

DESOTO COUNTY SCHOOL DISTRICT MISSISSIPPI

COMPLIANCE REPORT

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

SHAD WHITE
State Auditor

Stephanie C. Palmertree, CPA, 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 2, 2023

Limited Internal Control and Compliance Review Management Report

Desoto County School District
5 East South Street
Hernando, Mississippi 38632

Dear Members of Desoto County School Board:

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

1. Strengthen Internal Controls to Ensure Compliance with State Law over Activity Fund Cash Receipts and Deposits;
2. Strengthen Internal Controls to Ensure Compliance with State Law over Budgeted Expenditures and Budget Formatting;
3. Ensure Compliance with State Law over Ratifying Checks Disbursed by Individuals Other Than the Superintendent;
4. Ensure Compliance with State Law over Unemployment Compensation Fund;
5. Ensure Compliance with State Law over Justification of Merchant – Specific Credit Cards and Membership Club Cards;
6. Ensure Compliance with State Law over Obtaining and Maintaining Background Checks of Certified Employees;
7. Ensure Compliance with State Law over Activity Fund Expenses;
8. Ensure Compliance with State Law over Free Admission to School – Sponsored Events and the Purchase of Mississippi High School Activity Association (MHSAA) Passes;
9. Ensure Compliance with State Law over Reemployment of Retired Public Employees; and
10. Ensure Compliance with State Law over Surety Bonds.

Please review the recommendations and submit a plan to implement them by March 16, 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 **Desoto 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 **Desoto 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 *other deficiencies* in internal control. These matters are noted under the heading **OTHER DEFICIENCIES**.

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**.

We have identified surety bonds during audit procedures that are not noncompliant but are recommended to be considered for review. These recommendations are noted under the heading **OTHER RECOMMENDATIONS MADE BY THE OFFICE OF THE STATE AUDITOR**.

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE

Finding 1: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law 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. Management is responsible for ensuring that all revenue is properly earned, recorded, and deposited in order to safeguard the assets of the School District.

Applicable State Law: *Section 37-7-301(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."

Accounting Manual for School Districts, Section B, Miscellaneous Issues, Subject E – Receipt Files, prescribed by the Mississippi Department of Education, states, "All monies shall be receipted to the school district utilizing pre-numbered receipts (2 parts) and be maintained in a bound book or ledger. Under no circumstance shall monies be deposited to any bank account without a proper receipting of such monies. Any documentation necessary to support the receipts shall be maintained on file. All receipts shall include date, received from, amount, account classification and signature of receiver, at a minimum. Electronic transfers of funds should also have receipts assigned for reporting purposes. Receipt files should be prepared and filed by month. These files should contain receipts filed in numerical order along with all supporting documentation (i.e. remittance advices, etc.)"

Accounting Manual for School Districts, Section F, Activity Funds, General Financial Requirements – Reporting, prescribed by the Mississippi Department of Education, states, “No later than five working days after the close of the month, the principal will deliver to the central office a transmittal report of all activity fund transactions for the preceding month.” The Mississippi Department of Education prescribes the receipt and transmittal report forms to be used by the school districts.

Mississippi Attorney General Opinion 93-0213, provides that United States coins and currency are legal tender for all debts, public charges, taxes, and dues. Therefore, the District must give the public more than one option as a means for obtaining tickets to all athletic/extracurricular events.

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

- The District did not utilize receipt books or electronic receipts for 257 Loomis deposits totaling **\$235,846**; therefore, OSA was unable to trace them to the general ledger;
- OSA was unable to determine the timing of 105 deposits; due to, separate deposits were made for paper and coin currency;
- Two deposits were not made timely, ranging from two to three days late;
- There was a net overage of **\$16** between deposits and ticket sales for all basketball and football home games;
- The District offered the public one option to buy tickets for six athletic events through GoFan, which includes a convenience fee charged per ticket. This fee increases the cost of tickets paid for by the Public; and
- Three transmittal forms were submitted between one to two days late.

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

Recommendation: We recommend Desoto County School District strengthen internal controls and ensure compliance by implementing policies and procedures to ensure compliance with the prescribed procedures for the athletic sporting event revenue.

