



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

September 25, 2019

Limited Internal Control and Compliance Review Management Report

Smith County School Board
212 Sylvarena Avenue Suite C
Raleigh, MS 39153

Dear Members of the Smith County School Board:

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

1. Strengthen Internal Controls over Activity Fund Cash Receipts;
2. Ensure Compliance with State Laws over the Approval of Depositories;
3. Ensure Compliance with State Laws over Statements of Economic Interest;
4. Ensure Compliance with State Laws over Reemployment of Retired Public Employees;
5. Ensure Compliance with State Laws over Board Financial Reports;
6. Ensure Compliance with State Laws over Sixteenth Section Shared Townships; and
7. Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Taxes, and Appraisals.

Please review the recommendations and submit a plan to implement them by October 11, 2019. The enclosed findings contain more information about our recommendations.

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

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

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

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is fluid and cursive.

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 Smith County School District for the year ended June 30, 2019. The Office of the State Auditor's staff members participating in this engagement included Derrick Gardner, CPA; Travis C. Mitchell, CPA; Charlotte L. Duckworth; Brooke Seals; and Kendall Cavett.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with *Section 7-7-211, Mississippi Code Annotated (1972)*, the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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

We identified a certain deficiency in internal control over financial reporting that we consider to be a *significant deficiency* in internal control. This matter is noted under the heading **SIGNIFICANT DEFICIENCY**.

In addition, while performing our review, we noted certain instances of noncompliance with state laws that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

SIGNIFICANT DEFICIENCY

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

Executive Summary: During our review of Smith County School District's activity funds, it was noted that collections were not correct and ending ticket numbers were not provided for every game tested. These weaknesses occurred due to inadequate internal controls related to the collection and deposit of receipts and personnel not following district policy surrounding activity funds.

Recommendation: The School District should strengthen controls and enforce policies and procedures to ensure receipts from all activity funds are safeguarded, properly recognized, and recorded.

Detailed Analysis: During the review of Smith County School District's activity funds, the following exceptions were noted:

- Thirteen (13) out of twenty-three (23) deposits were in excess of the ticket sales totaling \$86.
- Five (5) out of twenty-three (23) deposits were less than the tickets sales totaling \$36.

Management is responsible for ensuring that all revenue is properly earned, recorded, and deposited in order to safeguard the assets of the School District. Inadequate internal controls related to activity fund

revenue collection, receipting, and depositing could result in a loss of assets and improper revenue recognition.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Laws over the Approval of Depositories.

Executive Summary: During our review of Smith County School District's depository bids, it was noted that the School District maintained deposits at Magnolia State Bank, which was not a board approved depository.

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

Detailed Analysis: During our review of the depository bids, we noted the Board approved Trustmark National Bank and Community Bank as Smith County School District's depository for school years 2017, 2018, and 2019. However, the unemployment funds are deposited in Magnolia State Bank, which is not a board approved depository.

Section 37-7-333, Mississippi Code Annotated (1972), requires all public funds to be placed in the depository or depositories selected by the School Board in the same manner as provided in *Section 27-105-305, Mississippi Code Annotated (1972)* for the selection of county depositories. *Section 37-7-333, Mississippi Code Annotated (1972)*, also requires the bids of the financial institutions keeping school funds be effective on July 1st each year. Further, School Boards should advertise and accept bids for depositories, no less than once every three (3) years, when the School Board determines that it can obtain a more favorable rate of interest and less administrative processing.

Maintaining deposits at a depository other than that approved by the Board results in noncompliance with *Section 37-7-333, Mississippi Code Annotated (1972)*. Failure to comply with *Section 37-7-333*, could result in the misappropriation of public funds and deposits not being properly collateralized.

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

Executive Summary: During our review of Smith County School District's Statements of Economic Interest, it was noted that four (4) Board members did not file their Statement of Economic Interest with the Mississippi Ethics Commission by May 1st, 2019 as required by state law.

Recommendation: The School Board should strengthen controls to ensure Board members file the required Statement of Economic Interest annually, no later than May 1st of each year as required by state law.

Detailed Analysis: During our review of the School District's Statements of Economic Interest, it was noted that four (4) School Board Members did not file the required Statement of Economic Interest by May 1st, 2019 as required by state law.

