



Tupelo Public School District

COMPLIANCE REPORT

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

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 31, 2020

Limited Internal Control and Compliance Review Management Report

Tupelo Public School District
72 South Green Street
Tupelo, Mississippi 38804

Members of the Tupelo Public School District Board of Trustees:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for Tupelo Public School District for the fiscal year 2020. In these findings, the Auditor's Office recommends the Tupelo Public School District:

1. Strengthen Controls over Credit Card Purchases;
2. Strengthen Controls over Board Authorized Purchasing Authority;
3. Strengthen Controls over Travel Reimbursements;
4. Strengthen Controls over Activity Funds;
5. Ensure Compliance with State Laws over Surety Bonds;
6. Ensure Compliance with State Laws over Statements of Economic Interest;
7. Ensure Compliance with State Laws over Public Depositor Annual Report;
8. Ensure Compliance with State Laws over Obtaining Quotes; and
9. Ensure Compliance with State Laws over Activity Funds.

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.

Tupelo Public School District
July 31, 2020
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I hope you find our recommendations enable the Tupelo Public School District to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

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 Tupelo Public School District for the year ended June 30, 2020. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner, CPA; Travis Mitchell, CPA; Brandon Armstrong; Bryan White, CPA; and Shelly McKee.

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 *material weakness*. This matter is noted under the heading **MATERIAL WEAKNESS**.

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

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.

SIGNIFICANT DEFICIENCY:

Finding 1: The School District Should Strengthen Controls over Credit Account Purchases.

Internal Control Deficiency: A well-designed system of internal controls should require that vendor receipts are maintained and signed by those receiving the goods and an independent reviewer.

Finding Detail: During our review of Tupelo Public School District, we noted the following exceptions with credit account purchases:

- Six (6) instances where there was no signature on the receipt or charge slip;
- One instance where the purchase was not signed by a supervisor; and,
- Eight (8) instances where expenditures totaling \$3,377 were not substantiated by receipts.

Failure to strengthen internal controls over credit account purchases could result in fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District strengthen internal controls to ensure that credit account purchases are documented as received and reviewed by an independent person.

Repeat Finding: No.

Management's Response: I agree. We will develop procedures and expectations with managing authority at the next leadership meeting.

OTHER CONTROL DEFICIENCIES:

Finding 2: The School District Should Strengthen Controls over Purchasing Authority.

Internal Control Deficiency: Effective internal controls require the School Board grant purchasing authority to personnel that act as Purchasing Agents on behalf of the School District.

Finding Detail: During our review of the Tupelo Public School District, we noted that the Finance Director and Assistant Finance Director acted in the capacity of Purchasing Agents; however, no Board policy grants purchasing authority to these individuals.

Failure to authorize necessary personnel as Purchasing Agents could result in fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District adopt a policy granting purchasing authority to the Finance Director and the Assistant Finance Director.

Repeat Finding: No.

Management's Response: We will discuss this with the Board, Superintendent, and Financial Director, along with legal counsel to determine the best course of action to address this item.

Finding 3: The School District Should Strengthen Controls over Travel Expense Reimbursements.

Internal Control Deficiency: A well-designed system of internal controls for travel expense reimbursements should ensure compliance with *Board Policy Code DJD Expense Reimbursements*, which states, "Travel advances must be approved by the Superintendent or designee and may be issued for registration, lodging, airfare, and travel outside of a 200-mile radius of the District. The advance travel form must be submitted to the finance office at least two (2) weeks prior to departure in order to ensure receipt of the advance.

Any travel advance funds not used for travel-related expenses must be returned to the District. A travel reimbursement form must be completed and shall account for any funds not refunded to the district. Actual receipts must be submitted to the District for all travel expenses except meals and travel in a personal vehicle within five (5) days after the conclusion of the trip."

Finding Detail: During our review of Tupelo Public School District, we noted the following exceptions with internal controls over travel expense reimbursements:

- Four (4) instances where no receipts were provided for travel expenses;
- Seven (7) instances where travel advances were not submitted at least two (2) weeks prior to the trip;

- Fifteen (15) instances where travel advances were not settled within five (5) days after the conclusion of the trip; and,
- Three (3) instances where advances were issued for travel within a 200-mile radius of the District.

Failure to strengthen internal controls over travel expense reimbursements could result in fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District strengthen internal controls to ensure that the expense reimbursements comply with the Board policy referenced above.

Repeat Finding: No.

Management's Response: We agree and plan to review expectations at the next leadership meeting. We will also establish an internal method of control.

Finding 4: The School District Should Strengthen Controls over Activity Funds.