District’s Response: All Desoto County Schools (DCS) high schools and middle schools have Loomis safes installed where deposits can be made daily by bookkeepers and immediately after games. The deposits are credited on the same day if it is before the close of the business day and the following business day if after hours. This is a safety measure for the District. According to the auditor, this finding is because we do not issue a three-part receipt hand-written receipt from a receipt book for all the gate receipts that were deposited. The District completes all forms required for gate receipt procedures. However, a three-part receipt is not necessary because the Loomis safe verifies the money again and produces a deposit receipt in-lieu of a three-part receipt hand-written by an employee. The Loomis receipt is the equivalent of a receipt from the bank. Also, all deposit records from the Loomis safes can be reviewed on-line. DCS feels these are stronger procedures than required.

The Loomis safes at the schools do not allow for coins to be deposited. For gate receipts, all coin change is deposited within the time frame required by the auditor. In most instances, this is less than **\$20** per game. Desoto County Schools balances all receipts within the month, so it is clear that all funds have been deposited. However, the auditor wanted to see a separate slip. Desoto County Schools does not currently write a separate deposit slip for the coin change for each game. Desoto County Schools will change depositing procedures and write a separate deposit slip for the coin change for each game.

For both instances where deposits were not made timely, the cash and checks were deposited within the guidelines. However, in both instances the coin change was deposited late. The schools deposited **\$692,443** in fiscal year 2021, and the amount of coin change not deposited within the two to three days was **\$10**. Copies of the two deposit slips have been given to the auditor, but are also attached to this response.

Football and basketball gate receipts make up a large portion of the athletic receipts. Therefore, \$16 is an extremely small margin of error overall out of total gate receipts. Desoto County Schools will continue to keep up the good work.

The District did not implement a district wide policy or procedure to use GoFan as the sole method of selling tickets. Two schools implemented the procedure without the knowledge of Central Services. The internal auditors for DCS discovered the issue, and it was resolved immediately. Desoto County Schools still continues to offer in-person tickets sales as well as GoFan.

Transmittal Forms: In once instance, the internet was down for that particular school for two days at the beginning of the month. In the second instance, the principal was out sick. The fiscal year 20-21 school year was a COVID year. The third instance, the bookkeeper was late by one day. Only three out of 192 reports were late. DCS will strive to be on time 100% in the future.

Auditor's Note: The *Accounting Manual* does not offer guidance whereby the proper receipting of monies can be avoided. As stated in the *Accounting Manual*, all receipts should include date, received from, amount, account classification and signature of receiver, at a minimum. The Loomis – generated receipts do not meet this minimum requirement. The auditor only recommended an accounting of the change deposited by event, not necessarily separate deposit tickets, as long as the change for each event could be identified within the coin deposit. During our testing of deposits, the District itself could not identify which coins belonged to which event.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Law over Ratifying Checks Disbursed by Individuals Other than the Superintendent.

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

Section 37-9-14(3), Mississippi Code Annotated (1972) states, “All fund to the credit of a school district shall be paid out on pay certificates issued by the superintendent upon order of the school board of the school district properly entered upon the minutes thereof, and all such order shall be supported by properly itemized invoices from the vendors cover the materials and supplies purchased.”

Attorney General Opinion 2002-0658 provides that pay certificates may be issued by the Superintendent without prior approval of the school board on the payment of specific claims in accordance with exceptions noted within *Section 37-9-14(7)*, such as teacher’s salaries, salaries of drivers of publicly owned school buses, travel advances, amounts due private contractors or other obligations where the amount thereof has been previously approved by a contract or by an order of the school board entered upon its minutes, or by inclusion in the current fiscal year budget.

Finding Detail: During the review of the School District’s check disbursements, the auditor noted the Principals at each school location disbursed checks prior to the Board’s approval. All disbursements were ratified by the School Board at the next monthly scheduled Board meeting.

Failure to ensure checks disbursed by Principals were Board approved prior to the disbursement resulted in a violation of

state law and could result in fraud or misappropriation of public monies.

