

Union County School District MISSISSIPPI

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*
Charlotte L. Duckworth
Director, *Compliance Audit Division*



*The Office of the State Auditor does not discriminate on the basis of
race, religion, national origin, sex, age or disability*



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

February 9, 2022

Limited Internal Control and Compliance Review Management Report

Union County School Board
250 Carter Avenue
New Albany, Mississippi 38652

Dear Members of the Union County School Board:

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

1. Ensure Compliance with State Law over Securing Surety Bonds;
2. Ensure Compliance with State Law over Rehiring PERS Retirees;
3. Ensure Compliance with State Law over Obtaining Quotes;
4. Ensure Compliance with State Law over Using Prescribed Function Codes;
5. Ensure Compliance with State Law over Nepotism; and
6. Strengthen Internal Controls over Travel Expenditures

Please review the recommendations and submit a plan to implement them by February 26, 2022. 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 Union 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, 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 Union 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.

While performing our review, we identified certain instances of noncompliance with State laws and control deficiencies that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW AND CONTROL DEFICIENCIES**.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW AND CONTROL DEFICIENCIES

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

Applicable State Laws: *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 25-1-15(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..."

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

- The Superintendent's bond is a "Continuation Certificate;" and
- The blanket bond for all employees who receipt funds is a "Continuation Certificate."

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 Union County School District ensure compliance over surety bonds 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.

Management's Response: The Superintendent's bond was corrected with a new bond for Purchasing Agent and Superintendent on the 11th day of December 2019 for his term of office effective January 1, 2020. He has been appointed

for a two (2) year term and new bonds (with new bond numbers) have been issued for the titles of Purchasing Agent and Superintendent. The District will contact the bonding company immediately and have any bonds for Purchasing Agents, principals, and the blanket bond set to renew annually with a new bond number as per the State of Mississippi Auditor's Office recommendation.

Finding 2: The School District Should Ensure Compliance with State Laws over Rehiring PERS Retirees.

Applicable State Laws: *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 109 of PERS Regulation 34, provides that, "After the requisite 90-day separation period as defined in Section 106, a retiree may contract to provide such services as a true independent contractor outside the limitations of Section 103 while in receipt of a retirement allowance. However, prior to contracting for such services, such retiree must submit to PERS for its approval, documentation, including but not limited to, the following: the nature of the engagement, including services to be performed; how the services were performed previously, including whether they were performed by an employee and whether the independent contractor previously performed those services as an employee; nature of compensation and treatment of expenses; where the services are to be performed, i.e. on the service recipient's premises; who provides the equipment to perform the services; whether the service provider provides such services to other service recipients; whether such services are offered for other persons through advertising or other solicitation and if so; whether the service provider has provided such services to any other service recipient in the last year and if so to how many; whether there is a written contract for the performance of such services; and other information to substantiate that the service provider is a true independent contractor and not an employee. In addition, PERS will utilize the IRS test as a factor in determining whether an individual is an employee versus an independent contractor in making this determination.

Finding Detail: During the review of the School District's PERS retirees, the auditor noted the following exceptions out of the 30 items tested:

- 27 PERS Form 4Bs submitted for the retirees reemployed during fiscal year 2019 were not submitted within five days of rehire; and
- Seven PERS Form 4Bs submitted for the retirees reemployed during fiscal year 2020 were not submitted within five days of rehire.

Failure to file the PERS Form 4Bs as required by the statute provided above, could result in overpayments to a retiree and the District being assessed penalties by PERS.

Recommendation: We recommend the Union County School District ensure compliance with *Section 25-11-127(4)(b)* and PERS by properly completing and filing the Form 4Bs within five days of reemployment/termination, and ensure that a retiree has been retired at least 90 days before being hired as a retiree. The District should also ensure that all required information is completed/obtained when contracting with PERS retirees as independent contractors.

Repeat Finding: No.

Management's Response: The Assistant Business Manager/Payroll Clerk will require all retirees who are reemployed by the District to come in to the Business Office to complete their PERS Form 4Bs within five days of reemployment. The form will be faxed to PERS and the transmittal will be attached to the forms as proof of delivery.

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

Applicable State Law: *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 invoices for amounts within those 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 as 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 auditor noted three invoices were possibly split to avoid obtaining quotes. We noted the following exceptions with the purchase from Lakeshore Equipment in the amount of **\$8,775**:

- Same purchase requisition date, purchase order date, and invoice date were used for all three invoices; and
- Similar items were purchased for different schools; however, all items were delivered to the Central Office.

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

Recommendation: We recommend the Union County School District ensure compliance over purchasing by obtaining at least two competitive written bids are obtained for every purchase greater than **\$5,000** but less than **\$50,000**, as required by state purchasing laws.

Repeat Finding: No.

Management’s Response: The District did not have any intent to circumvent the purchasing law. This was an oversight when fulfilling teacher requests from three schools for new Kindergarten guidelines. The District is required to spend **\$1,000** per Kindergarten classroom. The District realized the error when the purchase order was pulled for the audit. The District will obtain two quotes on any purchases between **\$5,000- \$49,999.99** in the future.