Internal Control Deficiency: An effective system of internal control requires the timely deposit of activity fund receipts, as well as the function of issuing tickets at sporting events to document the total number of tickets at each game. This helps to ensure all monies receipted were documented correctly and provided to the School District.

Finding Detail: During our review of Tupelo Public School District's athletic funds, we noted the following exceptions, concerning activity event forms, out of the seventy-seven (77) samples tested:

- Nine (9) instances where the first ticket number returned was not documented;
- Two (2) instances where no ending ticket number being sold/or the beginning ticket number returned, was documented;
- Fourteen (14) instances where untimely deposits were made ranging from one (1) to two (2) business days late;
- Sixty-nine (69) instances where the deposits did not equal the calculated revenue on the transmittal sheets. This resulted in a net effect of \$23 overage;
- One instance where the returned tickets were the same range of tickets sold;
- One instance where there was a transposition of ticket beginning numbers on sheets; and,
- Two (2) instances where we were unable to determine if pre-numbered tickets were sold, which includes chair backs and one-hundred and fifty (150) tickets sold to Wheel Estate Sales.

Failure to maintain proper internal controls could result in fraud and misappropriations or loss of public funds.

Recommendation: We recommend that the District ensure policies and procedures are established and followed to ensure timely deposits of activity fund receipts, as well as to ensure proper documentation of receipts from athletic events.

Repeat Finding: No.

Management's Response: We plan to implement a plan to better ensure correctness of recording the revenue generated by our athletic department.

We have a plan to have training with all gate workers to ensure an understanding about the ticket documentation forms. We will also implement a checks and balances system to better govern the revenue calculations. Listed below are the specific responses to the seven findings of inconsistencies for the athletic revenue sheets.

1. Gate worker training will include the area on the form where the beginning ticket number must be recorded prior to opening the ticket gate.
2. Gate worker training will also include the area on the form where the ending ticket number must be recorded at the conclusion of the ticket sales.
3. To avoid the gaps associated with holidays or weather-related closures, we will make night deposits at the bank following the athletic contests.
4. We will implement a more secure checks and balances system that includes an administrative overseer to acknowledge the correct calculations of matching ticket sales to deposits, including night deposits and next business deposits.
5. The gate worker training will have a checklist for all workers to follow to ensure ticket numbers are recorded prior to the ticket sales and at the conclusion of the ticket sales.
6. The checks and balances that we plan to implement should eliminate errors with administrative signing as approved.
7. We will include ticket numbers on the pre-sales of season chair-back seats and any business sponsorship for football games, and separate ticket sales sheets will be used for each day sales.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW:

Finding 5: The School District Should Ensure Compliance with State Laws over Surety Bonds.

Applicable State Law: The following code sections refer to the bonding requirements for public officers, public employees, and certain School District personnel:

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..."

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 (\$50,000.00), with sufficient surety. Such bonds shall be payable, conditioned and approved in the manner provided by law, and shall be filed and recorded in the office of the clerk of the chancery court in which the school district is located. The premium on said bond shall be paid out of the school district(s) maintenance fund(s)."

Attorney General Opinion 2011-00191, states, "Section 25-1-15 is a general statute that pertains to public officers and employees who are required by law to give surety bonds. It is part of Title 25, Chapter 1 which also provides that the terms of all offices shall be four years, unless otherwise specified. See *Section 25-1-1*. By contrast sections

37-6-15, 37-9-31 and 37-39-21 are specific statutes that pertain to surety bonds for school board members, principals and purchasing agents respectively. In our opinion, these statutes contemplate that surety bonds are to be issued for the statutory term of office for school board members which is six (6) years and that surety bonds for principals and purchasing agents may be continuous throughout their period of employment. It is established law that a specific statute controls over a general statute. *MDOT v. Allred*, 928 So.2d 152,155 (Miss. 2006); *State of Mississippi v. Madison County*, 873 So.2d 85, 90-91 (Miss. 2004)."

Finding Detail: During our review of Tupelo Public School District's surety bonds, we noted the following exceptions:

- The surety bond for a Board Member was not filed at the Lee County Chancery Clerk's office;
- The following officers were bound by surety bonds that had been extended through continuation certificates:
 - Two (2) Board Members,
 - Two (2) Security Personnel, and
 - The Finance Director.
- The Superintendent was not bonded as a Purchasing Agent; and,
- The Finance Director, acting in the capacity as a Purchasing Agent, was not bonded as such.

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 comply with statutes, by being correctly and sufficiently bonded, could result in the loss of public funds.

Recommendation: We recommend the School District ensure that new surety 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.

Repeat Finding: No.

