

MISSISSIPPI

Water Valley School District

COMPLIANCE REPORT

Limited Internal Control and Compliance Review Management Report

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

July 7, 2020

Limited Internal Control and Compliance Review Management Report

Water Valley School Board
544 Market Street
Water Valley, Mississippi 38965

Members of the Water Valley School Board:

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

1. Ensure Compliance with State Laws over Surety Bonds;
2. Ensure Compliance with State Laws over Statements of Economic Interest;
3. Ensure Compliance with State Laws over Rehiring PERS Retirees;
4. Ensure Compliance with State Laws over the "Notice of Proposed Ad Valorem Tax Effort";
5. Ensure Compliance with State Laws over Bidding Requirements;
6. Ensure Compliance with State Laws over Hiring New Employees; and
7. Ensure Compliance with State Laws over Monthly Financial Statements.

Please review the recommendations and submit a plan to implement them by July 17, 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 for management, individuals charged with governance, and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

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

Sincerely,



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 Water Valley 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; Brandon Armstrong; and Bryan White, CPA.

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

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

We identified certain 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.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: The School District Should Ensure Compliance with State Laws over Surety Bonds.

Applicable State Law: *Section 25-1-15(1), Mississippi Code Annotated (1972)* states, "A new bond in the amount required by law shall be secured at the beginning of each new term of office or every four (4) years, whichever is less."

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 25-1-19(1), Mississippi Code Annotated (1972), states, "The bonds of all other county officers and employees, or officers and employees for any district, subdivision, board or commission of a county, including public school districts, shall be approved by the board of supervisors of such county. All the bonds shall be filed and recorded in the office of the clerk of the chancery court of the county..."

The Office of the Attorney General has opined that surety bonds for School Board Members should be issued for the School Board Member's term of office.

Finding Detail: During our review of Water Valley School District's surety bond schedule, the following exceptions were noted:

- Four (4) School Board Members were covered by Continuation Certificates/Renewals.
- The following officials'/employees' bonds were not filed with the Chancery Clerk:

- Three (3) School Board Members;
 - The Business Manager;
 - One (1) Principal; and
 - Two (2) Purchasing Agents.
- The four (4) elected School Board Members' bonds were not secured for the term of office.

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.

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: The School District 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. Elected School Board Members should be bonded for their term of office. The School District should ensure that all bonds are filed with the Office of the Chancery Clerk.

Repeat Finding: No.

Finding 2: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Applicable State Law: *Section 25-4-29(1)(a), Mississippi Code Annotated (1972)* states, "Every incumbent public official required by paragraphs (a), (b), (d) and (e) of *Section 25-4-25* 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."

Section 25-4-29(2), Mississippi Code Annotated (1972) states, "Any person who fails to file a statement of economic interest within thirty (30) days of the date the statement is due shall be deemed delinquent by the commission. The commission shall give written notice of the delinquency to the person by United States mail or by personal service of process. If within fifteen (15) days of receiving written notice of delinquency the delinquent filer has not filed the statement of economic interest, 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."

Finding Detail: During our review of Water Valley's School District's Statements of Economic Interest, we noted that two (2) of the School Board Members did not file a Statement of Economic Interest with the Mississippi Ethics Commission.

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 a Statement of Economic Interest annually, no later than May 1st of each year that such official holds office, regardless of the duration.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Laws over Rehiring PERS Retirees.

Applicable State Law: *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.”

Section 105 of PERS Regulation 34, provides that, “A service retiree reemployed under *Section 103* may make one election per fiscal year to either (i) limit the number of days/hours worked for all covered employers to that allowed under *Section 103.1.a.* or (ii) limit the amount of compensation that will be earned from all covered employers as provided under *Section 103.1.b.* of this regulation.”

The Instructions on the PERS Form 4B, provide that, “A Form 4B, Reemployment of PERS Service Retiree Certification/Acknowledgement, should be submitted each fiscal year 2019of reemployment.”

Finding Detail: During our review of Water Valley School District’s PERS Form 4Bs, Auditors noted that two (2) PERS retirees’ Form 4Bs were not submitted to PERS. We also noted that four (4) PERS Form 4Bs were not filed within five (5) days.

Failure to file the PERS Form 4Bs as required by *Section 25-11-127(4)*, could result in overpayments to a retiree and the School District being assessed penalties by PERS.

Recommendation: We recommend the School District strengthen controls to ensure that Form 4Bs are submitted to PERS within five (5) days of reemployment or termination of retirees as required by *Section 25-11-127(4)* and *Section 105 of PERS Regulation 34*.

Repeat Finding: No.

Finding 4: The School District Should Ensure Compliance with State Laws over the “Notice of Proposed Ad Valorem Tax Effort.”

Applicable State Law: *Section 27-39-207(1), Mississippi Code Annotated (1972)*, states, “Unless the increased revenue in a budget is derived solely from the expansion of a school district’s ad valorem tax base, a school district shall not budget an increase in an ad valorem tax effort in dollars for support of the school district unless it first advertises its intention to do so at the same time that it advertises its intention to fix its budget for the next fiscal year.”

