive of items presented and voted on. However, in working with the Board minutes vendor (BoardDocs), it was discovered that there was not an automatic numbering option in that system. To ensure proper corrective actions are put in place the District started a new book with the most recent board minutes and manually numbered pages. A digital copy is kept online on the BoardDocs system and a physical copy is kept in the Superintendent's office.

**Auditor's Note:** BoardDocs does not have the necessary controls to be considered the District's official minutes. This system should only be utilized to create and manage board packets, give access to information, and conduct meetings.

**Repeat Finding:** No.

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## OTHER CONTROL DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW

**Finding 8:** The School District Should Strengthen Internal Controls over Superintendent's Signature as Purchase Agent.

**Internal Control Deficiency and State Law:** An effective system of internal controls, requires digital signatures to only be affixed to documentation by the individual authorizing such documents.

*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 37-39-21, Mississippi Code Annotated (1972)* states, "The purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety." Also, Board policy, DJEA Purchasing Authority, states the School Board designates the Superintendent, Assistant Superintendent, Business Manager, all Principals, and Directors as Purchase Agents.

**Finding Detail:** During procedures performed for purchasing, we noted the following:

- The Superintendent did not review purchase orders before approval;
- The Superintendent's electronic signature is affixed by either the Director of Financial Operations or Accounts Payable Clerk to all purchase orders; and
- The Superintendent, Deputy Superintendent, and Business Manager, and all fifteen (15) principals were designated as purchasing agents per Board Policy; however, none were bonded as Purchase Agents.

Failure to have a bond in place for a specific term of office could limit the amount available for recovery if a loss occurred over multiple terms. Additionally, failure to comply with the state statute requiring individuals being correctly and sufficiently bonded, could result in the loss of public funds. Failure to ensure the School District's purchase orders are reviewed and approved by the Superintendent could result in the loss of public funds and the possibility of fraudulent purchases by the district.

**Recommendation:** The School Board should 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. Additionally, the School Board should ensure all bonds for employees' and officials' bonds are filed with the Chancery Clerk. Furthermore, the School Board should ensure all blanket bonds specify the public servant holding the positions covered under its blanket bond. The Superintendent should ensure he is the only person that can affix his signature to purchase orders after he has reviewed and approved them.

**District's Response #1:** This issue was addressed in response for Finding #18. The original bonds were set up for the District as Blanket Bonds. The District started the process of getting the Superintendent Bonded separately as a Purchasing Agent before the arrival of the OSA audit team. This process has been completed.

**District's Response #2:** This issue was addressed in an overall response on Surety Bonds. The purchasing process has been delegated to the Finance Department as a part of the overall function of that department. All purchases go through a workflow of approvals with final approvals ending with the Director of Financial Operations. Upon reviewing the Board and the Deputy Superintendent's bond filed, it was noted that the Business Manager and the Deputy Superintendent needed to be bonded separately as Purchasing Agents based on the delegation of authority to approve purchase orders. The Superintendent's signature is hard coded into the accounting software and is automatically affixed on the purchase order upon conversion and printing. This process was completed and bonds were filed for both the Director of Financial Operations and the Deputy Superintendent shortly after the issue was identified.

**Auditor's Note:** As noted above, the Superintendent's signature is affixed to purchase orders by either the Director of Financial Operations or Accounts Payable Clerk. During the time of the audit, neither employee was bonded as a Purchasing Agent. If the employees are given permission to act on the Superintendent's behalf as a Purchasing Agent, they should be bonded as such in order to protect the assets of the District. Additionally, the District should implement policies and procedures to safeguard the use of the Superintendent's signature.

**Repeat Finding:** No.

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## INSTANCES OF NONCOMPLIANCE WITH STATE LAW

**Finding 9:** The School Should Ensure Compliance with State Laws over Expenditures.

**Applicable Law(s):** *Section 37-61-19, Mississippi Code Annotated (1972)* states, "It shall be the duty of the superintendents of school and the school board of all school districts to limit the expenditure of school

funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures from a fund in excess of the resources available within that fund.”

**Finding Detail:** During our review of the amended budget for Vicksburg Warren School District, we noted the Capital Bond Project Fund 2018 expenditures exceeded resources available from their budgeted amount totaling \$6,094,593. Additionally, the EZE Grant 2017, Capital Project Bond 2019, and Capital Project Certificate of Participation 2019 funds were unbudgeted for the audit year in the amount of \$10,129,045.

