

HOUSTON SCHOOL DISTRICT MISSISSIPPI

COMPLIANCE REPORT

Limited Internal Control and Compliance Review
For the year ended *June 30, 2020*

SHAD WHITE
State Auditor

Stephanie C. Palmertree, CPA, CGMA
Director, *Financial and Compliance Audit Division*
Charlotte L. Duckworth
Director, *Compliance Audit Division*



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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

Limited Internal Control and Compliance Review Management Report

Houston School District
636 Starkville Road
Houston, Mississippi 38851

Members of the Houston School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for Houston School District for the fiscal year 2020. In these findings, the Office of the State Auditor recommends that Houston School District:

1. Strengthen Internal Controls over Bank Reconciliations;
2. Strengthen Internal Controls over Segregations of Duties Surrounding Accounting Functions;
3. Strengthen Internal Controls over Activity Funds Cash Receipts and Deposits;
4. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approval;
5. Strengthen Internal Controls and Ensure Compliance with State Law over Travel Reimbursements;
6. Strengthen Internal Controls and Ensure Compliance with State Law over Distribution of Activity Fund Revenue;
7. Ensure Compliance with State Laws over Purchasing;
8. Ensure Compliance with State Laws over Amended Budget Expenditures;
9. Ensure Compliance with State Law over Reemployment of Retired Public Employees; and
10. Ensure Compliance with State Laws over Surety Bonds.

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

Sincerely,



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 Houston School District for the year ended June 30, 2020.

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

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

We identified certain deficiencies in internal control over financial reporting that we consider to be 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 DEFICIENCY**. We also noted certain deficiency in controls that we noted under the heading **OTHER DEFICIENCY**.

We noted certain instances of noncompliance with state laws that require the attention of management. These matters are noted under the headings **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.

MATERIAL WEAKNESSES

Finding 1: The School District Should Strengthen Internal Controls over Bank Reconciliations.

Internal Control Deficiency: Management is responsible for ensuring that the assets of the District are safeguarded and transactions are properly documented in the District's financial records. A critical aspect of internal controls is to ensure outstanding checks and deposits are balanced per the District's bank statements and reconciled against the amount of cash listed on the District's general ledger. The reconciliation process enables the Business Office to make adjusting journal entries to correct any mistakes or unrecorded items in the District's financial records.

Mississippi Department 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 to the district's general ledger cash balances in a timely and accurate manner."

Finding Detail: During the testing of the School District's bank reconciliations, the auditor noted the following two bank accounts were not properly reconciled to the general ledger's cash balance resulting in a difference totaling (\$704,337):

- Game Change Fund/Houston High School Athletic Fund - \$2,570
- Houston School District Payroll Clearing – (\$706,907)

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

Recommendation: We recommend the Houston School District strengthen controls over policies and procedures to ensure all transactions are properly recorded in the general ledger and all variances from book balances are accounted for in a timely manner.

District's Response: Apparently I (Business Manager) did not reprint the cash balance statement after the 6/23/20 deposits were posted when I (Business Manager) pulled them up, they were correct. They were correct when submitted to FETS. The computer does equal the bank reconciliation. I (Business Manager) did not have the correct report printed as the final report. I (Business Manager) will double check and make sure all correct paperwork is attached and reconciliation balances.

Repeat Finding: No.

Finding 2: The School District Should Strengthen Internal Controls Surrounding Segregation of Duties within the Business Office.

Internal Control Deficiency: Management is responsible for implementing proper controls surrounding the District's accounting functions. A well-designed system of internal controls should include segregating job duties to the greatest extent possible.

Finding Detail: As reported in the prior two years', the School District's accounting system is not adequately segregated to assure a proper internal control structure. The auditor noted the Business Manager initiates, prepares, approves, enters all journal entries, and reconciles the District's bank accounts.

Without proper segregation of duties, the District increases the risk that unauthorized or inappropriate Failure to strengthen internal controls could result in fraud or misappropriation of public monies.

