

PONTOTOC COUNTY SCHOOL DISTRICT
MISSISSIPPI

COMPLIANCE REPORT

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

SHAD WHITE, CFE
State Auditor

Stephanie C. Palmertree, CPA, CFE, CGMA
Deputy State Auditor

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

April 4, 2023

Limited Internal Control and Compliance Review Management Report

Pontotoc County School Board
354 Center Ridge Drive
Pontotoc, MS 38863

Dear Members of the Pontotoc County School Board:

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

1. Strengthen Internal Controls over Activity/Athletic Fund Revenue;
2. Ensure Compliance with State Law over Board Member Ethics and Nepotism;
3. Ensure Compliance with State Law over Purchasing;
4. Ensure Compliance with State Law over Statements of Economic Interest;
5. Ensure Compliance with State Law over Obtaining and Maintaining Background Checks;
6. Ensure Compliance with State Law over Reemployment of Retired Public Employees; and
7. Ensure Compliance with State Law over Surety Bonds.

Please review the recommendations. 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 Pontotoc 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".

STEPHANIE PALMERTREE, CPA, CFE, CGMA
Deputy State Auditor
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the **Pontotoc County 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 *significant deficiencies*. These matters are noted under the heading **SIGNIFICANT DEFICIENCY**.

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

SIGNIFICANT DEFICIENCY

Finding 1: The School District Should Strengthen Internal Controls over Activity/Athletic Fund Revenue.

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 be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

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

Finding Detail: During the review of Pontotoc School District's activity/athletic fund revenue, the auditor noted the following exceptions:

- Six game deposits were made one to five days late; and
- Two instances where the ticket count sold did not match the numbered ticket count.

Failure to have adequate 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 Pontotoc County School District strengthen internal controls by implementing adequate policies and procedures to ensure receipts from all activity are safeguarded, adequately recognized, and recorded.

District's Response: Internal Controls and Ticket Sales – Pontotoc County School will review the procedures with the administrators and school bookkeepers.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Law over Board Member Ethics and Nepotism.

Applicable State Law: *Section 37-9-21, Mississippi Code Annotated (1972)*, states, "No member of the school board shall vote for any person as a superintendent, principal or licensed employee who is related to him within the third degree by blood or marriage or who is dependent upon him in a financial way. Any contract entered into in violation of the provisions of this section shall be null and void." *Section 25-4-29(1)(a), Mississippi Code Annotated (1972)*, states, "Every incumbent public official required by paragraphs (a), (b), 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."

Mississippi Ethics Opinion 14-051-E, requires "...*Section 25-4-105(1), Miss. Code 1972*, prohibits a school board member from using his or her official position to obtain or attempt to obtain a pecuniary benefit for his or her relatives. The term relative is defined in *Section 25-4-103(q)* and includes the board members' child. Therefore, the school board member, if elected cannot participate in any matter which would create a monetary benefit for his or her child. Examples of actions in which board member should not participate include, but are not limited to, the selection or promotion of a relative or adjustments to his or her salary, benefits or other compensation and any other action which is a necessary predicate to the relatives' compensation, and any claims docket or budget from which the relative is paid, including approval of the annual school district budget. A total and complete recusal require the board member leave the meeting room before the matter comes up for discussion and remain absent until the vote is concluded... Furthermore, any minutes or record of the meeting or other proceeding should state the recusing board member left the room before the matter came before the board and did not return until after the vote..."

Finding Detail: During the review of the School District's related party questionnaires and Board minutes, the auditor noted that the following violations of the Nepotism and Ethics statutes:

- Two members of the School Board voted on the employment and wages of their four daughters (guidance counselor, secretary, and two certified teachers); and
- One member of the School Board voted on the employment and wages of their son-in-law and sister-in-law (certified teachers).

Failure of the School Board Members from recusing themselves during the vote of relatives resulted in a violation of *Mississippi Ethics Opinion 14-051-E* and *Section 37-9-21*.

Recommendation: We recommend that the Pontotoc County School District ensure compliance with *Mississippi Ethics Opinion 14-051-E* and *Section 37-9-21* by recusing themselves during the vote of relatives within the first and third degrees.

District's Response: The Board members abstained from voting, it just was not noted in the Board minutes. Pontotoc County School District will comply with *Section 25-4-105* in the future.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Law over Purchasing.

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."

Section 31-7-13(h), Mississippi Code Annotated (1972), states, "Petroleum purchase alternative. In addition to other methods of purchasing authorized in this chapter, when any agency or governing authority shall have a need for gas, diesel fuel, oils and/or other petroleum products in excess of the amount set forth in paragraph (a) of this section, such agency or governing authority may purchase the commodity after having solicited and obtained at least two (2) competitive written bids, as defined in paragraph (b) of this section. If two (2) competitive written bids are not obtained, the entity shall comply with the procedures set forth in paragraph (c) of this section. In the event any agency or governing authority shall have advertised for bids for the purchase of gas, diesel fuel, oils and other petroleum products and coal and no acceptable bids can be obtained, such agency or governing authority is authorized and directed to enter into any negotiations necessary to secure the lowest and best contract available for the purchase of such commodities."