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

**Recommendation:** We recommend the School Board and the Superintendent comply with *Mississippi Code Section 37-61-19* by ensuring all have available resources before expenditures are approved.

**District’s Response:** The expenditures were for Capital Bond Projects. When closing out the FY19 budget, we did not reconcile the books (receipts – expenditures). However, there was significant revenue received and budgeted to cover the expenditures amount. VWSD is now utilizing the Munis feature that automatically updates expense budget to reflect fund availability based on posted revenue. The closing process has now been reviewed and approved by the School Board.

**Repeat Finding:** No.

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**Finding 10:** The School District Should Ensure Compliance with State Laws over Financial Statement Reports.

**Applicable Law(s):** *Section 37-9-18, Mississippi Code Annotated (1972)*, requires all financial reports be submitted to the local school board. According to the Board’s policy *DIB*, the financial reports submitted to the Board includes reconciled bank statements, statement of revenues and expenditures, current budget status, monthly cash-flows, and current fund equity balances at each regularly scheduled meeting.

**Finding Detail:** During the review of the board minutes for Vicksburg Warren School District, we noted a complete set of financial reports were not submitted to the School Board for the following months:

- September 2018;
- November 2018;
- December 2018; and
- May 2019.

We also noted that the June 2019 financial report was not provided to the Board until September 2019.

Failure to submit a complete set of financial reports to the Board monthly could result in the loss or misappropriation of public funds. Additionally, an incomplete financial report could lead the School Board to be misinformed of the School District’s financial status, which would influence its decisions concerning claims.

**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.

**District's Response:** In FY 18-19, the District transitioned to a new financial system and needed training on the report writing elements of the new system. Although the official named reports were not provided, the Finance Department provided reports that included the required information on expenditure and revenue positions from month to month. Monthly reports and a checklist have been implemented to verify that all required and requested reports are included for review, and are recorded in the minutes.

**Auditor's Note:** As noted in the finding above, the complete set of financial statements were not presented to the Board monthly and spread upon the minutes. A complete set of financial statements are required in order to ensure Board Members are making the most effective and appropriate decisions as a Board.

**Repeat Finding:** No.

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**Finding 11:** The School District Should Ensure Compliance with State Laws over State Purchase Laws.

**Applicable Law(s):** *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.

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

*Section 31-7-13(viii), Mississippi Code Annotated (1972)* states, "Non-competitive items available for one (1) source only. In connection with the purchase of non-competitive items only available from one (1) source, a certification of the conditions and circumstances requiring the purchase shall be filed by the agency with the Department of Finance and Administration and by the governing authority with the board of the governing authority..."

**Finding Detail:** During our testing of purchases, we noted the following non-compliance issues:

- Two competitive bids were received from South Central Glass Co., Inc. and Turner's Home Improvement totaling \$44,000; however, the owners of both companies are owned by the same owners and contain the same addresses, meaning the quotes were not competitive, and only one quote was obtained;
- The expenditure of a gas unit and condenser unit from River City Distributor totaled \$9,117. The quote for the item is documented as only \$130; and
- School Board approved a sole source purchase of an Audio Enhancement Epic System via Howard Technology totaling **\$151,908**. This item is not "sole source" and should have been submitted for advertising of bids as required by *Section 31-7-13(c)*.

Failure to follow purchase law could result in waste, fraud, and abuse. Additionally, the District could face complaints, contestations, and possible legal consequences.

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

**District's Response #1:** It was not readily apparent to the Purchasing Department that the bidders were connected in any way. Regardless, Finance is now verifying each vendor providing quotes is in our financial system and comparing details to ensure they are two separate entities. Any vendor not in our financial system will need to provide a W-9 along with the quote to go through the same verification process.

**District's Response #2:** When installation services were quoted, the vendor did not know that the auxiliary items like hooks or screws also needed to be replaced. Communication was distributed to all district administrators and secretaries that the expectation is that quotes should include all aspects of projected needs to complete projects. Anything over the initial quote must be reflected in an updated quote once the vendor is on-site and has fully assessed the work to be done.