Recommendation: We recommend to the Houston School District that the duties of the Business Manager relating to journal entries and bank account reconciliations be segregated to the greatest extent possible.

District's Response: Due to limited staff in the central office, it will not be possible to segregate these duties to satisfy this finding.

Auditor's Note: The School District needs to establish compensating controls if the number of employees does not allow for adequate segregation of duties.

Repeat Finding: Yes; 2019-001; 2018-001.

INTERNAL CONTROL DEFICIENCIES

Finding 3: The School District Should Strengthen Internal Controls over Activity Fund Cash Receipts and Deposits.

Internal Control Deficiency: *The Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Tread-way Commission* specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Good internal controls require the functions of processing, recording transactions, and maintaining custody of related assets to be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

Finding Detail: During the testing of the School District's activity fund deposits, the auditor noted the following out of 25 tested:

- There was a net shortage of **\$46** between deposits and ticket sales for all basketball and football games;
- Eighteen Cash Count Sheets were not completely and properly completed;
- Six Activity Ticket Receipt Forms were missing either the signature of the ticket seller, Principal, or Assistant Principal;
- Seven deposits could not be traced back to the transmittal sheets due to the forms being missing;
- One transmittal sheet was not signed; and
- All Activity Ticket Receipt Forms did not have documentation of ticket numbers checked out or returned.

Inadequate internal controls related to activity funds revenue collections, proper receipting, and depositing could result in a loss of assets and improper revenue recognition.

Recommendation: We recommend the Houston School District strengthen controls by enforcing policies and procedures to ensure receipts from all activity are safeguarded, adequately recognized, and recorded.

District's Response: All athletic gate receipts will be checked closely for proper completion. All athletic gate receipts will be checked for proper signatures. Discrepancies will be explained on gate receipts. Monthly transmittal sheets will be dated and signed by the principal.

Repeat Finding: No.

OTHER DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW

Finding 4: The School District Should Strengthen Controls and Ensure Compliance with State Laws over Budget Approval.

Internal Control Deficiency: The Board of Education establishes priorities for the financial management of the District, reviews and approves all presented budgets, and assures expenditures for the District fund are within the legal requirements of the approved budget.

Applicable State Law: *Section 37-61-9, Mississippi Code Annotated (1972)*, states, “It shall be the duty of the superintendent of schools and the school boards 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...”

Section 37-61-19, Mississippi Code Annotated (1972), requires the combined budget and combining budgets for each fund type are reflected in the board minutes or an addendum to the board minutes. Both should be signed by both the Board’s president and secretary. Signed copies should be filed within the District.

Finding Detail: During the review of the School District’s budgeting, the auditor noted the following exceptions:

- On August 12, 2019, the Board approved the 2019-2020 original budget that included seven funds reflecting a projected negative fund balance at year-end:
 - At-Risk Program (1145) – (\$500);
 - School Recognition Program (2020) – (\$175);
 - Extended School Year (2090) – (\$5,304);
 - Summer Feeding Program (2130) – (\$34,922);
 - Title III Language Instruction LEP (2560) – (\$1,385);
 - IDEA Part B (2610) – (\$581,016)
 - School Nurse Intervention (2950) – (\$1).
- On October 13, 2020, the Board approved the 2019-2020 amended budget that included four funds reflecting a projected negative fund balance at year end:
 - Educable Child (2091) - (\$28,344);
 - Summer Feeding Program (2130) - (\$141,187);
 - Consolidated Admin Cost Pool (2290) – (\$213);
 - Title II – A Improve Teacher (2511) - (\$15,475)
 - IDEA Part B (2610) - (\$23,536).

None of the actual fund balances were negative at June 30, 2020; the approval of the fund budgets with ending deficit fund balances is in violation of state law.

Recommendation: We recommend the Houston School District strengthen controls over budgeting implement budgeting practices that will prevent projected negative fund balances from being presented to the School Board, as required by state law. A thorough review of such budgets should be made prior to presentation to the Board for approval.