Recommendation: We recommend Desoto County School District ensure compliance by implementing policies and procedures to ensure the Board authorize all payments prior to disbursing the monies by individuals allowed by state law and Board policy.

District's Response: The Mississippi Department of Education specifically states that in a decentralized activity fund system, principals have the authority to write checks during the month and the report of claims is submitted to the county office for ultimate approval by the board. This language was included in the manual when it was written by the Office of the State Auditor many years ago. The Office of the State Auditor trained school districts in the past that this gave them the authority for principals to write checks prior to board approval if the district had a decentralized system which is what Desoto County has always had. It is not feasible for a district our size for schools to have to wait until board approval to release checks, and it is not efficient or effective for schools to not be allowed to issue checks. The district has implemented very strict internal controls regarding student activity funds. The district is working with our board attorney to find a legal solution to this issue.

Auditor's Note: Per review of the *Mississippi Department of Education Accounting Manual*, it does state that Principals will be able to write checks within a decentralized District; however, it does not say the Board does not have to approve the expense prior to being disbursed. *Sections 37-9-14(3) and 37-7-301(o), Mississippi Annotated (1972)*, provides pay certificates may be issued by the Superintendent without approval of the School Board on specific claims; however, nowhere in the statute does it mention anything about Principals. The size of the District does not negate it from complying with state laws and regulations in regards to pay certificates.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Law over Budgeted Expenditures and Budget Formatting.

Applicable State Law: *Section 37-61-9(3), Mississippi Code Annotated (1972)*, states, "... After final adoption of the budget, a synopsis of such budget in a form prescribed by the State Department of Audit shall be published in a newspaper having general circulation in the school district on a date different from the date on which the county or any municipality therein may publish its budget."

Section 37-61-19, Mississippi Code Annotated (1972), states, "It shall be the duty of the superintendents of schools and the school boards of all school districts to limit the expenditure of school funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures from a fund in excess of the resources available within that fund. Furthermore, it shall be unlawful for any contract to be entered into or any obligation incurred or expenditure made in excess of the resources available for such fiscal year. Any member of the school board, superintendent of schools, or other school official, who shall knowingly enter into any contract, incur any obligation, or make any expenditure in excess of the amount available for the fiscal year shall be personally liable for the amount of such excess."

Accounting Manual for School Districts, Miscellaneous, Section E, Budget Formats, prescribed by the Mississippi Department of Education, states, "The budget formats which follow are to be prepared by each school district in formalizing its annual budget. These formats are prescribed by the Office of the State Auditor. A separate budget is required for each individual fund within each generic fund type, with the exception of Trust Funds."

Finding Detail: During the review of the School District's 2020-2021 budgets, the auditor noted the following exceptions:

- The District failed to publish the synopsis of its original budget for fiscal year 2021;

- The District's actual expenditures for the following funds exceeded the budgeted expenditures in the amount totaling **\$2,637**:
 - Fund 1157 (Horn Lake Elementary Activity)
 - Fund 2130 (Child Nutrition Summer Feed Program);
- One fund, Fund 2130 (Child Nutrition Summer Feed Program), did not have budgeted expenditures;
- Auditors noted that the District's budgets varied from the formats prescribed by the State Auditor; and
- There was also a **\$400,001** difference between the combined and the combining budgets for the debt service funds, and the date on the budgets read 2019 rather than 2021 on various pages.

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

Recommendation: We recommend the Desoto County School District ensure compliance by assuring all funds have available resources before expenditures are approved, and the final amended budget is signed and approved by the Board President, as required by state law and regulations.

District's Response: The District will publish the budget synopsis in the future as required. The final budget was amended prior to the closing of fiscal year 2021. A correction was made after the amended budget. The District will ensure that adjusting entries are made prior the final budget amendment. Fund 2130 for Child Nutrition was supposed to be moved via journal entry to Fund 2110 prior to the closing of the year. This was an oversight. There are no expenditures in this fund for fiscal year 2022. There was a formula error in the Excel spreadsheet which did not carry over all cells between the combined and combining budgets. The formula error was fixed in the fiscal year 2022 budget.

Repeat Finding: No.