Management's Response: We will discuss these findings with the Board and appropriate members of management and will take the necessary steps to correct these issues.

Finding 6: The School Board Should Ensure Compliance with State Laws over Statements of Economic Interest.

Applicable State Law: *Section 25-4-25, Mississippi Code Annotated (1972)*, states, "Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter: (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 our review of Tupelo Public School District's Statements of Economic Interest, we noted that two (2) Board Members did not file a Statement of Economic Interest with the Mississippi Ethics Commission, and such statements remained unfiled as of December 16, 2019.

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 District ensure the Board Members file their 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.

Management's Response: We plan to meet this requirement at our next board meeting in January. We will also add this to our master calendar.

Finding 7: The School District Should Ensure Compliance with State Laws over Filing the Public Depositor's Annual Report.

Applicable State Law: *Section 27-105-5(6)(b), Mississippi Code Annotated (1972)*, states, "Public depositors shall comply with the following requirements: Not later than thirty (30) days following its fiscal year end, a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year-end. A public entity established during the year shall furnish its official name, address and federal tax identification number to the State Treasurer before making any public deposit."

Finding Detail: During the review of the Tupelo Public School District's depository, we noted that the District's Certificates of Deposit balances totaling \$25,652,156 were not reported on the Public Depositor's Annual Report.

Failure to file an accurate report results in noncompliance with the section code referenced above.

Recommendation: We recommend the School District include all public funds on the Public Depositor's Annual Report that is filed with the Mississippi Office of the State Treasurer.

Repeat Finding: No.

Management's Response: The District concurs with the finding related to the Certificates of Deposit balances, totaling \$25,652,156 not being reported on the Public Depositor's Annual Report. Trustmark Bank inadvertently omitted them from the listing of provided, and we failed to catch their error. All certificates of deposit were cashed out on 8/31/19 and deposited into checking accounts with our current bank of record, BancorpSouth Bank.

Finding 8: The School District Should Ensure Compliance with State Laws over Obtaining Quotes.

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 an 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."

Finding Detail: During our review of the twenty-nine (29) purchasing sample items selected, we noted the following exceptions:

- Two (2) instances where comparable, competitive quotes were not obtained, thus we were unable to determine if the lowest and the best bid was accepted. These purchases were from:
 - Maloney Glass & Door – \$11,483 (Joyner Secondary Entrance); and
 - Maloney Glass & Door – \$11,688 (TMS Civic Doors).

Failure to comply with state law could result in fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District comply with *Mississippi Code Section 31-7-13* by ensuring sufficient and correct quotes are obtained from vendors.

Repeat Finding: No.

Management's Response: The District concurs with the finding related to the two instances of noncompliance with respect to the lack of two quotes for Maloney Glass & Door – \$11,483.37 (Joyner) and Maloney Glass & Door – \$11,688.00 (TMS Civic).

The District plans to enforce the requirement of electronically attaching quotes to requisitions entered by remote sites before approving requisitions and upgrading them to purchase orders.

Finding 9: The School District Should Ensure Compliance with State Law over Activity Fees.

Applicable State Law: *Section 37-7-303(s), Mississippi Code Annotated (1972)*, states, "The State Department of Education shall prescribe a uniform system of accounting and financial reporting for all school activity fund transactions."

The *Accounting Manual for School Districts*, prescribed by the State Department of Education, states, "The school board has the statutory authority to charge a student a reasonable fee for participating in an extracurricular activity for academic or nonacademic credit for necessary and required safety equipment, band instruments and uniforms. The school board should develop and adopt policies that determine which extracurricular activities will be subject to assessed fees. The school board should also establish the amount of the fees to be charged. In the absence of a school board policy, this authority cannot be delegated to the local school principal. The amounts charged the student will be receipted in the local school general activity or general athletic fund in accordance with the Receipts section of this guide."

The School District's *Student Activities Fund Management Policy*, states, "All activity funds received by a school must be deposited into its account, through the principal, who shall maintain a permanent receipt journal, containing such information as prescribed by the State Auditor's office to record all receipts."

Finding Detail: During our review of the Tupelo Public School District, we noted that student activity fees collected by the District's Band Department are deposited into the band booster club's bank account, which is not a public depository controlled by the District.

Failure to ensure the proper deposit of student activity fees may result in fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the School District ensure that required student activity fees be deposited in bank accounts controlled by the District.

Repeat Finding: No.

Management's Response: We have discussed this issue and district administrators, and this will be corrected.

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, Purchasing Agents, and the Business Manager. As noted during our testwork, the Principals, Purchasing Agents, and Business Managers 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