District’s Response: Original Budget Fund 1120 – budgeted over revenues due to not sure if roof would need to be replaced, and other needs that possibly were coming up, etc. In the future we will budget to not have a negative balance. We did end up with a positive balance and did not go into fund balance. Activity Funds’ budget is not an actual budget for them. They keep funds and keep their reconciliation on excel. They send me their reconciliation and I reconcile the statement to the computer. I add to their budget if needed. Amended

Budget—The 4 (four) negative funds are federal funds with the negative amounts equals the outstanding encumbrances. We leave them in to continue the P.O. and create less confusion with vendors. 2021 Budget – District Maintenance has always been budgeted to go into fund balance even though we seldom do. With Covid-19, and roof needs, I wasn't sure what the future held. I will budget a balanced budget always in the future.

Repeat Finding: No.

Finding 5: The School District Should Strengthen Controls and Ensure Compliance with State Laws over Travel Reimbursements.

Internal Control Deficiency: Management is responsible for properly safeguarding the assets of the District and ensuring all reimbursements are approved, documented, and allowed. Also, the Management should maintain corroborating evidence to support the individual's travel reimbursement.

School Board Policy DJD, Expense Reimbursements, states, "Administrative personnel and others who have first been authorized by the Superintendent to travel in the performance of their duties shall be advanced or reimbursed by the school district for such travel. Employees shall be reimbursed for other actual expenses such as meals, lodging and other necessary expenses incurred in the course of such overnight travel, subject to limitations placed on meals for intrastate and interstate official travel by the Mississippi Department of Finance and Administration and rules and regulations adopted by the Mississippi Department of Audit."

Applicable State Law: *Section 25-3-41(4), Mississippi Code Annotated (1972)*, states, "In addition to the foregoing, a public officer or employee shall be reimbursed for other actual expenses such as meals, lodging and other necessary expenses incurred in the course of the travel, subject to limitations placed on meals for intrastate and interstate official travel by the Department of Finance and Administration, provided, that the Legislative Budget Office shall place any limitations for expenditures made on matters under the jurisdiction of the Legislature. The Department of Finance and Administration shall set a maximum daily expenditure annually for such meals and shall notify officers and employees of changes to these allowances immediately upon approval of the changes."

Finding Detail: During the review of the School District's travel reimbursements, the auditor noted the following, out of 15 tested:

- Ten travel vouchers did not have corroborating evidence for the purpose of the trip; and
- Two employees were reimbursed above the statutorily required mileage rate resulting in a difference of \$80.

Lack of adequate controls could result in the fraud, loss, or misappropriation of public funds.

Recommendation: We recommend the Houston School District strengthen policies and procedures surrounding reimbursements for professional travel expenses.

District's Response: The Assistant Superintendent sent email out on February 11, 2020 and the Business Manager sent one out on February 27, 2020 stating agendas are required to be attached. Before that, we only required it when traveling out of state. This has been corrected. The employees were paid according to per diem where they were traveling. This is how I have been told we should do. If this is not correct, please let me know.

Auditor's Note: The employees were paid according to the federal per diem rate rather than the rate set by the Department of Finance and Administrative, as their aforementioned policy states they will use to reimburse their employees.

Repeat Finding: No.

Finding 6: The School District Should Strengthen Internal Controls and Ensure Compliance over Activity Fund Disbursements.

Internal Control Deficiency: Management is responsible for ensuring the assets of the District are safeguarded and disbursements from the District's activity funds are School Board approved.

Applicable State Law: *Section 37-7-301(o), Mississippi Code Annotated (1972)*, requires the School Board to make orders directed to the Superintendent of Schools for the issuance of pay certificates for lawful purposes on any available funds of the District and to have full control of the receipt, distribution, allotment, and disbursement of all funds provided for the support and operation of the Schools of such School District whether such funds be derived from state appropriations, local ad valorem tax collections, or otherwise. The local School Board shall be authorized and empowered to promulgate rules and regulations that specify the types of claims and set limits of the dollar amount for payment of claims by the Superintendent of Schools to be ratified by the Board at the next regularly scheduled meetings after payment has been made.