**District's Response #3:** The Board approved this as an emergency and unique purchase as Audio Enhancement was the only manufacturer to combine intercom technology with an emergency call-out service technology. The Finance Department has provided training to re-educate and reemphasize the purchasing requirements around sole source approvals. Updated purchasing processes include verification on approvals from MDE or DFA for all sole source listed requests prior to being presented to the school board for approval.

**Repeat Finding:** No.

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**Finding 12:** The School District Should Ensure Compliance with State Laws over Original and Amended Budget Formatting.

**Applicable Law(s):** *The Mississippi State Board of Education Accounting Manual*, states, "The budget formats which follow are to be prepared by each school district in formalizing its annual budget. These formats are prescribed by the State Auditor's Office. A school district may use computer printouts provided they contain the same information as the prescribed forms. A separate budget is required for each individual fund within each generic fund type, with the exception of Agency Funds and Private Purpose Trust Funds. As required by *Section 37-61-19, Mississippi Code Annotated (1972)*, the approved combined budget and combining budgets for each fund type are to be reflected in the board minutes or an addendum to the board minutes. The original and amended budgets shall be signed and dated by the board president and secretary. Signed copies of all approved budgets must be filed for safekeeping and audit review."

**Finding Detail:** During our testing of Vicksburg Warren School District's budget, we noted the following noncompliance issues:

- Only the combined original and amended budgets were approved by the School District's school board and spread upon the minutes; and
- The original and amended budgets were not prepared in the prescribed format by the State Auditor's Office.

Failure for the School District to ensure the correct format of the budgets results in the noncompliance with *Mississippi Code Section 37-61-19* and *The Mississippi State Board of Education Accounting Manual*.

**Recommendation:** We recommend the School Board and Superintendent comply with *Mississippi Code Section 37-61-19* by ensuring all budgets are compliant with the format prescribed by the Mississippi State Auditor's Office.

**District's Response #1:** When submitting the budget file for Board approval, there were formatting issues with scanning the combining documents into BoardDocs. The full file did not load because the system did not recognize legal size paper and cut off a portion of the documents when scanned. The Business Manager recognized the issue and corrected the format from legal to letter size and the full file was loaded into BoardDocs for the approval of the FY20 Amended Budget in September 2020. VWSD will continue to present all required budget documents in full and ensure all documents are recorded in the board minutes.

**District's Response #2:** The Business Manager was using the Budget format provided during her transition into the role. The previous format has been reviewed by multiple financial auditors and no mention was made of an incorrect format. The OSA approved format has been adopted and is currently being used.

**Auditor's Note:** BoardDocs does not have the necessary controls to be considered the District's official minutes. This system should only be utilized to create and manage board packets, give access to information, conduct meetings, and for the Board Members to access and review information regarding the next board meeting.

**Repeat Finding:** No.

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**Finding 13:** The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

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

**Finding Detail:** During our testing of the Statement of Economic Interest, we noted two (2) Board Members had not filed a Statement of Economic Interest while serving on the School Board.

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

**Recommendation:** We recommend the School Board members file the Statement of Economic Interest annually, no later than May 1<sup>st</sup> of each year, that such official hold office, regardless of the duration.

**District's Response:** In reviewing the Mississippi Ethics website, the two referenced Board members had filed the Statement of Economic Interest form. Although, some years may have been late, the forms were filed. The Business Manager and the Board Secretary will work with all Board members to set up a



scheduled time frame for the form to be completed and create an internal deadline to verify this has been completed.

**Auditor's Note:** Per review of the Mississippi Ethics website, two School Board members had not filed their Statement of Economic Interest while serving on the Vicksburg-Warren School District.

**Repeat Finding:** No.

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**Finding 14:** The School District Should Ensure Compliance with State Laws over Sixteenth Section Educable Child Lists.

**Applicable Law(s):** *Section 29-3-121, Mississippi Code Annotated (1972)*, states, "It shall be the duty of the superintendent of each school district to make or cause to be made annual lists of the children enrolled in the schools of such district and who reside in such district, which lists shall be based upon the end of the first month enrollment required to be reported to the State Department of Education for the then current school year. The lists shall be made separately as to the townships in which such children reside. Such lists shall be filed with the superintendent of the custodial school district on or before December 31 of each year and the lists shall be used in making the division of the available funds of each township during the ensuring calendar year as provided by *Section 29-3-119, Mississippi Code Annotated (1972)*."

