

CLINTON PUBLIC SCHOOL DISTRICT

MISSISSIPPI

COMPLIANCE REPORT

Compliance Special Reports For
the year ended *June 30, 2019*

SHAD WHITE
State Auditor

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance Audit Division
Derrick Garner, CPA, CFE
Director, Compliance Audit Division





STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

Limited Internal Control and Compliance Review Management Report

Superintendent and School Board
Clinton Public School District
201 Easthaven Drive
Clinton, MS 39060

Clinton Public School District Superintendent and School Board:

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

1. Ensure Compliance with State Laws over Statements of Economic Interest;
2. Ensure Compliance with State Laws over Surety Bonds;
3. Ensure Compliance with State Laws over Sixteenth Section Leases;
4. Strengthen Internal Controls over Authorized Signers on Bank Accounts.

Please review the recommendations and submit a plan to implement them by July 24, 2020. The enclosed findings contain more information about our recommendations.

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

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

I hope you find our recommendations enable the Clinton Public School District to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

STEPHANIE C. PALMERTREE, CPA, CGMA
Director, Financial and Compliance Audit
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the Clinton Public School District for the year ended June 30, 2019. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA; Travis Mitchell, CPA; Morgan Daniels; Max Seage; and Veronica Barton.

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.

While performing our review, we noted instances of noncompliance with laws and regulations that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**. In addition, we noted a certain deficiency in internal control over financial reporting. This matter is noted under the heading **OTHER CONTROL DEFICIENCY**. The Auditor's Office has also made a recommendation for management's consideration that it is not in violation of state law.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Applicable State Law: *Section 25-4-25, Mississippi Code Annotated (1972)*, states, "Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter... (b) Members of local school boards that administer public funds, regardless of whether such members are elected or appointed..."

Section 25-4-29, Mississippi Code Annotated (1972), states, "(1) Required statements hereunder shall be filed as follows: a) Every incumbent public official required...to file a statement of economic interest shall file such statement with the commission on or before May 1 of each year that such official holds office, regardless of duration...2) Any person who fails to file a statement of economic interest within thirty (30) days of the date of the statement is due shall be deemed delinquent by the commission...a fine of Fifty Dollars (\$50.00) per day, not to exceed a total fine of One Thousand Dollars (\$1,000.00) shall be assessed against the delinquent filer for each day thereafter in which the statement of economic interest is not properly filed. The commission shall enroll such assessment as a civil judgment with the circuit clerk in the delinquent filer's county of residence..."

Finding Detail: During our review of the Statements of Economic Interest, the following instances of noncompliance were noted:

- Two (2) Board Members did not file their Statements of Economic Interest by May 1, 2019;
- One (1) Board Member has not filed a Statement of Economic Interest since 2016; and
- One (1) Board Member has never filed a Statement of Economic Interest.

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

Recommendation: We recommend that the School Board ensure each Board Member file their Statement of Economic Interest no later than May 1st of each year that such official holds office, as required by law

Finding 2: The School District Should Ensure Compliance with State Laws over Surety Bonds.

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

Section 37-6-15(1), Mississippi Code Annotated (1972), states, “Before entering upon the discharge of the duties of his office, each member of the school board shall give a surety bond in the penal sum of Fifty Thousand Dollars (\$50,000.00), with sufficient surety, to be payable, conditioned and approved in the manner provided by law.”

Section 37-9-27, Mississippi Code Annotated (1972), states, “The superintendent of any school district, before entering upon the duties of his office, shall furnish a good and sufficient surety bond in the penal sum of One Hundred Thousand Dollars (\$100,000.00), with sufficient surety. Such bond shall be filed and recorded in the office of the clerk of the chancery court in which the school district is located, and shall be payable, conditioned and approved in the manner provided by law.”