Section 25-4-25, Mississippi Code Annotated (1972), provides that “Each of the following individuals shall file a Statement of Economic Interest with the commission in accordance with the provisions of this chapter: a) Persons elected by popular vote...”

Section 25-4-29, Mississippi Code Annotated (1972), provides that “1) Required statements hereunder shall be filed as follows: a) Every incumbent public official required...to file a Statement of Economic Interest shall file such statement with the commission on or before May 1st of each year that such official holds office, regardless of duration...2) Any person who fails to file a Statement of Economic Interest within thirty (30) days of the date of the statement is due shall be deemed delinquent by the commission...a fine of Fifty Dollars (\$50) per day, not to exceed a total fine of One Thousand Dollars (\$1,000) shall be assessed against the delinquent filer for each day thereafter in which the Statement of Economic Interest is not properly filed. The commission shall enroll such assessment as a civil judgment with the Circuit Clerk in the delinquent filer’s county of residence...”

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

Finding 4: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

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

Recommendation: The Payroll Clerk should strengthen controls to ensure compliance with *Section 25-11-127(4), Mississippi Code Annotated (1972)*, and *PERS Board Regulation 34, Section 105*, by properly completing and filing the Form 4Bs within five (5) days of rehire and paying employees properly.

Detailed Analysis: During our testing of twenty-six (26) retired and rehired service employees’ form 4Bs, we noted the following instances of noncompliance:

- Sixteen (16) were not filed within five (5) days of rehire date.
- Three (3) did not note the filing dates with PERS.
- Four (4) did not indicate the retirement dates for the retiree.
- One (1) did not have the rehire date documented.

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.”

PERS Board Regulation 34, Section 105, states, “To lawfully employ a PERS service retiree under *Section 103*, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of a \$300 penalty per occurrence payable by the employer.”

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

Finding 5: The School District Should Ensure Compliance with State Laws over Financial Reports.

Executive Summary: The School District did not present a complete set of financial reports to the School Board for the month of December 2018. Therefore, the School District is not in compliance with financial reporting requirements established by the State Board of Education under the authority of *Section 37-9-18, Mississippi Code Annotated (1972)*.

Recommendation: The School District should strengthen controls to ensure that a complete set of financial reports are submitted to the School Board each month, as required by law.

Detailed Analysis: During our review of the board minutes, it was noted that the combined balance sheet or current fund equity balance was not presented to the School Board for the month of December 2018.

Section 37-9-18, Mississippi Code Annotated (1972), requires the Mississippi Department of Education to promulgate rules and regulations concerning the type of financial reports required to be submitted by the Superintendent of Schools to the local School Board, and the frequency with which the reports shall be submitted.

The *Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board*, states that, at minimum, the Superintendent should provide reconciled bank statements, a statement of revenues and expenditures, current budget status, a cash flow statement by month, and a combined balance sheet or current fund equity balances each month at the regular school board meeting. Failure to comply with the financial reporting requirements established by the State Board of Education constitutes a violation of the *Mississippi Public School Accountability Standards*. A copy of all required financial reports shall be included in the official minutes of the board meeting at which the reports were discussed.

Failure to submit the financial reports to the Board each month could lead to the Board not being properly and timely informed of the School District's financial status, which would influence decisions relating to claims.

Finding 6: The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

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

Recommendation: The School District should implement policies and procedures to ensure all revenues are promptly shared with appropriate school districts in accordance with *Section 29-3-119, Mississippi Code Annotated (1972)*.

Detailed Analysis: During our review of Smith County School District's sixteenth section shared townships, it was noted that Smith County School District's Superintendent did not agree with the

number of students within the shared townships for both Jones County School District and Covington County School District. Therefore, checks were not issued to share the sixteenth section revenue with the neighboring school districts as required by *Section 29-3-119(4), Mississippi Code Annotated (1972)*.

Section 29-3-119(4), 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*, promptly after collecting such funds."

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

Finding 7: The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Taxes, and Appraisals.

Executive Summary: During our review of sixteenth section land for Smith County School District, it was noted that the District was not canceling lease agreements for unpaid annual property taxes and lease payments. Also, there were two (2) appraisals not in the sixteenth section files.