**Finding Detail:** During our review of the Educable Child Lists and the Mississippi Secretary of State's report for Vicksburg Warren School District, we noted the School District did not submit its Educable Child Lists for December 2017 and 2018 to Claiborne County School District, as required by *Section 29-3-121*.

Failure to file the educable child lists with the custodial district could result in forfeiting funds that the District would otherwise be entitled to.

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

**Repeat Finding:** No.

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**Finding 15:** The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

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

**Finding Detail:** During our testing of sixteenth section revenue, we noted the following instances of noncompliance with *Mississippi Code Section 29-3-119*:

- There was no revenue received from two sixteenth section townships shared with two neighboring school districts for an estimated loss of \$48,211 to the Vicksburg Warren School District; and

- The School District is not using the correct Educable Child List for the current school year when allocating the revenue received to neighboring school districts.

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

**Recommendation:** We recommend that the School District implement policies and procedures to ensure all revenue is promptly shared with appropriate School Districts in accordance *with Section 29-3-119 Mississippi Code Annotated (1972)*. In addition, the School Board should ensure the School District is using the correct Educable Child List when allocating revenue to neighboring school Districts.

**District's Response #1:** The information provided by Claiborne County School District did not coincide with any sixteen section listed with Vicksburg Warren and therefore, was not considered one of the district's revenue shared properties. CCSD's documentation references a section thirty-seven (37) which is not listed as one of VWSD land leases. South Delta did not provide any information on the number of students domiciled in their District. Since the finding, the District has worked with both neighboring Districts to ensure proper fund sharing and all funds due have been paid. Moving forward, VWSD will continue to work with all surrounding Districts to ensure a full Educable Child county is provided and the prorated amount is calculated and paid before December 31 of each calendar year.

**Auditor's Note #1:** *Mississippi Code Section 29-3-121* requires, if a District disputes the Educable Child Lists submitted from a District within its shared township, a headcount must be requested of the State Auditor's at the expense of the School District. Township 14, range 13N, and section 2E are shared with Claiborne County School District. The referenced number thirty-seven (37) has nothing to with the township, range, and section concerning the District's sixteenth section lands. Additionally, based on the documentation provided for testing, South Delta provided their Educable Child Lists for December 2017 and 2018 to the Vicksburg Warren School District for township 16, range 17, and section 3; however, Vicksburg Warren School District did not submit their Educable Child List to South Delta School District for both years.

**District's Response #2:** When working with neighboring School Districts, it has always been the understanding of the Finance Department that, based on previous interpretations, the prorated amount shall be based on the December MSIS student count of the current calendar year. The information is provided via our EduLog System used in the transportation department. VWSD will work with the District student data system and EduLog System to ensure that the correct Educable Child List is prepared and shared with the appropriate neighboring School Districts for calculating any revenue due in any shared sixteen section.

**Auditor's Note #2:** Per the Mississippi Secretary of State, the District should use the numbers presented by December 31<sup>st</sup> each year, which must coincide with the revenue collection dates.

**Repeat Finding:** No.

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**Finding 16:** The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Receipts, and Appraisals.

**Applicable Law(s):** *Section 29-3-57 Mississippi Code Annotated (1972)*, states, "Upon a sixty (60) days 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 extenuation circumstances were present, and the Board shall inaugurate the proper legal proceedings to terminate such lease."

*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*.” Additionally, management is responsible for ensuring adequate internal controls over the collections for sixteenth section lease revenue.

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

- One (1) lease payment was more than sixty (60) day delinquent; however, the lease was not canceled;
- There were no appraisals noted in the files for three leases;
- There are no pre-numbered receipt books utilized to record lease payments; and
- Four lease payments totaling \$118,081 were not received.

Failure to terminate lease agreements due to non-payment of rental payments, receipt rental payments and appoint appraisers resulted in noncompliance with state laws and regulations.

**Recommendation:** We recommend the School Board should ensure lease payments are made within sixty (60) days, and an appraisal is appointed one (1) year before the rental of sixteenth section land, as required by laws and regulations. Additionally, they should implement policies and procedures by issuing pre-numbered receipts for all sixteenth section rental payments.