Finding 4: The School District Should Ensure Compliance with State Law over Unemployment Compensation Fund.

Applicable State Law: *Section 71-5-359(5), Mississippi Code Annotated (1972)*, states, "Each political subdivision, unless it elects to make contributions to the unemployment compensation fund as provided in subsection (9) of this section, shall establish a revolving fund and deposit an amount equal to two percent (2%) of the first Six Thousand Dollars (\$6,000.00) paid to each employee thereof during the next preceding year. However, the department shall by regulation establish a procedure to allow reimbursing political subdivisions to elect to maintain the balance in the revolving fund as required under this subsection or to annually execute a surety bond to be approved by the department in an amount not less than two percent (2%) of the covered wages paid during the next preceding year."

Finding Detail: During the review of the School District's Unemployment Compensation Fund, the auditor noted that that the funds within the District's Unemployment Compensation Fund was insufficient, totaling **(\$124,584)**.

Failure to maintain an adequate balance in the Unemployment Compensation Fund results in the District being out of compliance the aforementioned statute.

Recommendation: We recommend the Desoto County School District ensure compliance by assuring sufficient funds are maintained in the Unemployment Compensation Fund, as required by state law.

District's Response: The journal entry to replenish the Unemployment Compensation Fund was not made in the closing of the year. This is the only time this has ever happened. There was **\$115,270,608** in fund balance in the District Maintenance Fund that was sufficient to cover the **\$124,584** amount. The District will journal entry to replenish each year in the future.

Auditor's Note: The fund balance within District Maintenance does not negate the fact there were insufficient funds in the Unemployment Compensation Fund. The District is responsible for ensuring this fund has a sufficient fund balance monthly and annually.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Law over the Justification of Merchant – Specific Credit Cards and Membership Club Cards.

Applicable State Law: *Mississippi Procurement Manual, Chapter 10, 10.112.03, Merchant-Specific Credit Cards*, prescribed by the Mississippi Department of Finance and Administration, states, “Governing authorities desiring to obtain a merchant specific credit card shall submit to their governing board for approval, written justification for the need of a merchant specific credit card. Approval of such action shall be placed on the minutes of the board of the governing authority.”

Mississippi Procurement Manual, Chapter 10, 10.112.05, Membership Club Cards, prescribed by the Mississippi Department of Finance and Administration, states, “Membership card fee’s such as Sam’s club cards, are allowed but should be justified by the agency or governing authority to show that the anticipated savings using the card would exceed the cost of the card fee. This justification should be maintained on file with the government entity. Each subsequent year, the government entity shall document actual saving for the previous year which substantiate the cost of the card. This would not mean documenting saving on each and every purchase but enough documentation to substantiate adequate saving to justify the expense of the card.”

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

- The District has credit cards for both Lowes and Walmart that have not been approved and justified by the School Board; and
- The District has a Sam’s Card; however, the Board has not documented within its minutes the anticipated saving from its use.

Failure to have the Board approve the justification for merchant – specific credit cards and document the anticipated savings for the use of the club membership card resulted in violation of state law and regulations.

Recommendation: We recommend the Desoto County School District ensure compliance by implementing adequate policies in regards to obtaining and usage of merchant – specific credit cards and membership club cards, as required by state regulations.

District’s Response: The District will Board approve the card in question or move to use the district P-card, and will make sure to keep the documentation on file.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Law over Activity Fund Expenditures.

Applicable State Law: *Section 37-7-301(s), Mississippi Code Annotated (1972) and Accounting Manual for School Districts*, states, “...Activity funds may only be expended for any necessary expenses or travel costs, including advances, incurred by students and their chaperons in attending any in-state or out-of-state school-related programs, conventions or seminars and/or any commodities, equipment, travel expenses, purchased services or school supplies which the local school governing board, in its discretion, shall deem beneficial to the official or extracurricular programs of the district, including

items which may subsequently become the personal property of individuals, including yearbooks, athletic apparel, book covers and trophies. Activity funds may be used to pay travel expenses of school district personnel. The local school governing board shall be authorized and empowered to promulgate rules and regulations specifically designating for what purposes school activity funds may be expended...”