Finding Detail: During the review of School District's Board minutes, the auditor noted activity funds were disbursed prior to the approval of the School Board.

Failure to comply with *Mississippi Code Section 37-7-301(o)* could result in fraud and misappropriation or loss of public monies.

Recommendation: We recommend the Houston School District ensure compliance with *Section 37-7-301(o)*, by implementing procedures to ensure all disbursements from activity funds are approved by the School Board.

District's Response: We will not disperse any activity, club, or athletic prepaid checks without prior board approval.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 7: The School District Should Ensure Compliance with State Laws over Purchasing.

Applicable State Laws: *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... The term "competitive written bid" shall mean a bid submitted on a bid form furnished by the buying agency or governing authority and signed by authorized personnel representing the vendor, or a bid submitted on a vendor's letterhead or identifiable bid form and signed by authorized personnel representing the vendor. "Competitive" shall mean that the bids are developed based upon comparable identification of the needs and are developed independently and without knowledge of other bids or prospective bids. Any bid item for

construction in excess of Five Thousand Dollars (\$5,000.00) shall be broken down by components to provide detail of component description and pricing. These details shall be submitted with the written bids and become part of the bid evaluation criteria. Bids may be submitted by facsimile, electronic mail or other generally accepted method of information distribution. Bids submitted by electronic transmission shall not require the signature of the vendor's representative unless required by agencies or governing authorities."

Section 31-7-13 (d), Mississippi Code Annotated (1972), states, "... If any governing authority accepts a bid other than the lowest bid actually submitted, it shall place on its minutes detailed calculations and narrative summary showing that the accepted bid was determined to be the lowest and best bid, including the dollar amount of the accepted bid and the dollar amount of the lowest bid."

Section 31-7-13(m)(ii), Mississippi Code Annotated (1972), states, "Repairs to equipment, when such repairs are made by repair facilities in the private sector; however, engines, transmissions, rear axles and/or other such components shall not be included in this exemption when replaced as a complete unite instead of being repaired..."

Section 31-7-13(o), Mississippi Code Annotated (1972), states, "No contract or purchase as herein authorized shall be made for the purpose of circumventing the provisions of this section requiring competitive bids, nor shall it be lawful for any person or concern to submit individual invoice for amounts within authorized for a contract or purchase where the actual value of the contract or commodity purchased exceeds the authorized amount and the invoices therefor are split so to appear to be authorized as purchases for which competitive bids are not required."

Finding Detail: During the review of the School District's purchasing expenditures, the auditors noted the following, out of 25 tested:

- Nine invoices paid were higher than the purchase order amount, totaling **\$37,604**;
- The District did not obtain quotes/bids for three purchases over \$5,000, but less than \$50,000;
- Three purchase orders were split to circumvent purchase laws. These purchases were with the same vendor, purchase order date, and invoice date, totaling **\$23,452**;
- The District did not obtain a quote/bid for the purchase of an engine and transmission, totaling **\$45,484**;
- There was no justification noted in the Board minutes for the acceptance of the highest bid for one purchase.

Failure to obtain at least two competitive bids and approve other than the lowest bids resulted in non-compliance with state purchasing laws

Recommendation: We recommend the Houston School District ensure compliance with state law by properly obtaining at least two competitive bids for purchases, obtaining Board approval for other than lowest bids, and that purchases are made according to state purchasing laws.

