

KEMPER 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*



*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**

Limited Internal Control and Compliance Review Management Report

Kemper County School District
159 Main Ave
De Kalb, MS 39328

Members of the Kemper County School Board:

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

1. Strengthen Internal Controls and Ensure Compliance with State Law over Sixteenth Section Deposits, Taxes, Lease Payments, and Appraisals;
2. Ensure Compliance with State Law over Purchases over \$5,000 but not over \$50,000;
3. Ensure Compliance with State Law over School Depository Advertisement;
4. Ensure Compliance with State Law over Monthly Financial Reports;
5. Ensure Compliance with State Law over Ad Valorem Escrow;
6. Ensure Compliance with State Law over Unemployment Compensation Fund;
7. Ensure Compliance with State Law over Reemployment of Retired Public Employees; and
8. Ensure Compliance with State Law over Surety Bonds.

Please review the recommendations and submit a plan to implement them by October 11, 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 Kemper 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 Kemper 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 deficiency*. These matters are noted under the heading **OTHER DEFICIENCY**.

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**.

OTHER DEFICIENCY AND NONCOMPLIANCE WITH STATE LAW

Finding 1: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Sixteenth Section Deposits, Lease Payments, and Appraisals.

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.

Applicable State Law: *Section 27-35-71, Mississippi Code Annotated (1972)*, states, "Sixteenth section lands reserved for the use of schools, or lands reserved or granted in lieu of or as a substitute for the sixteenth sections, shall be liable, after the same shall have been leased, to be taxes as other lands are taxed during the continuance of the lease, but in case of sale thereof for taxes, only the title of the lessee or his heirs or assigns shall pass by the sale." In addition, the standard lease agreement used by the district between the lessee and lessor states, "Lessee shall pay all taxes levied, if any, on said property on time to prevent default."

Section 29-3-57, Mississippi Code Section (1972), states, "Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the Board of Education finds extenuating circumstances were present, and the Board shall inaugurate the proper legal proceedings to terminate such lease."

Section 29-3-65, Mississippi Code Annotated (1972), states, “One (1) year prior to the date, when any such lands, not subject to competitive bid procedures, shall become available for lease, the Board of Education shall appoint a competent appraiser to appraise the land and report to the Board his recommendation for the fair market rental amount. The Board shall then determine whether the same be a reasonable amount, and shall grant the lease pursuant to *Section 29-3-63*.”

Finding Detail: During the review of the School District’s sixteenth section land leases, the auditor noted the following instances of noncompliance out of 20 tested:

- Ten lease payments were not deposited in a timely manner;
- Seven leases where taxes were not current; however, the lease agreements were not terminated, totaling **\$2,977**;
- One lease tax payment was undeterminable due to the parcel number not being available;
- Three lease payments were more than 60 days late; however, the lease agreements were not terminated; and
- Nine lease agreements did have an appraisal noted in the file prior to entering into a new lease agreement;

Failure to terminate lease agreement due to the non-payment or late payment of property taxes, rental payments and appoint a competent appraiser resulted in noncompliance with state laws and regulations. Inadequate internal controls relating to receipting sixteenth section revenue could result in a loss of assets and improper revenue recognition.

Recommendation: We recommend the Kemper County School District ensure taxes are current and an appraiser is appointed one year before to the rental of sixteenth section land, as required by state laws and regulations. Additionally, we recommend all lease payments are deposited immediately.

District’s Response: Kemper County School District will ensure sixteenth section land taxes are current and an appraiser is appointed one year prior to the date, when any such lands, not subject to competitive bid procedures, becomes available for lease. Management will monitor all lease payments to ensure lease payments are deposited timely.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Law over Purchases over \$5,000 but not over \$50,000.

Applicable State Law: *Section 31-7-13(b), Mississippi Code Annotated (1972)*, requires the District to obtain at least two competitive written bids for purchases over \$5,000 but not over \$50,000 exclusive of freight and shipping charges. The District is required to accept the lowest and best competitive written bid.