Finding Detail: During the review of the School District’s activity fund expenditures, the auditor noted that on September 16, 2021, the School Board approved to expend activity funds in the amount of **\$500** to replace a cellphone stolen from a student while in the school’s possession.

Failure to properly expend activity funds for an allowable expense resulted in a violation of state law and could result in the loss or misappropriation of public funds.

Recommendation: We recommend the Desoto County School District ensure compliance by assuring activity funds are only used for expenses allowed by state law and regulations.

District’s Response: The District will use District Maintenance funds to reimburse for items that do not fall under the allowable expenditures for student activity funds in the future.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Law 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 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 and all new hires.

Finding Detail: During the review of the School District’s personnel files, the auditors noted four out of the 20 certified teachers personnel files did not have evidence of a background checks prior to being hired.

Failure to obtain background checks of all new hires could result in a wrongful hire of an individual.

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

District’s Response: All of the employees were hired in 2003 and 2004 when the District had a different personnel and different procedures in place. The background checks were performed by the sheriff’s office. Since that time, the district has their own background check processing machine and a required employee orientation where this is performed. Human Resources is reviewing all personnel files to insure all required employees have a background check on file.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Free Admission to School – Sponsored Events and Mississippi High School Activities Association (MHSAA) Passes.

Applicable State Law: *Attorney General Opinion No. 2005-0039*, states, “*The Constitution of the State of Mississippi Article 4, Section 96* states, “The legislature shall never grant extra compensation, fee, or allowance, to any public officer,

agent, servant, or contractor, after service rendered or contract made, nor authorize payment, or part payment, of any claim under any contract not authorized by law” ... by the foregoing constitutional provision and prior opinions, the free admission ... to sporting and social events would not be permissible.”

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

- On August 24, 2015, the School Board approved free entry to all home sporting events for all individuals with District badges (plus one/guest); and
- The District purchased Mississippi High School Activities Association (MHSAA) passes for a retired teacher and his/her spouse without reimbursement to the District totaling **\$60**. This was repaid on March 8, 2022.

Failure to have an approved Board policy that states the benefit of allowing its personnel free admission or requiring the attendance of personnel to school sponsored events could result in an illegal donation. Additionally, failure to be reimbursed for the purchase of MHSAA statewide passes for District employees other than the coaches, Superintendent, Athletic Director, and High School and Middle School Principals could result in an illegal donation.

Recommendation: We recommend the Desoto County School District ensure compliance by implementing policies and procedures to ensure compliance in regards to free admissions and the payment of MHSAA statewide pass of its personnel to school – sponsored events.

District’s Response:

- The former principal and spouse should not have received passes, and the district will request reimbursement.
- The Desoto County School Board has the directive of badge plus one for all employees to encourage attendance to events to show support of our students and for safety and security reasons. The more employees in attendance, the better the safety ratio of employee to student. Athletics are an extracurricular activity, so employee attendance is encouraged for participation in our own activities and the safety of our students.

Auditor’s Note: Although the District encourages the attendance to its school – sponsored events, there is no requirement to attend. If the District seeks to require its employees to attend school – sponsored events, the District should consider including this in their contracts, job description, and Board policy. However, this policy should not include a plus one for individuals who are not employed with the District. Free admission of any individual that is not employed by the District would constitute as an illegal donation under the *Mississippi Constitution*.

Repeat Finding: No.

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

Applicable State Law: *Section 25-11-127(4), Mississippi Code Annotated. (1972)*, states, “Notice shall be given in writing to the executive director, setting forth the facts upon which the employment is being made, and the notice shall be given within five (5) days from the date of employment and also from the date of termination of the employment.”

Mississippi Public Employment Retirement System (PERS) Board Regulation 34, Section 105, states, “The lawfully employ a PERS service retiree under Section 103, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of \$300 penalty per occurrence payable by the employer.”

Finding Detail: During the review of the School District's PERS Form 4Bs, the auditor noted the following exception out of 58 tested:

- Two retirees were paid more than the salary allowed by PERS, totaling **\$705**;
- Four Form 4Bs did not have evidence of the retiree's retirement date; therefore, the auditor was unable to verify if the retiree was rehired before the 90 days after retirement; and
- Two Form 4Bs did not have evidence of the salary allowed by PERS; therefore, the auditor was unable to test the allowed salary.

