

LEE 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

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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

Lee County School District
1280 College View Drive
Tupelo, Mississippi 38804

Members of the Lee County School Board:

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

1. Strengthen Internal Controls over Segregation of Duties Surrounding Deposits, Bank Reconciliations, and Journal Entries;
2. Strengthen Internal Controls and Ensure Compliance with State Law over Activity Fund Revenue;
3. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approvals and Budgeted Expenditures;
4. Ensure Compliance with State Law over Ratifying Checks Disbursed by Principals;
5. Ensure Compliance with State Law over the Presentation of Monthly Financial Statements;
6. Ensure Compliance with State Law over Purchasing Expenditures;
7. Ensure Compliance with State Law over Nepotism;
8. Ensure Compliance with State Law over Ad Valorem Tax Increase Advertisements;
9. Ensure Compliance with State Law over Booster Club Fundraisers and School Sponsored Events;
10. Ensure Compliance with State Law over Free Admission to School-Sponsored Events and the Purchase of Mississippi High School Activity Association (MHSAA) State Passes;
11. Ensure Compliance with State Law over Membership Club Cards;
12. Ensure Compliance with State Law over Background Checks, Salary Scales, and Contracts; and
13. Ensure Compliance with State Law over Reemployment of Retired Public Employees.

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 **Lee 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 **Lee 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 noted certain deficiencies in controls that we 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**.

SIGNIFICANT DEFICIENCY

Finding 1: The School District Should Strengthen Internal Controls over Segregation of Duties Surrounding Deposits, Bank Reconciliations, and Journal Entries.

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 adequate segregation of duties. A well-designed system of internal controls should include segregating job duties to the greatest extent possible.

Finding Detail: During the review of the School District's internal controls, the auditors noted the Central Office's Bookkeeper prepares deposit slips, makes deposits, reconciles bank statements, and records journal entries.

Failure to strengthen internal controls could result in fraud or misappropriation of public monies.

Recommendation: We recommend the Lee County School District strengthen internal controls by implementing adequate procedures to assure there is proper segregation of duties surrounding deposits, bank reconciliations, and journal entries.

District's Response: The small size of our Business Office staff reduces our ability to fully segregate duties. We received a similar finding from our financial auditors in the fiscal year 2020 audit report, and we have implemented mitigating controls including but not limited to additional review procedures, software controls, etc. Although we recognize the risk, we feel these mitigating controls limit risk to an acceptable level.

Repeat Finding: Yes; 2020-001.

OTHER DEFICIENCIES AND INSTANCE OF NONCOMPLIANCE WITH STATE LAW

Finding 2: 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 management to be responsible for ensuring that all revenue is properly earned, recorded, and deposited in order to safeguard the assets of the School District. .

School Board Policy, Fiscal Management, Policy Code DFK, Gifts and Bequests to School District (Donations), states, “All donations and contributions (monies and personal property) in an amount of \$500 or more shall be formally submitted to the Board for acknowledgement and acceptance. The Minutes shall reflect the contributor, amount, and purpose for the donation, if any. All monies donated shall be deposited into the appropriate fund.”

Applicable State Law: *Accounting Manual for School Districts, Section F, Activity Funds, Transmittal Report*, prescribed by the Mississippi Department of Education, states that transmittal reports are “to be completed by the principal's office and submitted to the central office no later than five working days after the close of the month. The Transmittal Report shall contain a listing of all receipts and disbursements occurring at the local school.”

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

- Eighteen deposits were made three to 37 days late;
- Twelve receipts were not posted to a monthly transmittal;
- Seven game collections could not be traced to receipts;
- Pre-numbered tickets were not utilized at the visitor gate for four home games;
- Two transmittal forms were submitted to Central Office three to seven days late;
- Two deposits were posted to the general ledger at the incorrect revenue code;
- One deposit was posted to the general ledger for \$20 less than the revenue collection;
- The District received a **\$750** donation at the gate; however, only **\$200** was receipted, and deposited. Additionally, the School Board did not approve this donation within its minutes. The auditors, the Business Manager, Bookkeeper, and Superintendent could not find evidence of what happened to the additional **\$550**; and
- There was a net shortage of **\$308** between deposits and ticket sales for the varsity football and basketball games;

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 the Lee County School District strengthen internal controls and ensure compliance by assuring all activity revenue is safeguarded, properly receipted, recorded, and adequately recognized, as required by state regulations and its Board policy.

District’s Response: We agree with these exceptions. We believe the exception noted at Mooreville High and Saltillo High were isolated errors. However, we recognize the seriousness of the exceptions noted at Shannon High. Central Office administration, including the Superintendent and Business Manager, will meet with the Principal and school bookkeeper and implement a plan of improvement.

Repeat Finding: No.

Finding 3: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approvals and Budgeted Expenditures.

Internal Control Deficiency: Good internal controls require the Board of Education to establish priorities for the financial management of the District, review and approve all presented budgets, and assure expenditures for the District fund are within the legal requirements of the approved budget.

Applicable State Law: *Section 37-61-19, Mississippi Code Annotated (1972)*, states, “It shall be the duty of the superintendent 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...”