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

Detailed Analysis: As a result of procedures performed on twenty (20) sixteenth section land leases, the following exceptions were noted:

- Two (2) lease payments were more than sixty (60) days delinquent; however, the leases were not cancelled.
- There were no appraisals noted in the files for two (2) lease agreements prior to entering into new lease agreements.
- Taxes were not current on two (2) leases, and the lease agreements were not terminated. One (1) of these lease agreements taxes had not been paid, since 1998 totaling \$472.42 owed to the County in back taxes.

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

Section 29-3-71, Mississippi Code Annotated (1972), states, "Sixteenth section lands reserved for the use of schools, or lands reserved or granted in lieu of or as a substitute for the sixteenth sections, shall be liable, after the same shall have been leased, to be taxed as other lands are taxed during the continuance of the lease, but in case of sale thereof for taxes, only the title of the lessee or his heirs or assigns shall pass by the sale." In addition, the standard lease agreement used by the District between the lessee and lessor states, "Lessee shall pay all taxes levied, if any, on said property on time to prevent default."

Section 29-3-65, Mississippi Code Annotated (1972), states, "One (1) year prior to the date, when any such lands, not subject to competitive bid procedures, shall become available for lease, the Board of Education shall appoint a competent appraiser to appraise the land and report to the Board his

recommendation for the fair market rental amount. The Board shall then determine whether the same be a reasonable amount, and shall grant the lease pursuant to *Section 29-3-63.*”

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

End of Report

SMITH COUNTY SCHOOL DISTRICT

Jimmy Hancock, Superintendent
P.O. Box 308
Raleigh, Mississippi 39153
601-782-4296
601-782-9895 (Fax)

COMPLIANCE REVIEW FINDINGS

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

October 9, 2019

Dear Mr. White:

The Smith County School District would like to thank the Mississippi State Auditor's Office for the professionalism and courteousness that your employees providing during our 2018 -2019 state compliance audit. Your diligent work has helped to identify weaknesses that we have now worked to correct. Our mission at the Smith County School District is to provide the best quality education for our students while adhering to the legal requirements of state government. We will continue to strive for excellence in handling taxpayer's dollars and serving our students by strengthening internal controls.

AUDIT FINDINGS:

Finding 1: The School District should strengthen internal controls over activity fund cash receipts.

Response: The District concurs with the finding and recommendation and will strengthen internal controls to ensure compliance.

Corrective Action Plan:

- A. The Superintendent, Principals, and Business Manager will meet to discuss the finding and procedures to ensure increased internal controls. Principals will meet with gate workers to emphasize the importance of gate tickets and ticket reconciliation reports.
- B. Principals, Superintendent, and Business Manager are responsible for implementation.
- C. This was done at the beginning of this school year and will continue to be emphasized at Principal Meetings.

Finding 2: The School District should ensure compliance with State laws over the Approval of Depositories.

Response: This error is due to not having the proper documentation in board minutes approving all banks in Smith County for depositories. The School District concurs with finding and recommendation.

Corrective Action Plan:

- A. The Business Manager and Superintendent will close the account at the bank that was not officially approved as a depository. A new account will be opened at a bank that was officially approved.
- B. Superintendent and Business Manager are responsible for implementation.
- C. Action was completed on June 28, 2019.

Finding 3: The School District should ensure compliance with State Laws over Statements of Economic Interest.

Response: The School District concurs with the finding and will make changes to ensure compliance. Administration was unaware that Board Members had failed to file their "Statement of Economic Interest".

Corrective Action Plan:

- A. The Business Manager reviewed the dates of Economic Interest Filings for Board Members to ensure that they were now all filed with the Mississippi Ethics Commission for 2018. The Business Manager will further discuss the finding with Superintendent to enact a plan to ensure future compliance with state laws over Statements of Economic Interest.
- B. Board Members and Superintendent are responsible for implementation.
- C. This will start immediately.

Finding 4: The School District should ensure compliance with State Laws over reemployment of Retired Public Employees.

Response: The School District concurs with the finding and will make changes to ensure compliance with *Section 25-11-127(4), Mississippi Code Annotated (1972)*.