Section 27-39-207(2)(b), Mississippi Code Annotated (1972), provides the form and content of the “Notice of Proposed Ad Valorem Tax Effort” to include ad valorem tax increases pursuant to *Section 37-57-105, Mississippi Code Annotated (1972)*.

Section 37-57-105(3), Mississippi Code Annotated (1972) states, “...if the ad valorem tax effort in dollars requested by the school district exceeds the next preceding fiscal year’s ad valorem tax effort in dollars by more than four percent (4%) but not more than seven (7%), then the school board shall publish notice thereof...”

Finding Detail: During our review of Water Valley School District’s ad valorem tax request, Auditors noted that the amount advertised in the School District’s notice of proposed ad valorem tax effort was \$45,857 less than the amount requested from the Yalobusha County’s Board of Supervisors.

Failure to accurately advertise the ad valorem tax increase as adopted by the Water Valley School Board resulted in taxpayers being misled and could result in the loss of public trust and transparency.

Recommendation: We recommend the School District ensure that the Notice of Proposed Ad Valorem Tax Effort accurately reflects the amount of property taxes that the School District intends to request from the County Board of Supervisors.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Laws over Bidding Requirements.

Applicable State Law: *Section 31-7-13(b), Mississippi Code Annotated. (1972)* states, “Purchases which involve an expenditure of more than Five Thousand Dollars (\$5,000.00) but not more than Fifty Thousand Dollars (\$50,000.00), exclusive of freight and shipping charges, may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two (2) competitive written bids have been obtained.”

Finding Detail: During our review of Water Valley’s School District’s purchasing, the following exceptions were noted regarding purchases over \$5,000 but not over \$50,000:

- The purchase of new bathroom sinks, for \$14,557, did not have two (2) comparable, competitive bids;
- A vehicle was purchased through state contract; however, two (2) quotes were not obtained for the addition of the work bed, for \$8,913; and
- The Purchasing Agent used a website search as the lowest and best bid for the purchase of a vinyl floor covering in the amount of \$6,184.

Purchases made without receiving competitive bids could result in overpayment for goods or services, fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District ensure that comparable, competitive bids are obtained for purchases greater than \$5,000 but not greater than \$50,000 as required by *Section 31-7-13(b)*.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Laws over Hiring New Employees.

Applicable State Law: *Section 37-9-17(2), Mississippi Code Annotated (1972)* states, “Superintendents/directors of schools under the purview of the State Board of Education, the superintendent of the local school district and any private firm under contract with the local public school district to provide substitute teachers to teach during the absence of a regularly employed schoolteacher shall require, through the appropriate governmental authority, that current criminal records background checks and current child abuse registry checks are obtained, and that such criminal record information and registry checks are on file for any new hires applying for employment as a licensed or nonlicensed employee at a school and not previously employed in such school under the purview of the State Board of Education or at such local school district prior to July 1, 2000. In order to determine the applicant’s suitability for employment, the applicant shall be fingerprinted. If no disqualifying record is identified at the state level, the fingerprints shall be forwarded by the Department of Public Safety to the Federal Bureau of Investigation for a national criminal history record check. The fee for such fingerprinting and criminal history record check shall be paid by the applicant, not to exceed Fifty Dollars (\$50.00); however, the State Board of Education, the school board of the local school district or a private firm

under contract with a local school district to provide substitute teachers to teach during the temporary absence of the regularly employed schoolteacher, in its discretion, may elect to pay the fee for the fingerprinting and criminal history record check on behalf of any applicant.”

Section 37-9-17(3), Mississippi Code Annotated (1972) states, “If such fingerprinting or criminal record checks disclose a felony conviction, guilty plea or plea of nolo contendere to a felony of possession or sale of drugs, murder, manslaughter, armed robbery, rape, sexual battery, sex offense listed in *Section 45-33-23(g)*, child abuse, arson, grand larceny, burglary, gratification of lust or aggravated assault which has not been reversed on appeal or for which a pardon has not been granted, the new hire shall not be eligible to be employed at such school. Any employment contract for a new hire executed by the superintendent of the local school district or any employment of a new hire by a superintendent/director of a new school under the purview of the State Board of Education or by a private firm shall be voidable if the new hire receives a disqualifying criminal record check.”

Finding Detail: During our review of Water Valley School District’s hiring procedures, we noted that the School District failed to fingerprint prospective hires and to file the results of the criminal record information and registry checks in the employees’ personnel files. Currently, the School District inputs the potential hires’ information into the Interstate Identification Index, but fails to fingerprint or maintain any records of any such searches.

Failure to properly fingerprint and check new hires’ backgrounds, could result in individuals with unsuitable backgrounds being hired within the School District.

Recommendation: We recommend the School District ensure that prospective hires are fingerprinted, a background check is performed, and the results from such checks are filed in the employees’ personnel files.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Laws over Monthly Financial Reports.

Applicable State Law: *Section 37-9-18(1)(a), Mississippi Code Annotated (1972)*, states, “The State Board of Education shall 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 by the superintendent of schools to the local school board, and the frequency with which the reports shall be submitted. The rules and regulations promulgated by the board shall include:

- i) A requirement that the reports be listed as an agenda item for discussion at a regularly scheduled meeting of the board;
- ii) A requirement that the minutes of the board meeting reflect that the reports were discussed;
- iii) A requirement that each board member present be provided a copy of all required reports; and
- iv) A requirement that a copy of all required reports be included in the official minutes of the board meeting at which the reports were discussed.”

Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, promulgates that the following financial reports be made part of the official minutes each month at the regular school board meeting: reconciled bank statements, Statement of Revenues and Expenditures, Current Budget Status, Cash Flow Statement by Month, and Combined Balance Sheet or Current Fund Equity Balances.

Finding Detail: During our review of Water Valley School District’s monthly financial statements required to be presented to the School Board, we noted the following exceptions:

- Not all reconciled bank statements were presented to the School Board;

- A report of the current budget status was not presented to the School Board; and
- Financial reports were not spread upon the official board minutes.

Failure to include the required financial reports in the official board minutes at each monthly meeting results in a lack of transparency, which could lead to loss of trust between the School District and the public.

Recommendation: We recommend the School District submit all the required financial reports to the School Board at the regular school board meeting each month and spread the reports upon the official minutes.

Repeat Finding: No.

OTHER RECOMMENDATION BY THE OFFICE OF THE STATE AUDITOR

The Office of the State Auditor recommends that the School Board consider obtaining new surety bonds for Principals, Business Manager, and Purchasing Agents. As noted during our test work, the Principals, Business Manager, and Purchasing Agents are covered by “Continuation Certificates” or are bonded for indefinite terms. 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

Water Valley School District

Jerry Williams, Superintendent

Telephone (662) 473-1203

544 Market Street

P.O. Box 788

Water Valley, Mississippi 38965-0788

Shad White, State Auditor

Office of the State Auditor

State of Mississippi

PO Box 956

Jackson, MS 39205-0956

Dear Mr. White,

The Water Valley School District would like to commend the field officers for the professionalism displayed while conducting the fiscal year 2019 state legal compliance audit. The audit identified some weaknesses which have been corrected or will be corrected. Water Valley School District's goal is to provide its students with the best possible education while following all applicable laws and being a good steward of the taxpayers' dollars.

AUDIT FINDINGS:

Finding 1: The School District Should Ensure Compliance with State Laws over Surety Bonds.

Response: The District agrees with the finding and recommendation concerning officials and employees that are required to be bonded by law.

Corrective Action Plan:

- A. The district will bond officials/employees for the term of the position, file with Chancery Clerk and will no longer have continuation certificates.

Finding 2: The School District Should Ensure Compliance with State Laws over Statements of Economic Interest.

Response: The District agrees with the finding and recommendation.

Corrective Action Plan:

- A. The District has corrected the finding. The Business Manager sent out reminders to Board Members concerning filing their Statement of Economic Interest

Finding 3: The School District Should Ensure Compliance with State Laws over Rehiring PERS Retirees.

Response: The District agrees with the finding and recommendation PERS Form 4Bs be filed within five (5) days of rehire.

Corrective Action Plan:

- A. The District has placed procedures in place in which PERS Form 4B must be completed and returned the payroll clerk by the retiree before going before the board for employment.

Finding 4: The School District Should Ensure Compliance with State Laws over the “Notice of Proposed Ad Valorem Tax Effort.”

Response: The District agrees with the finding and recommendation concerning the “Notice of Proposed Ad Valorem Tax Effort.”

Corrective Action Plan:

- A. The District’s Ad Valorem Tax Request amount will match the amount published in the newspaper ad to ensure transparency.

Finding 5: The School District Should Ensure Compliance with State Laws over Bidding Requirements.

Response: The District agrees with the finding and recommendation concerning State Laws over Bidding Requirements.

Corrective Action Plan:

- A. The District will not issue a purchase order for any purchases greater than \$5,000 but less than \$50,000 that require 2 competitive quotes. Quotes will require to be attached to purchase requisition and will not be processed otherwise.

Finding 6: The School District Should Ensure Compliance with State Laws over Hiring New Employees.

Response: The District agrees with the finding and recommendation concerning State Laws over Hiring New Employees.

Corrective Action Plan:

- A. The District has corrected this finding. The District ordered a fingerprint process machine while the field auditors were on site.
- B. The District went back and fingerprinted every employee in the district which was still employed and had it processed and put into their personnel file.
- C. The District requires potential employees to be fingerprinted before being presented to the school board for employment.

Finding 7: The School District Should Ensure Compliance with State Laws over Monthly Financial Reports.

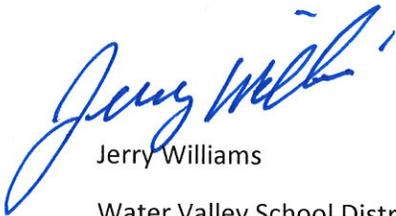
Response: The District agrees with finding and recommendation concerning State Laws over Monthly Financial Reports.

Corrective Action Plan:

- A. The District has corrected this finding. The District submits all required financial statement to the board on a monthly basis and reports are spread in the minutes.

Please feel free to contact us if any other information is needed or further assistance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry Williams".

Jerry Williams

Water Valley School District Superintendent