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

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

- One purchase was made from Palmer Hamilton, LLC without bids/quotes or Board approval, totaling \$49,968. This purchase was purportedly made per state contract but upon further review, the purchase was made from a Co-Op which is not a state contract vendor;
- Four purchases from Bill Gray, Inc. had quotes that were not comparable nor competitive for the purchase of petroleum products, in the amount totaling **\$33,719**; and
- One purchase for educational kits from Different Roads to Learning was documented as a sole-source purchase, totaling **\$7,475**; however, the School Board did not spread upon its minutes a certification of this sole-source purchase and was without bids/quotes or Board approval.

Failure to follow proper purchasing procedures could result in fraud or misappropriation of public monies and resulted in noncompliance with state law.

Recommendation: We recommend the Pontotoc County School District ensure compliance by assuring all proper purchase procedures are being followed and monitored, as required by state law.

District's Response: Pontotoc County School District will comply with *Section 31-7-13* in the future.

Repeat Finding: No.

Finding 4: The School Board Should Ensure Compliance with State Law 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: (a) Persons elected by popular vote ...; (b) Members of local school boards that administer public funds, regardless of whether such members are elected or appointed ..."

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) 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."

Finding Detail: During the review of the School District's Statements of Economic Interest, the auditor noted that one Board Member did not file their Statement of Economic Interest until October 14, 2019.

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

Recommendation: We recommend the Pontotoc County School District ensure compliance by assuring all Board members file the Statement of Economic Interest annually, no later than May 1st of each year that such official holds office, regardless of the duration.

District's Response: We will inform the Board member and ask them to complete the documentation.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Laws over Obtaining and Maintaining Background Checks.

Applicable State Law: *Section 37-9-17, Mississippi Code Annotated (1972)*, states, "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 non-licensed employee at a school and not previously employed in such school under the purview of the State Board or at such local school district prior to July 1, 2000." Ultimately, the criminal records information and registry must be kept on file for any and all new hires. Additionally, employees employed under the recommendation of a personnel supervisor may not be paid compensation in excess of their approved contract without Board approval.

Finding Detail: During the review the School District's personnel files, the auditors noted the District did not have evidence of criminal background checks for two out of 20 tested.

Failure to obtain and maintain background checks of all new hires could result in a wrongful hire of an individual and resulted in noncompliance with state law.

Recommendation: We recommend the Pontotoc County School District ensure compliance by assuring criminal background checks are completed and maintained in the personnel files of its employees, as required by state law.

District's Response: Pontotoc County School District will comply with *Section 37-9-17(2)*.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Law over the Reemployment of Retired Public Employees.

Applicable State Law: *Section 25-11-127 (1)(a), Mississippi Code Annotated (1972)*, states, “No person who is being paid a retirement allowance or a pension after retirement under this article shall be employed or paid for any service by the State of Mississippi, including services as an employee, contract worker, contractual employee or independent contractor, until the retired person has been retired for not less than ninety (90) consecutive days from his or her effective date of retirement. After the person has been retired for not less than ninety (90) consecutive days from his or her effective date of retirement or such later date as established by the board, he or she may be reemployed while being paid a retirement allowance under the terms and conditions provided in this section.”

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 25-11-127(4)(a)(b), Mississippi Code Annotated (1972), states, “The provisions of this section shall not be construed to prohibit any retiree, regardless of age, from being employed and drawing a retirement allowance either: (a) For a period of time not to exceed one-half (½) of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half (½) of the salary in effect for the position at the time of employment, or (b) For a period of time in any fiscal year sufficient in length to permit a retiree to earn not in excess of twenty-five percent (25%) of retiree’s average compensation.”

Finding Detail: During the review of the School District’s PERS Form 4Bs, the auditors noted the following exceptions:

- Seventeen PERS Form 4Bs did not have evidence of the retirement dates for fiscal years 2019 and 2020; and
- One PERS Form 4B did not have evidence of being filed within five days of rehire.

Failure to have adequate controls over the rehire of retirees resulted in noncompliance with state law.

Recommendation: We recommend the Pontotoc County School District ensure compliance by implementing adequate internal controls to ensure rehired retirees are properly paid and all PERS Form 4Bs are properly completed, as required by state law.

District’s Response: Fiscal year 2019: In response to matter of PERS 4B’s not being filled out in its entirety, the ones that did not put their retirement date were retired employees from another District and I did not have that information, and they did not call PERS to get that information. Fiscal Year 2020: Some of the employees did not fully complete their address or phone number on their 4B, although all of the employer’s required information was completed. In the future I will make sure that all employees complete each line on their 4B before they are eligible to work. Pontotoc County Schools will comply with *Section 25-11-127(4)*.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Law 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 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 37-9-31, Mississippi Code Annotated (1972), states, “All school principals and attendance center principals shall furnish good and sufficient surety bonds in like manner as required of superintendents. The amount of such bonds shall be not less than Fifty Thousand Dollars (\$50,000), with sufficient surety.”

Section 37-39-21, Mississippi Code Annotated (1972), states, “The purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety.”

Finding Detail: During the review of the School District’s surety bonds, the auditors noted the following exceptions:

- The following officers were bonded by renewals/continuation certificates:
 - The Business Manager;
 - Four Board members; and
 - The Superintendent.

- The following officers were bonded for an indefinite period:
 - One Principal; and
 - One Purchasing agent.

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 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 and result in the loss of public funds.

Recommendation: We recommend the Pontotoc County School District ensure compliance with state law by assuring all employees are properly and sufficiently bonded, as required by state law.

District’s Response: Pontotoc County School District will comply with *Section 25-1-15* in the future.

Repeat Finding: No.

End of Report