Corrective Action Plan:

- A. Business Manager has discussed finding with the Payroll staff. Payroll has been made aware of the importance of ensuring that the PERS Form 4B is filled out completely and filed within 5 days of rehire.
- B. Payroll Department and Business Manager are responsible for implementation.
- C. This has already started.

Finding 5: The School District Should Ensure Compliance with State Laws over Financial Reports.

Response: A copy of the December 2018 Balance Sheet was missing from the Board Minutes. The School District concurs with the finding and will implement

changes to ensure compliance with *Section 37-9-18, Mississippi Code Annotated (1972)*.

Corrective Action Plan:

- A. The Business Manager will discuss finding the Superintendent and Administrative Assistant to discuss internal controls over Board Minutes. Business Manager will review Board Minutes periodically to ensure that all financial statements have been included.
- B. Business Manager and Administrative Assistant are responsible for implementation.
- C. This will begin immediately.

Finding 6: The School District Should Ensure Compliance with State Laws over Sixteenth Section Shared Townships.

Response: The School District concurs with the finding and will implement changes to ensure compliance with *Section 29-3-119(4), Mississippi Code Annotated (1972)*.

Corrective Action Plan:

- A. In order to comply with Section 29-3-119, the Smith County School District is going to request that the Covington County School District and Jones County School District submit a revised and verified list of students living in Township 10 North Range 14 West. Once received Smith County School District will promptly provide the District's pro rata share of the township funds to the receiving districts. If the Smith County School District fails to receive this revised list in a timely manner, it will follow Section 29-3-121 and request assistance from the state in verifying the number of children living in the said township.
- B. Operations Director and Superintendent are responsible for implementation.
- C. Shared township payments were made to Covington County School District and Jones County School District at the September 30, 2019 Board Meeting.

Finding 7: The School District Should Ensure Compliance with State Laws over Sixteenth Section Lease Payments, Taxes, and Appraisals.

Response: The Smith County School District will begin presenting leases to the School Board at thirty (30) days past due to set a cancellation hearing to prevent leases from reaching more than sixty (60) days delinquent. This should prevent any leases from inadvertently becoming more than sixty (60) days past due. Past practice shows that once they are presented to the board for a cancellation hearing date, the lease holders will pay any delinquent rentals. This should allow the District to better comply with Section 29-3-57.

The two (2) lease files without original appraisals from 1988 were requested to be appraised for their scheduled anniversary date re-appraisal. Upon contacting the appraiser, he stated these re-appraisals would be complete within two (2) weeks. The Smith County School District has made great effort over the last decade to

ensure that all leases are appraised to current fair market rental amounts and that all leases are appraised prior to entering into any new lease agreements in order to comply with Section 29-3-65.

It has been Smith County School District understanding of Section 29-3-71 that the Smith County tax sale would ensure that taxes are paid on all 16th Section leases. Once the tax sale was completed, title of the lease would pass to the purchaser of taxes. Cancelling leases for the failure to pay taxes would result in a loss of revenue to the District. The Legislature should ensure that 16th Section land leases be sold at tax sales and title of leases be transferred to said purchaser. This would ensure revenue to the Smith County School District as well as Smith County. Smith County School District is going to meet with both the Smith County Tax Collector/Assessor and the Smith County Chancery Clerk to see if there is a local solution to this issue. The District will further seek advice from the Legislature and other state officials on how to comply with Section 29-3-71 and preserve this revenue for the District. Until there is some other solution, the District will cancel leases that are delinquent on taxes.

The School District concurs with the finding and will implement changes to ensure compliance with *Section 29-3, Mississippi Code Annotated (1972)*.

Corrective Action Plan:

- A. The School District will implement the above-mentioned controls to ensure lease payments are made within sixty (60) days, taxes are current, and an appraiser is appointed one year prior to rental of sixteenth section land.
- B. Operations Director and Superintendent are responsible for implementation.
- C. This process has been implemented and will be ongoing.

Again, thank you for your courteous and professional assistance during this compliance audit. We will continue to work toward excellence in handling the taxpayer's dollars and serving our students. Please let us know if we can be of further assistance.

Sincerely,

A handwritten signature in blue ink that reads "Jimmy Hancock". The signature is written in a cursive style with a large initial "J" and "H".

Jimmy Hancock
Superintendent of Education