Finding 4: The School District Should Ensure Compliance with State Laws over Using Correct Function Coding.

Applicable State Law: *Section 37-9-18(3)(b), Mississippi Code Annotated (1972)*, states, “When conducting an audit of a public school district, the State Auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing correct and appropriate functional level expenditure codes in expenditures by the school district. Compliance standards for this audit provision shall be established by the Office of the State Auditor. Based upon the auditor report, the State Auditor shall compile a report on the compliance or noncompliance by all public school districts with correct and appropriate coding at the function level, which report must be submitted to the Chairmen of the Education and Appropriations Committees of the House of Representatives and Senate.”

Finding Detail: During the review of School District’s purchasing procedures, the auditor noted five purchases were coded incorrectly:

<u>Incorrect Function Code:</u>	<u>Correction Function Code:</u>	<u>Vendor:</u>	<u>Amount:</u>
3901-Unknown	5500- Building Acquisition/ Construction	Tupelo Lumber Company	\$7,585
3901-Unknown	1910- Athletic Activities	Riddell	\$12,218
2160-School Resource	2660-	Eversafe Security Solutions	\$19,692

Officer	Security Services		
2740- Vehicle and Maintenance Services for Student Transportation	2650- Vehicle and Maintenance Services (Other than Student Transportation)	Cannon Motors of MS	\$28,231
2620-Operating Building Services	2650- Vehicle and Maintenance Services (Other than Student Transportation)	Cannon Motors of MS	\$23,478

Failure to properly code expenditures results in an inaccurate representation of financial transactions in the report to the Chairmen of Education and Appropriations Committees of the House of Representatives and Senate.

Recommendation: We recommend the Union County School District ensure compliance by correctly coding expenditures, as required by state law.

Repeat Finding: No.

Management's Response: The Business Manager will refer to the financial accounting manual issued by the Mississippi Department of Education to ensure errors in coding do not occur in the future.

Finding 5: The School Board Should Ensure Compliance with State Laws over 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."

Finding Detail: During the review of the School District's Board minutes and Internal Control Questionnaire, the auditor noted Board members were not recusing themselves from voting over matters concerning family members within the third degree.

Failure to recuse themselves from voting results in noncompliance with *Section 37-9-21*.

Recommendation: We recommend the Union County School District ensure compliance by ensuring Board members recuse themselves from approval of hiring family members by abstaining from voting, leave the room and these actions must be noted in the minute, as required by state law.

Repeat Finding: No.

Management's Response: The Board Members will recuse themselves from voting when hiring family members related within the third degree by blood or marriage.

Finding 6: The School District Should Strengthen Internal Controls over Travel Expenditures.

Internal Control Deficiency: An effective system of internal controls requires employees to follow the Board approved travel policy, *DJD Expense Reimbursements*, which includes filling out conference request prior to trip, attaching corroborating evidence of conferences attended, and correctly completing travel vouchers.

Finding Detail: During the review of School District's travel expenditures, the auditor noted the following instances:

- Three instances where no conference log was attached with voucher;
- Two instances where a conference request form was not approved before meeting;
- One instance where no purpose of travel was listed on voucher; and
- One instance where mileage calculated by employee was approximately 86 miles more than auditors calculated.

Failure to implement proper internal controls, could result in errors or misappropriation of the District's monies and those errors or misappropriations not being detected.

Recommendation: We recommend the Union County School District strengthen controls over travel by ensuring conference request forms are approved before meeting, conference logs are attached to voucher, purpose of travel is listed on voucher, and accurately recording actual miles traveled.

Repeat Finding: No.

Management's Response: The travel forms will be reviewed more closely to ensure conference request forms and agendas are attached and the travel forms are completed in full before final approval for payment. The District will use an online mapping service to estimate mileage when the amount turned in is not reasonable. One of the two conference request forms was on file in the Business Office and presented. One instance where no purpose of travel was listed on voucher was resolved when conference request form was submitted.

End of Report



COMPLIANCE REVIEW FINDINGS

February 14, 2022

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

Dear Mr. White:

The Union County School District has received the report of findings from the Limited Internal Control and Compliance Review audit conducted for the fiscal year ending June 30, 2020. Enclosed for your review are the responses and corrective action plans.

AUDIT FINDINGS:

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

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

- The Superintendent's bond is a "Continuation Certificate;" and
- The blanket bond for all employees who receipt funds is a "Continuation Certificate."

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.

Response: Union County School District concurs with this finding.

Corrective Action Plan: The Union County School District contacted the bonding company and continuation certificates have been replaced with bonds for a defined period of time.

Finding 2: The School District Should Ensure Compliance with State Laws over Rehiring PERS Retirees.

