

CHOCTAW COUNTY SCHOOL DISTRICT MISSISSIPPI

COMPLIANCE REPORT

Limited Internal Control and Compliance Review Management
For the year ended *June 30, 2021*

SHAD WHITE, CFE
State Auditor

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

Charlotte L. Duckworth
Director, *Compliance Audit Division*



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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

March 21, 2023

Limited Internal Control and Compliance Review Management Report

Choctaw County School District
19 East Main Street
Ackerman, MS 39735

Members of the Choctaw County School District:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the **Choctaw County School District** for the fiscal year **2021**. In these findings, the Auditor's Office recommends the **Choctaw County School District**:

1. Strengthen Internal Controls over Athletic Fund Cash Receipts;
2. Ensure Compliance with State Law over Bank Reconciliations;
3. Ensure Compliance with State Law over Ethics in Relation to Supervision and Recommendation of Relatives within the First Degree;
4. Ensure Compliance with State Law over Obtaining and Maintaining Background Checks on New Hires;
5. Ensure Compliance with State Law over Reemployment of Retired Public Employees; and
6. Ensure Compliance with State Law over Surety Bonds.

Please review the recommendations and submit a plan to implement them by April 4, 2023. 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 **Choctaw 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
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 **Choctaw County School District** for the year ended **June 30, 2021**.

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 *significant deficiency* in internal control. These matters are noted under the heading **SIGNIFICANT DEFICIENCY**. We also identified other deficiencies that we have noted under the heading **OTHER CONTROL DEFICIENCY**.

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

SIGNIFICANT DEFICIENCY

Finding 1: 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 be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

Finding Detail: During our testing of Choctaw County School District's athletic fund revenue, the auditor noted 14 game deposits could not be verified as being properly recorded due to the transmittal amounts not matching the District's general ledger for September 2020.

Inadequate internal controls related to activity fund revenue collection and receipting could result in a loss of assets and improper revenue recognition.

Recommendation: We recommend the Choctaw County School District strengthen internal controls by implementing adequate policies and procedures over athletic revenue by ensuring all athletic fund revenue is safeguarded, properly recognized, recorded, and deposited in a timely manner.

District's Response: We will work to strengthen our policies and procedures to better void this situation happening again. We will specifically be ensuring the athletic revenue fund is safeguarded, properly recognized, recorded and deposited in a timely manner.

Repeat Finding: No.

OTHER DEFICIENCY AND INSTANCE OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law 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 outstanding checks to the balance per bank statement to reconcile to the amount of cash that is listed on the general ledger of the District to what is recorded at the bank. 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.

Applicable State Law: *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 bank reconciliations, the auditor noted the Payroll Clearing bank account was not properly reconciled to the District's general ledger cash balance totaling (\$738,934).

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

Recommendation: We recommend Choctaw County School District strengthen internal controls and ensure compliance by assuring all bank statements are reconciled timely and properly to the District's general ledger. We also recommend management reconcile bank accounts monthly to the general ledger by each fund in order to effectively and timely account for any variance from the District's book balances.

District's Response: We have implemented policies and procedures to ensure all bank statements are reconciled timely and properly to the District's general ledger.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 3: The School District Should Ensure Compliance with State Law over Ethics Related to the Supervision and Recommendation of Relatives within the First Degree.

Applicable State Law: *Section 25-4-105(1), Mississippi Code Annotated (1972)*, states, "No public servant shall use his official position to obtain, or attempt to obtain, pecuniary benefit for himself other than that compensation provided for by law, or to obtain, or attempt to obtain, pecuniary benefit for any relative or any business with which he is associated."

Section 37-9-17(1), Mississippi Code Annotated (1972), states, "The school board of any local school district shall be authorized to designate a personnel supervisor or another principal employed by the school district to recommend to the superintendent licensed employees or noninstructional employees; however, this authorization shall be restricted to no more than two (2) positions for each employment period for each school in the local school district. Any noninstructional employee employed upon the recommendation of a personnel supervisor or another principal employed by the local school district must have been employed by the local school district at the time the superintendent was elected or appointed to office; a noninstructional employee employed under this authorization may not be paid compensation in excess of the

statewide average compensation for such noninstructional position with comparable experience, as established by the State Department of Education.”