Failure to file the PERS Form 4B, as required by PERS, and comply with *Section 25-11-127(4)* could result in overpayment of retiree and the School District being assessed penalties by PERS.

Recommendation: We recommend the DeSoto County School District ensure compliance by properly paying employees, and completing PERS Form 4Bs, as required by state law and regulations.

District's Response: Two employees were paid more than allowed by the employees' PERS forms:

- The District is implementing procedures to monitor the amount paid to returning retired employees. The District will notify an employee prior to he/she reaching the maximum amount allowed to earn the fiscal year if needed.
- The PERS Form 4B was completed prior to the new salary being established and Board approved for the fiscal year 2021 school term; thereby resulting in the incorrect amount being submitted to PERS. The employee was paid the correct amount based on the salary amount for full-time directors. The District will issue corrected PERS Form 4B forms to PERS if salary amounts are updated after the initial form is submitted.

Five instances where auditors were unable to test attributes due to forms not being completed correctly:

- The District will ensure all fields are completed on the PERS Form 4B forms prior to submitting to PERS.

Repeat Finding: No.

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

Applicable State Law: *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 37-9-27, Mississippi Code Annotated (1972) states, "The superintendent of any school, before entering upon the duties of his office, shall furnish a good and sufficient surety bond in the penal sum of One Hundred Thousand Dollars (\$100,000.00), with sufficient surety."

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 auditor noted the following exceptions:

- Two Board Members, Superintendent, 17 Purchasing Agents, and Food Service Director were covered by indefinite bonds;
- One Board Member, 24 Purchasing Agents, and, one Accountant were covered by continuation certificates; and
- The District’s blanket bond with covered 44 Principals, 43 Bookkeepers, and 38 Cash Clerks was a continuation certificate.

A “continuations 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. 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 Desoto County School District ensure compliance by securing new bonds every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee as statutorily required.

District’s Response: The District will issue new bonds instead of continuation certificates on all employees as outlined in the Management Response Letter.

Repeat Finding: No.

OTHER RECOMMENDATION BY THE OFFICE OF THE STATE AUDITOR:

The Office of the State Auditor recommends that the School Board consider obtaining new surety bonds for Security Officers. As a result of procedures performed, auditors noted that two Security Officers’ bonds were for indefinite periods and two Security Officers’ were covered by continuation certificates rather than new bonds. 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



DESOTO COUNTY SCHOOLS

5 East South Street • Hernando, Mississippi 38632
662-429-5271 • fax 662-429-4198 • Website: www.desotocountyschools.org

"EXCELLENCE IS A COMMITMENT"

COMPLIANCE REVIEW FINDINGS

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

March 10, 2023

Dear Mr. White:

DeSoto County Schools has received the Compliance Report for the fiscal year ending June 30, 2021. Below are the responses to the findings as presented:

Audit Finding 1: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Activity Fund Cash Receipts and Deposits.

Response: For safety purposes, all DeSoto County high schools and middle schools have Loomis safes installed where deposits can be made daily by bookkeepers and immediately after athletic events without having to drive to the bank for a night deposit which is inefficient and unsafe for our employees. The deposits are credited the same day or the next morning depending on the time of day. The finding regarding receipting stems from a hand-written three-part receipt not being issued for all gate receipts deposited. A gate receipt form is required for all events and requires the signature of the employees handling the funds and the administrator on duty that verifies. The administrator on duty uses a unique identifiable PIN number to deposit the funds, and the Loomis safe produces a printed receipt upon deposit. The receipt is attached to the signed gate receipt form. The signed form and attached receipt meet the requirements of date, received from, amount, account classification, and signature of receiver as required in the Accounting Manual. Also, all deposit records from the Loomis safes can be reviewed and reprinted on-line. All 257 Loomis deposits had printed receipts from the Loomis safe. DCS feels this procedure meets and exceeds the requirements.