Finding Detail: During the testing of the School District’s purchasing expenditures, the auditor noted two vendor purchases did not have quotes or bids, totaling **\$12,772**.

- BSN Sports LLC - **\$5,780**; and
- Riddell - **\$6,992**.

Failure to obtain at least two competitive written quotes resulted in the District not being in compliance with state purchasing laws.

Recommendation: We recommend the Kemper County School District ensure compliance with *Section 31-7-13(b), Mississippi Code Annotated (1972)*, by properly obtaining at least two bids for purchases over \$5,000 but not over \$50,000, as required by law.

District's Response: The Kemper County School District will ensure compliance with *Section 31-7-13(b) Mississippi Code Annotated (1972)* by obtaining at least two bids for purchases over \$5,000, but not over \$50,000, as required by law.

Repeat Finding: No.

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

Applicable State Law: *Section 27-105-305, Mississippi Code Annotated (1972)*, requires Board give notice to financial institutions within its County whose accounts are insured by the Federal Deposit Insurance Corporation, by publication, bids will be received from them at the following January meeting or next meeting, for the privilege of keeping its funds.

Section 37-7-333, Mississippi Code Annotated (1972), requires all public funds to be place in the depository or depositories selected by the School Board in the same manner as provided in *Section 27-105-305, Mississippi Code Annotated (1972)* for the selection of county depositories. *Section 37-7-333, Mississippi Code Annotated (1972)*, also requires the bids of the financial institutions keeping school funds be effective on July 1st of each year. Further, School Boards are allowed to advertise and accept bids for depositories, not less than once every three (3) years, when the School Board determines that I can obtain a more favorable rate of interest and less administrative processing.

Finding Details: During the review of the School District's depository bids, the auditor noted the District was unable to provide a copy of the advertisement for its depository used during fiscal year 2021; therefore, the auditor could not determine if the District actually advertised for bids of its depository.

Recommendation: We recommend the Kemper County School District ensure compliance with *Sections 27-105-305 and 37-7-333, Mississippi Code Annotated (1972)*, by properly advertising bids for depositories by July 1st every three years.

District's Response: Kemper County School District's School Board, Superintendent and management will comply with *Section 27-105-306 and 37-7-333*, by advertising bids for depositories, not less than once every three years, by July 1st of each year.

Repeat Finding: No.

Finding 4: The School District Should Ensure Compliance with State Law over Monthly Financial Reports.

Applicable State Law: *Section 37-9-18, Mississippi Code Annotated (1972)*, requires all financial reports be submitted to the local school board. According to the board's policy, financial reports that shall be submitted to the Board includes reconciled bank statements, statement of revenues and expenditures, current budget status, monthly cash-flows, and

combined balance sheet or current fund equity balances at each regular monthly school board meeting. A copy of all required financial reports shall be included in the official minutes of the board meeting at which the reports were discussed.

Mississippi Department of Education Accounting Manual, Section B, Miscellaneous Issues, "Timeliness," states, "It is imperative that all financial statements and supporting documentation be maintained on a timely basis and include accurate and reliable information. All records and reports should be completed and filed by the end of the following month, unless other requirements apply."

Board Policy, Section D Fiscal Management, Policy Code DI – Accounting and Reporting, states, "The Superintendent of school shall furnish to the school board a financial statement of receipts and disbursements, by funds on or before the last working day of the following month covering the prior month. The school board shall be authorized to investigate and audit all financial records of the superintendent of schools at any and all times. 37-9-18(1)"

Finding Detail: During the review of the School District's Board minutes, the auditor noted complete financial reports were not submitted to the Board for the months July through December 2020 and January through April 2021.

Failure to submit a complete set of financial reports the School Board by the following month covering the prior month could result in the loss or misappropriation of public funds.