Mississippi Ethics Opinion 10-067-E and *Section 25-4-105(1), Mississippi Code of 1972*, states that no school district employee or official may use his or her position or attempt to obtain any monetary benefit for his or her “relative,” as that term is defined in *Section 25-4-103(q)*. Therefore, no Principal may not recommend or supervise relatives within the first degree.

Finding Detail: During the review of the related party questionnaires, the auditor noted one Principal was responsible for the recommendation and supervision of one relative within the first degree.

Failure to ensure the Principal within the School District does not recommend and supervise relatives within the first degree resulted in the violation of *Mississippi Ethics Opinion 10-067-E* and *Mississippi Code Section 25-4-105(1)*.

Recommendation: We recommend the Choctaw County School District ensure compliance by assuring that all recommendations and supervision of relatives within the first degree are as required by state law and regulations. Additionally, this matter has been turned over to the Mississippi Ethics Commission.

District’s Response: The school district genuinely regrets that this error occurred. We fully understand and respect all statutes and opinions that prohibit a Principal from recommending or supervising relatives in the first degree. We will take appropriate measures to ensure this does not happen again.

Repeat Finding: No.

Finding 4: The School District Should Ensure Compliance with State Law Obtaining and Maintaining Background Checks on New Hires.

Applicable State Law: *Section 37-19-17(2), 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 of Education 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 new hires.

Finding Detail: During the review of the School District’s certified employees’ personnel files, the auditor noted twelve District employees’ personnel files did not include evidence of criminal background checks. Failure to obtain background checks of all new hires could result in a wrongful hire of an individual

Recommendation: We recommend the Choctaw County School District ensure compliance over background checks by obtaining and maintaining on file current criminal background checks, as required by state law.

District’s Response: We will be working to ensure compliance by obtaining and maintaining on file the current background checks, as required by state law.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Laws 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.”

Board Regulation 34, Section 105, prescribed by the Public Employees’ Retirement System (PERS) of Mississippi, states, “To 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 a \$300 penalty per occurrence payable by the employer.”

Finding Detail: During the testing of the School District’s PERs Form 4Bs, the auditor noted the following exceptions:

- Fifteen Form 4Bs were not submitted to PERS; and
- Two retirees were paid more than the salary amount allowed by PERS, totaling **\$645**.

Failure to file Form 4Bs, as required by PERS, 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 Choctaw County School District ensure compliance by properly paying rehired retirees and submitting the PERS Form 4Bs, as required by state law.

District’s Response: We will strengthen our internal controls to ensure that the District fully complies with all state laws with regards to PERS and the submitting of forms within five days from the date of reemployment. We will also take steps to comply with the Form 4B reporting as it pertains to retirees and the School Recognition Program.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Law 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.

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 (\$50,000.00), with sufficient surety.”

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

- Eighteen bonds were for indefinite terms; instead of new bonds with definite terms:
 - Thirteen Purchasing Agents;
 - Four Principals;
 - Business Manager; and
- The Assistant Superintendent is bonded for an indefinite term and as a Principal.

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 Choctaw County School District ensure compliance by assuring to secure 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 are working with our insurance agent to replace all indefinite term bonds with bonds that have a specific term. We were not aware of this requirement but are working to be in compliance and we recognize the need to minimize any loss.

Repeat Finding: No.

End of Report



Choctaw County School District

P.O. Box 398
Ackerman, Mississippi 39735
Phone (662) 285-4022
Fax (662) 285-4049
www.choctaw.k12.ms.us

Stewart G. Beard, Jr.
Superintendent of Education

March 22, 2023

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

Dear Mr. White:

This letter is being written as our agency response to the Compliance Review Findings for the Choctaw County School District, related to your review for the year ended June 30, 2021.