The Loomis safes do not allow for coins to be deposited. For gate receipts, all coin change is deposited within the time frame required by the auditor. In most instances, this is less than \$20 per game. Because the coins were not listed on the Loomis receipt and they were deposited with other coins received during the week, there was not a specific receipt for the exact amount of change from a particular game. However, the district can show that the additional funds are deposited in that the amount of funds deposited over and above the total of the other non-game receipts totals to the change not deposited with Loomis. This is verified monthly by the internal audit and accounting departments.

For the two instances where deposits were not made timely, the cash bills and checks were deposited within the guidelines. Only the coin change was deposited late. The schools deposited \$692,443 in fiscal year 2021, and the amount

of coin change not deposited within the two to three days was \$10. Copies of the two deposit slips were provided to the auditor for proof.

Football and basketball gate receipts make up a large portion of the athletic receipts. Therefore, \$16 is an extremely small margin of error overall out of total gate receipts. DeSoto County Schools always strives to be 100% accurate, but we are proud of our staff for keeping the margin of error that low.

Although cashless transactions are more efficient and have a lower risk of theft and fraud, the District did not implement a district wide policy or procedure to use GoFan as the sole method of selling tickets. Two schools implemented the procedure without the knowledge of Central Services. The internal auditors of DeSoto County Schools discovered the issue prior to the compliance audit, and it was resolved immediately

With regard to the transmittal forms, in one instance the internet was down for that particular school for two days at the beginning of the month. In the second instance, the principal was out sick and could not review and sign. The fiscal year 20-21 was a COVID year. In the third instance, the bookkeeper was late by one day. Only three out of 192 reports were late.

Corrective Action Plan:

- A. The District feels the Loomis safe printed receipt and signed form satisfy the receipting requirement. The District will work with the Mississippi Department of Education on written procedures for districts that utilize the Loomis safes.
- B. The District now requires all bookkeepers to receipt coin change from games on a separate banking deposit slip to make it easier for the auditors to audit without having to take an extra step to verify.
- C. The District will continue to strive to make sure deposits occur in a timely manner. The District has emphasized this issue in training.
- D. The District will continue to strive for 100% accuracy when handling ticket sales and change cash for games. We will encourage non-cash ticket sales to help eliminate the possibility of errors and theft.
- E. The District has already conducted additional training to ensure that cash transactions without a fee are still available.
- F. The District will continue to strive to submit reports in a timely fashion. In training, we have emphasized this importance and requested the schools to notify Central Services if there is going to be an issue so that they may assist.

Audit Finding 2: The School District Should Ensure Compliance with State Law Over Ratifying Checks Disbursed by Individuals Other Than the Superintendent.

Response: The Mississippi Department of Education specifically states that in a decentralized activity fund system, principals have the authority to write checks during the month and the report of claims is submitted to the county office for ultimate approval by the board. This language was originally written by the Office of the State Auditor and the auditor's office trained that this was sufficient authority to not have to request board approval prior to releasing checks. DeSoto County Schools has never received a finding for this in the past even when audited by the Office of the State auditor and former directors of the OSA School Division. Furthermore, there are several school districts that currently operate under a decentralized system that do not request prior approval from their board and did not receive findings during their compliance audit. It is not efficient or effective for a district with 41 schools to wait until board approval to release checks. It would be an added stress on the over 2,500 teachers to not be able to get what they need in a timely manner and only receive the checks they need for their activities twice a month. The district would have to significantly

increase the size of the Central Services finance staff and require more board meetings to accommodate this. The district has very strict internal controls regarding student activity funds, and all principals are purchasing agents.

Corrective Action Plan:

In consultation with our board attorney, the district has taken the board policies from the districts that have not been issued a finding for their lack of prior board approval and rewritten a policy that gives authority from the board to the principals defining the specific types of transactions they will allow the principals to write without prior board approval. Also, it would be helpful for the Office of the State Auditor to work with MDE on clarification of what the districts can do to continue to be decentralized, not require board approval, and remain in compliance.

Audit Finding 3: The School District Should Ensure Compliance with State Law Over Budgeted Expenditures and Budget Formatting.