Recommendation: We recommend the Kemper County School District ensure all monthly financial reports are completed and submitted to the School Board by the end of each following month, as required by state law, *Mississippi State Board of Education Accounting Manual*, and the District's Board Policy.

District's Response: The Superintendent and Business Manager of Kemper County School District will present a complete set of financial reports to the Board each month as required by law and the school district's policy.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Law over Ad Valorem Escrow.

Applicable State Law: *Section 37-57-105(3), Mississippi Code Annotated (1972),* states, "The aggregate receipts from ad valorem taxes levied for school district purposes, excluding collection fees, pursuant to this section and Section 37-57-1 shall be subject to the increased limitation under *Section 37-57-107*; however, if the ad valorem tax effort in dollars requested by the school district for the fiscal year exceeds the next preceding fiscal year's ad valorem tax effort in dollars by more than four percent (4%) but not more than seven percent (7%), then the school board shall publish notice thereof once each week for at least three (3) consecutive weeks in a newspaper having general circulation in the school district involved, with the first publication thereof to be made not less than fifteen (15) days prior to the final adoption of the budget by the school board."

Finding Detail: During the testing of the School District's limitation of ad valorem taxes and homestead exemption reimbursements, the auditor noted the District received more ad valorem taxes and homestead exemptions reimbursements than the amount allowed by *Section 37-57-107, Mississippi Code Annotated (1972)*. The excess is due to the District receiving more tax revenue from the County than the District's base amount for fiscal year 2021.

Due to the calculation indicating a violation of *Section 37-57-107, Mississippi Code Annotated (1972)*, the excess collected during 2020-2021 year in the amount **\$48,087**.

Recommendation: We recommend that the Kemper County School District ensure compliance by implementing policies and procedures to ensure compliance with *Section 37-57-107* and escrow the excess noted, totaling **\$48,087**.

District's Response: The Kemper County School District will follow adequate calculations, controls, policies and procedures in regard to escrow of ad valorem and homestead tax revenue, pursuant to *Section 37-57-107, Mississippi Code Annotated (1972)*.

Repeat Finding: No.

Finding 6: 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 paragraph 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 there were insufficient funds within the fund totaling, **\$7,961**; therefore, the District is not in compliance with *Section 71-5-359*.

Recommendation: We recommend the Kemper County School District ensure compliance by depositing adequate monies in the Unemployment Comp Fund by evaluating the balance annually to ensure that a balance of no less than two percent (2%) of the first **\$6,000** of each employee's wages is maintained in the fund. Also, the District should deposit **\$7,961.06** to the Unemployment Compensation Fund to correct the insufficiency.

District's Response: Kemper County School District will calculate the amount of unemployment funds needed to ensure the sufficient amount is in the unemployment compensation fund according to *Section 71-5-359*.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Law 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."

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 exceptions out of four forms tested:

- One retiree was paid more than the allowed salary by PERS, totaling **\$324**;
- Four Form 4Bs were not submitted to PERS within five days of rehire; and
- One Form 4B was not properly completed.

Failure to comply with *Section 25-11-127* could result in overpayments, and the assessment of fines and penalties against the School District by PERS.

Recommendation: We recommend the Kemper County School District ensure compliance by properly completing the required Form 4Bs and submitting the forms to PERS within five days from the date of reemployment, as required by state law. Also, the District should ensure retired rehires are not making more than the salary allowed by PERS.

District's Response: Kemper County School District will implement a procedure to comply with *Section 25-11-127(4)* and PERS Board Regulation 34, Section 103 to ensure Form 4B is completed correctly and submitted to PERS with five (days of employment. Kemper County School District will monitor compensation to retirees to ensure retirees are not paid in excess of the allowable amount, according to statute.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Surety Bonds.

Applicable State Law: *Section 25-1-19, Mississippi Code Annotated (1972)*, states, "The bond 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 chancery court of the county..."