District's Response: We will begin putting a more accurate estimated amount if we do not have an actual quote. In the past, it we know that the item is under \$5,000, we would sometimes just guess. Some vendor requisitions are entered each month just for emergency use and we only enter \$1.00, such as for wrecker, truck repair, windshields, etc. Since the P.O. will probably not be used, we only enter \$1.00. There is no way to estimate but we need a requisition in case of emergency before or after hours. We did not realize until your report that Amazon cannot be used as a second quote. I cannot find a second quote for Ivy Fence Company or Neal's. These purchase orders are not split. Each is for a separate activity or club. They are not requested at the same time due to activities beginning throughout the year and not knowing the number of participants at the same time (at the beginning of the year). This is being corrected immediately. We use Amazon a lot and their

prices seem to be very compatible, their service is good, and the quality is good. We will not use them in the future as a second quote. We will make sure to always have two (2) bids. It is hard to find someone to install bus engines and transmissions in our area. We have a vendor in Tupelo who has always given us good and quick service. This is necessary due to our need for all buses to be up and running daily. We will ensure that if a bid is accepted that is not the lowest, justification is taken to the board for their approval prior to purchase.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Budgeted Expenditures.

Applicable State Law: *Section 37-61-19, Mississippi Code Annotated (1972)*, states, “It shall be the duty of the superintendents of school and 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 the fund.”

Finding Detail: During the review of the School District’s amended budgets for fiscal year 2020, the auditor noted the District’s actual expenditures for two funds exceeded the budgeted expenditures in the combined amount of **\$12,790**:

- **Fund 2090 (Extended School Year) - \$10,551**
- **Fund 2091 (Educable Child) - \$2,239**

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

Recommendation: We recommend the Houston School District ensure compliance with *Section 37-61-19* by ensuring all funds have available resources before expenditures are approved.

District’s Response: Extended School Year (ESY) – money was not budgeted for tuition but was posted in the ESY Fund. This keeps ESY expense at actual even though we won’t get reimbursed for all. District Maintenance covers any overage. This helps in budgeting future years. If this is not the correct way to do this, in the future Business Manager will post to 1130, which is funded by MAEP. Please let me know how to handle this correctly in the future. FUND 2090 – Extended School Year – There were no monies budgeted for ESY tuition at Millcreek. Money was moved to cover actual tuition charges. In the future of budgeting, MAEP picks up the difference not allowed by ESY. FUND 2091 – Educable Child – Originally budgeted for 1 (one) student when there were eventually 2 (two) students enrolled. MAEP funds were transferred to cover the costs. MAEP picks up the difference. We leave all Educable child expenses so we can better track all Educable child costs. The budget was amended to reflect overage. In the future if needed when there are more overages, funds can be moved to 1130. Leaving all educable child funds show a clearer picture of actual expenditures.

Repeat Finding: No.

Finding 9: The School District Should Ensure Compliance with State Law over Reemployment of Retired Public Employees.

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.”

Mississippi Public Employment Retirement System (PERS) Board Regulation 34, 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 the School District’s PERS Form 4Bs, the auditors noted the following exceptions, out of 11 tested:

- Seven PERS Form 4Bs were not filed within five days of rehire; and
- One PERS Form 4B did not have evidence of being filed within five days of rehire.

Failure to file the Form 4Bs 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 Houston School District ensure compliance with state law and PERS by properly paying employees, completing, and filing Form 4Bs within five days of rehire.

District’s Response: It is difficult to know when the retirees start during the year. Payroll does not get a time card (or if they are long term), a daily sheet until a week later or even end of payroll month. I (Payroll Clerk) send them the 4B as soon as I know they are working. Some have to be called and “reminded” I (Payroll Clerk) need them.

Repeat Finding: No.

Finding 10: The School District Should Ensure Compliance with State Laws over Surety Bonds.

Applicable State Law: *Section 25-1-15(4), Mississippi Code Annotated (1972)*, states, “A new bond in an amount not less than that required by law for public employees shall be secured at the beginning of each new term of office of the public or appointed official by whom they are employed, if applicable, or at least every four (4) years concurrent with the normal election cycle of the Governor.”

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 Thousand Dollars (\$100,000.00), with sufficient surety.

Finding Detail: Based on review of the School District’s surety bonds, the auditor noted the following individuals’ bonds were renewals or continuation certificates instead of an official bond:

- All five Board Members; and
- Superintendent.