**District’s Response #1:** The lease for 16-18N-04E was taken to the Board in September as notification that the lease was approaching 60 days late. The recommendation was made that this be brought back to the Board in October for approval to cancel the lease if payment was not made at that time. Lessee was notified that the Board was prepared to take the action of cancelling her lease if payment was not made. Payment was made that next week which made the lease payment hit 61 days. The District will continue to provide the School Board with the “Late & Upcoming Lease Payments” report for 16<sup>th</sup> section land and will recommend the Board approve action be taken for leases at the 30 days or more point to ensure the 60 days’ requirement is met.

**District’s Response #2:** Without knowing which leases are in question, the District cannot address what did or did not take place within the process. The current process is to accept the County tax certificates as documentation for setting the price for lease renewals. The District will continue to work with the Secretary of State’s Office to ensure all land appraisals are completed as required.

**Auditor’s Note #2:** During the testing of sixteenth section leases, the files not only did not have the appraisals, but they also did not have the County tax certifications. Either form must be in the file before the new agreement is signed and approved.

**District’s Response #3 and #4:** When checks were mailed in for 16<sup>th</sup> section payments, checks were recorded in the log. A copy was made with the lease payment card and mailed to the lessee instead of a physical receipt. At the recommendation of the State Auditor, the District has purchased pre-numbered receipt books to be used for all payments made in person or via mail.

**Repeat Finding:** No.

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**Finding 17:** The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

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

*Mississippi Public Employment Retirement System (PERS) Board Regulation 34, Section 105, Section 105*, states, “The 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 \$300 penalty per occurrence payable by the employer.”

**Finding Detail:** During the review of twenty-seven (27) Vicksburg-Warren School District’s PERS Form 4Bs, we noted the following exceptions:

- Two (2) 4B forms did not include the PERS allowable salaries;
- Twenty-four (24) 4B forms were not filed within the required five (5) days of rehiring the employee; and
- Six (6) Retirees were overpaid, totaling \$22,335.

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 School District being assessed penalties by PERS.

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

**District’s Response:** With the start of a new school year, salary amounts were missed on two forms and sent at a later date with revisions to include salary amounts. Forms for the twenty-four (24) retirees were placed in a stack to be scanned to PERS but were missed and didn’t get done until sometime later when the replacement personnel was hired. Process updates include competing a checklist for new hires and rehires and requiring PERS forms to be submitted the same day as new employee paperwork is turned in.

**Bus Drivers:** Due to the limited number of qualified drivers in the District, three (3) bus drivers were allowed to work additional hours and were allowed to drive for field trips which caused them to exceed the allowable earnings amounts. This caused the overage above what PERS shows as allowable earnings.

**Retired Teacher #1:** The employee was paid on the same pay schedule as teachers and received a July paycheck for 17-18; however, PERS views all July payments as current year and recorded funds during the FY18-19 school year. This created the appearance of an allowance overage.

**Retired Teacher #2 and #3:** **1.** Employees were paid on the same salary pay schedule as teachers and received a July paycheck for 17-18; however, PERS views all July payments as current and recorded funds during the FY 18-19 school year. **2.** Employees opted to receive school recognition program in the FY 19 school year. **3.** HR Clerk calculated the retiree’s allowable amount submitted to PERS based on the current approved teacher salary scale instead of the salary amount paid at retirement which was more than the calculated allowable amounts. This caused them to be paid at a higher rate and created an allowance overage. **4.** Retired Teacher #2 worked 1 additional day which yielded additional allowance overage.

The HR Director met with retirees one on one to discuss overpayment issues and options for paying them the corrected amount going forward. Staff in the personnel department have received training on how to validate maximum PERS. The District performed a reconciliation of PERS forms to ensure actual PERS allowable calculation is properly reflected in our payroll system. Updated processes include an annual end of the year reconciliation of retiree pay to ensure all earned pay is paid within the school year worked. Teachers are paid from August through July; however, the process will not reflect paying retirees during the time they work (August thru June) with their last reconciled paycheck being completed in June.

**Auditor's Note:** As noted in the State law above, it is the responsibility of management and the retiree to ensure the allowed salary by PERS is not exceed for the fiscal year (July 1<sup>st</sup> thru June 30<sup>th</sup>).

**Repeat Finding:** Yes.

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**Finding 18:** The School District Should Ensure Compliance with State Laws over Surety Bonds.