Response: The district will publish the budget synopsis in the future as required. The final budget was amended prior to the close of the fiscal year 2021, and a correction was made after the amended budget. Also, there was a formula error in the budget spreadsheet.

Corrective Action Plan:

- A. The District will publish the budget synopsis in the future as required.
- B. The Chief Financial Officer will approve any corrections made after the closing of the year in the event further board action is required for another budget amendment prior to the October 15th deadline.
- C. The Excel formula has already been corrected and was correct for the FY22 budget.

Audit Finding 4: The School District Should Ensure Compliance with State Law Over Unemployment Compensation Fund.

Response: The journal entry to replenish the Unemployment Compensation Fund was not made in the closing of the year. This is the only time this has ever happened.

Corrective Action Plan: The District has added the replenishment requirement to the Year End Closing checklist to prevent the issue in the future.

Audit Finding 5: The School District Should Ensure Compliance with State Law Over the Justification of Merchant Specific Credit Cards and Membership Club Cards.

Response: The District could not find in the board minutes where the cards were approved.

Corrective Action Plan: The District will have the Board approve the cards or move to use the district P-card instead.

Audit Finding 6: The School District Should Ensure Compliance with State Law Over Activity Fund Expenditures.

Response: The District did use student activity funds to reimburse for the stolen cellphone. This had been the procedure since in the past, fines for cell phone violations were deposited in the student activity funds.

Corrective Action Plan: The District will use District Maintenance funds to reimburse for items that do not fall under the allowable expenditures for student activity funds in the future.

Audit Finding 7: The School District Should Ensure Compliance with State Law Over Obtaining and Maintaining Background Checks.

Response: All of the employees in question were hired in 2003 and 2004 when the law changed to require background checks. Employees hired prior to the law change fell under a “grandfather” clause and did not require a background check. The District had different personnel and different procedures in place. The current staff did not know that former personnel did not begin the background check procedure for the first two years of the law change.

Corrective Action Plan: Human Resources is reviewing all personnel files to insure all required employees have a background check on file. The District now has their own background check processing machine and a required employee orientation where this is performed before they are allowed to work.

Audit Finding 8: The School District Should Ensure Compliance with State Law Over Free Admission to School – Sponsored Events and Mississippi High School Activities Association (MHSAA) Passes.

Response: The former principal and spouse should not have received passes.

The Desoto County School Board has the directive of badge plus one for all employees to encourage attendance to events to show support of our students and for safety and security reasons. While the District requires only certain employees and administrators to attend these events, the District encourages all of its employees to attend and help the District provide a safe and secure environment for the players and citizens who attend. Our employees know and recognize students and parents who attend which makes it easier for our employees to recognize individuals who might present a danger by their attendance and to seek assistance from law enforcement. The more employees in attendance, the better the safety ratio of employees to students and visitors. As athletics are an extracurricular activity, employee attendance cannot be mandated (except in certain circumstances) but can be encouraged to show support for our student athletes and ensure a safe environment.

Corrective Action Plan:

A. Reimbursement has been made for the athletic passes for the former retired principal and her spouse. The District has also conducted additional training with principals to prevent further issues.

B. The District will continue to encourage District employees to attend events to provide a safe and secure environment for players and citizens and will include this in job descriptions and the employee handbook. The District will continue to work with our board attorney and legislators on the issue of allowing an employee plus one for school sponsored events.

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

Response: Two retired employees were paid more than the amount allowed by PERS for a returning retiree.

Corrective Action Plan:

A. The district has implemented procedures to monitor the amount paid to returning retired employees. The District will notify an employee prior to he/she reaching the maximum amount allowed to earn each fiscal year if needed.

B. The District will also revisit all PERS forms when a salary increase has been awarded to ensure a corrected form does not need to be submitted.

C. The District will review all PERS 4B forms for completeness prior to submitting to PERS.

Audit Finding 10: The School District Should Ensure Compliance with State Law Over Surety Bonds.

Response: The District issued continuation certificates for the bonds of continuing employees. Prior guidance was not clear.

Corrective Action Plan: The District had new bonds issued on all employees and no longer uses continuation certificates.



Cory Usselton, Superintendent