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 Houston District ensure compliance by securing new bonds every four 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.

District's Response: We will correct our surety bonds to be for the term of office for the Board and yearly for staff that is renewed yearly.

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 and Purchasing Agents. As noted during our test work, the Principals and Purchasing Agents are covered by renewals or "Continuation Certificates". 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



Learners Today. Leaders Tomorrow.

JOHN ELLISON, SUPERINTENDENT

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COMPLIANCE REVIEW FINDINGS

August 12, 2022

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

Dear Mr. White:

The Chickasaw County School District has received the report of finding from the Limited Internal Control and Compliance Review for the year ended June 30, 2020. Enclosed for your review are the responses and corrective action plans. The Houston School District consolidated July 1, 2021 with Chickasaw County School District and kept the Chickasaw County School District name

MATERIAL WEAKNESSES:

FINDING 1: The School District Should Strengthen Internal Controls Over Bank Reconciliations.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Business Manager will ensure that all district bank accounts are reconciled to the general ledgers cash balance in a timely manner. This correction action has already be implemented.

FINDING 2: The School District Should Strengthen Internal Controls Surrounding Segregation Of Duties With The Business Office.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

Due to the limited staff in the central office, it will not be possible to segregate these duties any further. The duties are segregated to the greatest extent possible.

INTERNAL CONTROL DEFICIENCIES

FINDING 3: The School District Should Strengthen Internal Controls Over Activity Fund Cash Receipts and Deposits.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The district will amend our procedures that are now in place for handling all activity receipts. The Houston School District business manager will strengthen the internal controls over activity funds by initiating a yearly training with staff. This will ensure compliance with the District policies and procedures.

OTHER DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW

FINDING 4: The School District should strengthen controls and ensure compliance with State laws over budget approval.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

Year-end entries were made to clear these fund balances after the amended budget was presented to the board. From now on, the business manager will submit an amended budget after FETS is submitted.

FINDING 5: The School District should strengthen controls and ensure compliance with State law over travel reimbursements.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Houston School amended its policy to ensure that agendas or other documentation are attached to travel reimbursement forms to provide for the purpose of the trip. All school travel will be reimbursed at the statutory required mileage.

Finding 6: The School District Should Strengthen Internal Controls and Ensure Compliance Over Activity Fund Disbursement.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Houston School District, business manager, will seek Board approval at the beginning of each school year for permission to write any activity, club or athletic checks to comply with this finding.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 7: The School District Should Ensure Compliance with State Laws Over Purchasing.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Chickasaw County School District will ensure that purchase order amounts will better reflect an accurate estimate. We will ensure that two quotes are received when the purchase is over \$5,000, but less than \$50,000, and that purchase orders will not be split to circumvent purchase laws. When bids are obtained and the lowest bid is not accepted, justification will be noted in the Board minutes for the acceptance of the higher bid.

The business manager will address the purchasing policy with district staff annually.

Finding 8: The School District Should Ensure Compliance with State Law over Budgeted Expenditures.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Chickasaw County School District business manager will ensure that expenditures do not exceed the funds budget.

Finding 9: The School District Should Ensure Compliance with State Law over Reemployment of Retired Public Employees.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Chickasaw County School District will strengthen controls over the rehiring process in our payroll department to ensure that retirees complete and return Form 4Bs before the commencement of employment. The Form 4Bs will be submitted to PERS within the required timeframe per Section 25-11-127.

Finding 10: The School District Should Ensure Compliance with State Laws over Surety Bonds.

RESPONSE: The Chickasaw County School District concurs with this finding.

CORRECTIVE ACTION PLAN:

The Chickasaw County School District business manager contacted the bonding company and continuation and renewal certificates have been replaced with bonds for the term of office for the School Board and the Superintendent.

Please do not hesitate to contact me if additional information is required.

Respectfully,

A handwritten signature in black ink, appearing to read 'John Ellison', with a stylized flourish at the end.

**John Ellison
Superintendent**