Finding Detail: During the review of the School District's surety bonds, the auditor noted the following bonds were not filed with the Chancery Clerk's Office in a timely manner:

- One Principal and one Board member's surety bonds were not filed until June 7, 2021
- One Board member's surety bond was not filed until February 12, 2021; and
- The Business Manager's surety bond was not filed until June 17, 2021.

Failure to file the District's employee's and officials' bonds immediately after purchase resulted in noncompliance with state law.

Recommendation: We recommend the Kemper County School District ensure compliance by filing bonds for all officials' surety bonds in a timely manner with the Chancery Clerk's office, as required by state law.

District's Response: The KCSD will ensure that all new bonds are secured to the School District 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. In addition, the Board will ensure all bonds for employee's and officials' bonds are filed with the Chancery Clerk.

Repeat Finding: No.

End of Report



KEMPER COUNTY SCHOOLS

Office of the Superintendent of Education

Hilute Hudson, Superintendent

Post Office Box 219

DeKalb, Mississippi 39328

Phone (601) 743-2657

Fax (601) 743-9297

COMPLIANCE REVIEW FINDINGS

10/12/2022

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

Dear Mr. White:

Enclosed for your review are Responses/Corrective Action plans in regards to the audit findings for Kemper County School District for the fiscal year 2021.

AUDIT FINDINGS:

Audit Finding 1: The School District Should Strengthen Internal Controls over Deposits and Ensure Compliance with State Laws over Sixteenth Section Lease Revenues, Taxes, and Appraisals.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District will ensure sixteenth section land taxes are current and an appraiser is appointed one (1) year prior to the date, when any such lands, not subject to competitive bid procedures, becomes available for lease. Management will monitor all lease payments to ensure lease payments are deposited timely.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Audit Finding 2: The School District Should Ensure Compliance with State Laws over Obtaining Quotes for Purchases Over \$5,000 but Not Over \$50,000.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District will ensure compliance with Section 31-7-13 (b) MS Code Annotated (1972) by obtaining at least two bids for purchases over \$5,000, but not over \$50,000, as required by law.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Audit Finding 3: The School District Should Ensure Compliance with State Laws over the Advertisement of Its Depositories.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District's School Board, Superintendent, and management will comply with Section 27-105-306 and 37-7-333, by advertising bids for depositories, not less than once every three (3) years, by July 1st of each year.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Audit Finding 4: The School District Should Ensure Compliance with State Laws over Financial Reports.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. The Superintendent and Management will ensure a complete set of financial reports are submitted to the Board monthly, as required by law and the School District's policy.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Audit Finding 5: The School District Should Ensure Compliance with State Laws over Ad Valorem Escrow.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District will follow adequate calculations, controls, policies, and procedures in regard to escrow of ad valorem and homestead tax revenue, pursuant to Section 37-57-107, Mississippi Code Annotated (1972).
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Audit Finding 6: School District Should Ensure Compliance with State Laws over Unemployment Compensation Fund.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District will calculate the amount of unemployment funds needed to ensure the sufficient amount is in the unemployment compensation fund according to Section 71-5-359.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

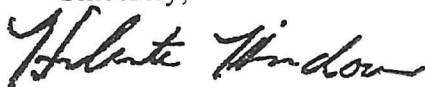
Audit Finding 7: The School District Should Ensure Compliance with State Laws over Reemployment of Retired Public Employees.

Response: Kemper County School District does concur with the individual finding and recommendation.

Corrective Action Plan:

- A. Kemper County School District will implement a procedure to comply with Section 25-11-127(4) and PERS Board Regulation 34, Section 103 to ensure Form 4B is completed correctly and submitted to PERS with five (5) days of employment. Kemper County School District will monitor compensation to retirees to ensure retirees are not paid in excess of the allowable amount, according to statute.
- B. Dr. Matilda Miller
- C. Procedures are currently in place.
- D. N/A

Sincerely,

A handwritten signature in black ink, appearing to read "Hilute Hudson".

Hilute Hudson
Superintendent