Finding Detail: During our review of the School District’s surety bonds, the following instances of non-compliance were noted:

- One (1) Board Member was not bonded from 8/12/2017 – 7/18/2018;
- Four (4) Board Members were covered by “Continuation Certificates”;
- The Superintendent was covered by a “Continuation Certificate”;
- Original bonds were on file with the office of the Chancery Clerk of Hinds County for all but four (4) of the twenty-five (25) bonds tested; however, “Continuation Certificates” and renewals have not been filed as coverage has been renewed; and
- Three (3) of the four (4) bonds not yet on file with the Chancery Clerk’s office were for new employees hired for the fiscal year beginning 7/1/2019.

A “Continuation Certificate” is a document that extends the life of the original surety bond. A “Continuation Certificate” only covers the current bonding period rather than both the current and previous periods. In the event of fraud or misappropriation of funds, having “Continuation Certificates” instead of new bonds could limit the amount available for recovery if the loss occurred over multiple terms.

Failure to be correctly and sufficiently bonded could limit the amount available for recovery in the event of fraud, theft, or misappropriation of public funds.

Recommendation: We recommend the School Board 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.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Laws over Sixteenth Section Leases.

Applicable State Law: *Section 29-3-57, Mississippi Code Annotated (1972)*, states, “Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the Board of Education finds extenuating circumstances were present, and the Board shall inaugurate the proper legal proceedings to terminate such lease.”

Section 27-35-71, 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 taxes as other lands are taxed during the continuance of the lease, but in case of sale thereof for taxes, only the title of the lessee or his heirs or assigns shall pass by the sale.” In addition, the standard lease agreement used by the district between the lessee and lessor states, “Lessee shall pay all taxes levied, if any, on said property on time to prevent default.”

Finding Detail: During our review of Sixteenth Section Leases for Clinton Public School District, we noted the following noncompliance:

- Four (4) instances where leases payments were more than sixty (60) days delinquent, but leases were not terminated; and
- One instance where a lessee’s taxes were not current, but the lease was not terminated.

Failure to terminate leases upon sixty (60) days delinquency in rental payments and nonpayment of property taxes results in noncompliance with state law.

Recommendation: We recommend the School Board, Superintendent, and management ensure that upon a sixty (60) day default in rental payment or failure to pay property taxes on time to prevent default, that any such lease is terminated unless the School Board finds that extenuating circumstances were present and documents such upon the official board minutes.

Repeat Finding: No.

OTHER CONTROL DEFICIENCY

Finding 4: The School District Should Strengthen Internal Controls over Authorized Signers on Bank Accounts.

Internal Control Deficiency: An adequate system of internal control over cash disbursements should include policies and procedures to ensure that authorized signers on school district bank accounts are removed from all accounts upon separation from the School District. Also, that authorized signer information is reviewed periodically.

Finding Detail: During our review of authorized signers for the Clinton Public School District bank accounts, we noted seven (7) authorized signers listed that were no longer employed with Clinton Public School District.

Failure to remove authorized signers from bank accounts upon the termination of employment, and periodically review authorized signers on all bank accounts could result in unauthorized disbursement of public funds.

Recommendation: We recommend the School District strengthen controls to ensure authorized signers on school district bank accounts are removed upon termination of employment, and that authorized signer information is reviewed periodically.

Repeat Finding: No.

OTHER RECOMMENDATION MADE BY THE OFFICE OF THE STATE AUDITOR

The Office of the State Auditor recommends that the School Board consider obtaining new surety bonds for Board Members, 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.

End of Report



Clinton Public School District

P.O. Box 300

Clinton, Mississippi 39060

Tim Martin, Ed. D.
Superintendent

COMPLIANCE REVIEW FINDINGS

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

Dear Mr. White:

Enclosed for your review are the responses from the Clinton Public School District in regards to the Limited Internal Control and Compliance Review Findings for the review completed for fiscal year 2019. Please contact me at #601.924.7533 or lcallegan@clintonpublicschools.com if any additional information is needed.