Finding Detail: During the review of the School District's PERS retirees, the auditor noted the following exceptions out of the 30 items tested:

- 27 PERS Form 4Bs submitted for the retirees reemployed during fiscal year 2019 were not submitted within five days of rehire; and
- Seven PERS Form 4Bs submitted for the retirees reemployed during fiscal year 2020 were not submitted within five days of rehire.

Failure to file the PERS Form 4Bs as required by the statute provided above, could result in overpayments to a retiree and the District being assessed penalties by PERS.

Response: Union County School District concurs with this finding.

Corrective Action Plan: Controls over the onboarding process will be strengthened in our payroll department to ensure the retirees complete and return Form 4Bs before the commencement of employment. The Form 4Bs will be submitted to PERS no later than the day following completion, and the submission date will be documented.

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

Finding Detail: During the review of the School District's purchasing expenditures, the auditor noted three invoices were possibly split to avoid obtaining quotes. We noted the following exceptions with the purchase from Lakeshore Equipment in the amount of \$8,775:

- Same purchase requisition date, purchase order date, and invoice date were used for all three invoices; and
- Similar items were purchased for different schools; however, all items were delivered to the Central Office.

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

Response: Union County School District concurs with this finding, but would note there was never any intention to split purchase orders to avoid obtaining quotes.

Corrective Action Plan: The Union County School District has strengthened controls and met with the business office staff on the purchasing law to ensure compliance for every purchase greater than \$5,000 but less than \$50,000 has at least two competitive written bids.

Finding 4: The School District Should Ensure Compliance with State Laws over Using Correct Function Coding.

Finding Detail:

During the review of School District's purchasing procedures, the auditor noted five purchases were coded incorrectly:

Incorrect Function Code:	Correction Function Code:	Vendor:	Amount:
3901-Unknown	5500- Building Acquisition/ Construction	Tupelo Lumber Company	\$7,585
3901-Unknown	1910-Athletic Activities	Riddell	\$12,218

2160-School Resource Officer	2660-Security Services	Eversafe Security Solutions	\$19,692
2740- Vehicle and Maint Services for Student Transportation	2650-Vehicle and Maintenance Services (Other than Student Transportation)	Cannon Motors of MS	\$28,231
2620-Operating Building Services	2650-Vehicle and Maintenance Services (Other than Student Transportation)	Cannon Motors of MS	\$23,478

Failure to properly code expenditures results in an inaccurate representation of financial transactions in the report to the Chairmen of Education and Appropriations Committees of the House of Representatives and Senate.

Response: Union County School District concurs with this finding.

Corrective Action Plan: The Business Manager will utilize the financial accounting manual issued by the Mississippi Department of Education to ensure proper codes are used when coding expenditures.

Finding 5: The School Board Should Ensure Compliance with State Laws over Nepotism.

Finding Detail: During the review of the School District's Board minutes and Internal Control Questionnaire, the auditor noted Board members were not recusing themselves from voting over matters concerning family members within the third degree. Failure to recuse themselves from voting results in noncompliance with Section 37-9-21

Response: Union County School District concurs with this finding.

Corrective Action Plan: The school board attorney discussed with administration and School Board Members the laws of nepotism. The School Board members will recuse themselves from the recommendation and voting process of any family member who is related to him/her within the third degree by blood or marriage or who is dependent upon him/her in a financial way. The recusal will be recorded in the board minutes.

Finding 6: The School District Should Strengthen Internal Controls over Travel Expenditures.

Finding Detail: During the review of School District's travel expenditures, the auditor noted the following instances:

- Three instances where no conference log was attached with voucher;
- Two instances where a conference request form was not approved before meeting;
- One instance where no purpose of travel was listed on voucher; and
- One instance where mileage calculated by employee was approximately 86 miles more than auditors calculated.

Failure to implement proper internal controls, could result in errors or misappropriation of the District's monies and those errors or misappropriations not being detected.

Response: Union County School District concurs with this finding.

Corrective Action Plan: The Union County School District has strengthened controls and monitoring travel forms monthly to ensure copies of the meeting agendas are attached when required, conference request forms are dated prior to the meeting, proper completion of the travel form, and accurate mileage is recorded. The district is using an online mapping service to estimate mileage and attaching to the travel form if the mileage turned in is not reasonable based on what has been paid on prior travel forms to other employees. The district has a travel policy in place and will review it will employees annually.

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

Respectfully,



Russell Taylor
Superintendent

OSA Compliance Audit Corrective Action Plan February 2022.docx

RUSSELL TAYLOR
Superintendent

WINDY FAULKNER
Assistant Superintendent

BOARD OF TRUSTEES
MICKEY BASIL
MIKE BROWNING
TERRY COOK
WAYNE MAHON
DAPHNIA McMILLEN

Telephone 662.534.1960 • Fax 662.534.1961
www.union.k12.ms.us • rtaylor@union.k12.ms.us • wfaulkner@union.k12.ms.us
P.O. Box 939 • 250 Carter Avenue • New Albany, MS 38652