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

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

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

*Section 37-9-31, Mississippi Code Annotated (1972)* states, "All school principals and attendance center principals shall furnish good and sufficient surety bonds in like manner as required of superintendents. The amount of such bonds shall be not less than Fifty Thousand Dollars (\$50,000), with sufficient surety."

**Finding Detail:** As a result of procedures performed, we noted the following exceptions with the School District's surety bonds:

- Five (5) Board Members and the Superintendent have blanket bonds; and
- The blanket bonds for all sixty-five (65) School District's employees have not been filed with the Chancery Clerk's office since August 16, 2017.

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

**Recommendation:** We recommend the School District 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. Additionally, the Board should ensure all bonds for employees' and officials' bonds are filed with the Chancery Clerk. Furthermore, the Board should ensure all blanket bonds specify the public servant holding the positions covered under its blanket bond.

**District's Response #1:** Original Bonds were set up as a blanket bond. Multiple audit reviews over years never indicated VWSD was out of compliance. The District has completed the process to move the Superintendent and all Board Members to a separate individual bond. The District had started the process of getting the Superintendent bonded separately as a Purchasing Agent before the arrival of the OSA audit team. This process has now been completed for both the Superintendent and the Board Members.

**District's Response #2:** The number of District employees on the bonded list should have been forty-seven (47). Premiums were paid in 2018 and 2019 to the surety bond company; however, the document was never taken to the Chancery Clerk for filing. The Director of Financial Operations has assigned and dedicated an employee to oversee the full annual verification process and to ensure completed filings with the Chancery Clerk. All surety bonds are current and filed with the courts.

**District's Response #3:** Per District policy, only the Superintendent can sign purchase orders and/or contracts and is currently the only name on District bank accounts. Principals cannot provide final approval on any District purchase order or expenditures. Separate Purchasing Agents bonds have been secured for the Business Manager and the Deputy Superintendent and are properly filed and up to date with the Chancery Clerk.

**Auditor's Note:** OSA cannot speak to why prior audits have not cited the District for being noncompliant with State Law regarding Surety Bonds. Also, per the District's Board policy, *DJEA, Purchasing Authority*, the School Board designates its principals and directors as purchasing agents. Therefore, the District's principals are required to be bonded. With the inclusion of the principals as purchasing agents, there should be sixty-five bonds filed with the Chancery Clerk's office.

**Repeat Finding:** No.

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**Finding 19:** The School District Should Ensure Compliance with State Laws over Nepotism.

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

*Mississippi Ethics Opinion 14-051-E*, requires "...Section 25-4-105(1), Miss. Code of 1972, prohibits a school board member from using his or her official position to obtain or attempt to obtain a pecuniary benefit for his or her relatives. The term relative is defined in *Section 25-4-103(q)* and includes the board member's child. Therefore, the school board member, if elected cannot participate in any matter which would create a monetary benefit for his or her child. Examples of actions in which board member should not participate include, but are not limited to, the selection or promotion of a relative or adjustments to his or her salary, benefits or other compensation and any other action which is a necessary predicate to the relative's compensation, and any claims docket or budget from which the relative is paid, including

approval of the annual school district budget. A total and complete recusal requires the board member leave the meeting room before the matter comes up for discussion and remain absent until the vote is concluded... Furthermore, any minutes or record of the meeting or other proceeding should state the recusing board member left the room before the matter came before the board and did not return until after the vote...”

**Finding Detail:** During the review of related party questionnaires, board minutes, and contracts, we noted the following violations of nepotism statute:

- One member of the School Board voted to approve the re-employment of his sister-in-law, and another Board member voted to approve the re-employment of his niece.

Failure of the two Board Members from recusing themselves during the vote for relatives resulted in the violation of *Mississippi Ethics Opinion 14-051-E* and *Mississippi Code Sections 37-9-21*.

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

**District’s Response:** All Board members make an effort to recuse themselves if they know a related party is on the agenda. Personnel will now be pulled from Consent Agenda to allow for open discussion on prospective related parties issues. This gives Board members a clearer opportunity to recuse themselves prior to a vote. Also, the Personnel Department will work with the Board Secretary to properly notify Board members of any known related parties that will be proposed for Board action.

**Repeat Finding:** No.

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#### **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, the Superintendent, Principals, and Purchase Agents. As noted during our test work, most of these officials and employees are covered by “Continuation Certificates” or renewals. 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.

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**End of Report**