AUDIT FINDINGS:

Finding 1: The School District should ensure compliance with state laws over Statements of Economic Interest.

Response: We agree with the delinquency noted by the Office of the State Auditor. We discussed this finding with our Board members. They committed to resolving the delinquencies within the next 30 business days from the time that the delinquency was noted. The District committed to verify that the Statements of Economic Interest were filed by all Board members by the end of that timeframe. By the end of the 30 business days, the District was able to confirm that all of the Board members had filed their Statements of Economic Interest.

Corrective Action Plan:

- a. The Business Office of CPSD will communicate with the Board members each year in advance of the due date of the Statements of Economic Interest and will remind them that these items are required to be filed by May 1st. We will ensure that each Board member has met this requirement by the due date.
- b. Responsible Person: Libby Callegan, Director of Finance

- c. This item has been corrected as of the timeframe related to the review. The Business Office will ensure compliance on an annual basis going forward.

Finding 2: The School District should ensure compliance with state laws over surety bonds.

Response: We have corrected the first, fourth, and fifth findings noted by the Office of the State Auditor. We have been working with our insurance agency to correct the second and third findings. Through conversations with our insurance agency and their follow-up with the Office of the State Auditor, we have been able to determine that obtaining original bonds for our employees and other officials who are required to be bonded will achieve the protection for the District that is needed and required by statute. The original bond has a cumulative effect if fraud is found. The continuation bond does not have this cumulative effect if fraud is found after the continuation bond has expired.

Corrective Action Plan:

- a. The District has confirmed with its insurance agency that all bonds for District employees and other officials will be issued as original bonds, not continuation certificates. This will achieve the goal of ensuring cumulative coverage over each official's respective terms.
- b. Responsible Person: Libby Callegan, Director of Finance
- c. This item is expected to be corrected within 30 business days of the date of this response.

Finding 3: The School District should ensure compliance with state laws over sixteenth section leases.

Response: In relation to the first finding, the Finance Director did not generate the billing statements on these leases until well after the due date. This was an oversight on the Finance Director's part. We will be sure to be more diligent in making sure that these statements are issued to the lessees in a timely manner. All of the lease payments were made in less than 30 days from the date of the billing statements. We do not believe that the lessees intended to be delinquent, only that they were waiting to receive a billing statement from the District.

In relation to the second finding, there was a house fire at this property in March 2019. This was reported to the School District after-the-fact. As this was a residential lease, once the house was lost, the lessee relocated to a new residence and requested to be released from his lease with the District. This release was approved by the School Board at the 09/10/2019 Board meeting. Since the 05/15/2019 lease payment was for the 2019-2020 lease year, and the lessee was no longer able to live at this property for this timeframe, the District did not pursue payment of this amount.

Corrective Action Plan:

- a. The Business Office will ensure that sixteenth section lease billing statements are issued to the lessees in a timely manner. If a lessee does go into default, we will be

sure to terminate the lease or document the reasons for not terminating the lease in the Board minutes.

- b. Responsible Person: Libby Callegan, Director of Finance
- c. This item has been corrected.

Finding 4: The School District should strengthen internal controls over authorized signers on bank accounts.

Response: We agree with the delinquency noted by the Office of the State Auditor. This was an oversight on the part of the District that affected three of the activity fund bank accounts. Employees who retired or resigned were not removed from the account as they should have been. We do want to note that there was no activity in these accounts that was initiated by any of the inactive employees. We have completed the process of removing these employees from the respective bank accounts.

Correction Action Plan:

- a. We will be certain to monitor this activity more closely in the future and ensure authorized signers are updated in a timely manner when there are changes in personnel. The Business Office has added this to their year-end checklist in order to ensure that we review the authorized signers on all District bank accounts at least annually during the year-end closing process.
- b. Responsible Person: Libby Callegan, Director of Finance
- c. This item has been corrected.

Signed,



Dr. Tim Martin
Superintendent