Finding 1

The transmittal sheets for gates and concessions have a top priority for our school district. Certain discrepancies and corrections found by the central office staff during verification are required at times to correctly deposit and post to balance.

We agree with your findings and report that we will no longer make corrections to the transmittal sheets and dual initial the changes. To comply with the audit, we now require the school to completely rewrite the transmittal sheet and to submit to us an unaltered form that reflects the accurate and verified count. We have met with the high school staff and we have a full understanding with them of the correct procedure. This was implemented during the audit and we strictly follow these guidelines.

Responsible Parties:

Melody McKenzie, Activity Funds Coordinator
Sara Smith, Secretary
Kenny Clark, Business Manager

Corrected during the audit and monitored closely.

MAR 27 2023

Finding 2

We agree with your findings in this matter. This finding relates to the "Old July" payroll, that is held from the close of business on June 30, to be paid at the end of July. The Payroll Clerk did not fully understand the required procedure.

We have implemented changes so that at the end of June the full balance deposited and left in the Payroll Clearing account will reflect as a balance on the reconciliation. She had been showing all the outstanding Old July checks as outstanding and thereby lowering the bank account balance to zero. We concur this was not correct procedure. She is aware that this former practice is not acceptable and we have made the necessary changes to correct this. This correction in procedure was followed this prior summer and is now implemented and well understood.

Responsible Party

Melody McKenzie, Payroll/HR Manager

Finding 3

This finding relates to a high school Principal that had hired her son as a summer worker for the school district.

We totally agree with your findings and have taken steps to make sure that all parties responsible for either recommendations or supervision of hirings must comply with state law. We have met with Principals and Administrators to make sure they fully understand both the recommendation side and the supervision side of this important issue. We are confident that the staff is fully aware of the law in this matter and will be in compliance. This understanding is implemented and is in force.

Responsible Parties:

Stewart G Beard, Jr. Superintendent
Glen Blaine, Asst Superintendent
Kenny Clark, Business Manager
Melody McKenzie, HR/Payroll Manager
Samantha Kelly, Principal
James Catchot, Principal
Amber Vowell, Principal
Robbie Denson, Principal
Dudley Vance, Director CTE

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Finding 4

This finding primarily relates to employees hired many years ago and the background check was either misplaced, misfiled, or not done.

We agree with your findings on this issue. The Payroll/HR Manager is very aware of the required criminal background check process, and also that failure to do so results in the wrongful hire of an individual. We ask, as guidance, whether we are to process new criminal background checks on old hired employees that have missing reports or would that be incorrect at this time?

Melody McKenzie, Payroll/HR Manager

Melody is well aware of the importance of this process and the Mississippi Code Section. Implementation of this is well understood and is in force.

Finding 5

This finding relates to PERS retirees rehired and the required Form 4-B requirements. We agree with your findings on this matter and have communicated to the Payroll/HR Manager of the correct procedures in both reporting and submitting the PERS Form 4-B. We are confident that this problem has been addressed in both timeliness and accuracy and the school district will be in full compliance.

Responsible Party:
Melody McKenzie, Payroll/HR Manager

Finding 6

We agree with the findings in this matter. This finding stems from a lack of understanding on our part as to the proper procedures regarding surety bond terms.

Prior to this finding we did not have term surety bonds on anyone other than the Superintendent and the Board. This has been totally rectified. All bonds are tied to a term and are now in compliance with the Mississippi Code.

This process is now well understood. We monitor this process very carefully and there should not be any issues going forward.

Responsible Parties:
Kenny Clark, Business Manager
Melody McKenzie, Payroll/HR Manager

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The Choctaw County School District regrets that these errors occurred and have worked hard and will continue to work to insure these errors do not happen again. Thank you for your service to us in this area and feel free to contact us with any questions you may have.

Respectfully,

A handwritten signature in blue ink that reads "Stewart G. Beard, Jr." with a stylized flourish at the end.

Stewart G. Beard, Jr.
Superintendent

MAR 27 2023