Finding Detail: During the review of the School District’ budgeting for fiscal year 2021, the auditors noted the following exceptions:

- On August 13, 2020, the Board approved the 2021 original budget that included 17 funds reflecting a projected negative fund balance at year end, totaling **\$1,781,936**;
- On September 17, 2021, the Board approved the 2021 amended budget included the following five funds reflecting a negative fund balance at year end, totaling **\$2,469,534**:
 - Fund 1913 (DM Technology) – **\$241**;
 - Fund 2592 (Equity on Distance Learning) – **(\$1,948,994)**;
 - Fund 2593 (MS Pandemic Response Broadband Availability) – **(\$405,864)**;
 - Fund 2711 (Vocational Education – Regular) – **(\$5,515)**;
 - Fund 2902 (Juvenile Detention Center (2902) – **(\$109,402)**;
- The amended budget’s actual expenditures for the following three funds exceeded the budgeted expenditures in the combined amount of **\$15,895**:
 - Fund 1120 (District Maintenance);
 - Fund 2213 (Title I – SI18410184.010 School Improvement Grant 18/21);
 - Fund 2511 (Title II EG194101 84.367 Grant Year 2019); and
- The following two funds did not have budgeted expenditures in the totaling **\$284,439**:
 - Fund 2210 (Title I);
 - Fund 2598 (ESSER III Elem & Sec. School Emergency Relief).

Failure for the District to ensure there are available resources for all expenditures could result in deficit fund balances. Additionally, the approval a budget with negative fund balances could result in actual fund balances being negative. However, in this case, the actual fund balances at June 30, 2021 were not negative for Fund 1913, Fund 2592, Fund 2593, Fund 2711, and Fund 2902.

Recommendation: We recommend the Lee County School District strengthen internal controls and ensure compliance by assuring all funds have available resources before expenditures are approved and spread upon the Board minutes. A thorough review of such budgets should be made prior to presentation to the Board for approval.

District’s Response: Seventeen Funds with projected negative fund balance on the original budget – The original budget is done in July, before all year end transfers have been made. Therefore, the ending fund balance on that printout is not accurate. The board is approving the budgeted revenues and expenditures, and those figures are correct. After all year end transfers were taken into consideration, only two funds were left with actual projected negative fund balances:

- Fund 2112 – **(\$386)**
- Fund 2214 – **(\$27,000)**

Five funds with a projected negative fund balance at year end on the final budget: Fund 1913, 2711, and 2902 – We agree with these exceptions. In all three funds, a journal entry was made after the year end transfer from district maintenance had already been made, resulting in a negative fund balance. Funds 2592 and 2593 – No revenue was budgeted in either fund, so it is correct that the budgeted fund balances were negative. However, revenue equal to the budgeted deficit was actually received, and both funds had an actual ending fund balance of \$0. Three funds had actual expenditures that exceeded budgeted amounts: We agree with these exceptions. Three funds had a negative fund balance at fiscal year-end. We agree with these exceptions. However, the law says that a district shall not spend more than the resources available. All three of these funds operate at a deficit all year and are then reimbursed by District Maintenance at the end of the year. The fact that the year-end entry was done for the incorrect amount doesn't mean that resources weren't available. In fact, the cash accounts for all three of these fund are in the same bank account as the District Maintenance fund. While there was a deficit in the general ledger fund balance, there was not a lack of available resources.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 4: The School District Should Ensure Compliance with State Law over Ratifying Checks Disbursed by Principals.

Applicable State Law: *Section 37-9-14(3), Mississippi Code Annotated (1972)*, states, “All funds 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 orders shall be supported by properly itemized invoices from the vendors covering the materials and supplies purchased. All such order and the itemized invoices supporting same shall be filed as a public record in the office of the superintendent for a period of five (5) years. The Superintendent shall be liable upon his official bond for the amount of any pay certificate in violation of the provisions of this section. The school board shall have the power and authority to direct and cause warrants to be issued against such district funds for the purpose of refunding any amount of taxes erroneously or illegally paid into such fund when such refund has been approved in the manner provided by 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 control of the receipt, distribution, allotment and disbursement of all funds provided for the support and operation of the schools 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.”

School Board Policy, Fiscal Management, Policy Code DJEJA, Bill Payment Authorization: Capital Equipment, Goods and Services, provides that the School Board authorizes the Superintendent to pay school district claims from any account other than payroll up to **\$250,000** per claim to be ratified by the Board at the next regularly scheduled meeting after payment is made.

Finding Detail: During the review of the School District's check disbursements, the auditor noted each of the District's principals write checks without Board approval. These disbursements were not ratified by the School Board until its next Board meeting.

Failure to obtain Board approval on all checks signed and disbursed by the principals could result in fraud or misappropriation of public monies and resulted in noncompliance with state law and the District's Board policy.

Recommendation: We recommend the Lee County School District ensure compliance by assuring the School Board authorizes all payments prior to disbursement, as required by state law and its Board policy.

District's Response: We do not agree with this finding. We believe we are operating within the parameters of state law, the Mississippi Accounting Manual for School Districts, and our board policy.

Auditor's Note: The *Accounting Manual for School Districts* does state Principals are able to write checks within a decentralized District; however, it does not state the Board is omitted from approving the expense or disbursement. *Section 37-9-14(3)* and *37-7-301(o)* provides pay certificates may be issued by the Superintendent without prior School Board approval on specific claims if there is a Board policy; however, state statute does not mention Principals. The District's Board policy only authorizes principals to sign checks on the activity fund accounts. Board policies do not supersede or negate state law.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Law over Presenting Monthly Financial Reports.

Applicable State Law: *Section 37-9-18(1) (a), Mississippi Code Annotated (1972)*, states, "The State Board of Education shall promulgate rules and regulations concerning the type of financial reports required to be submitted by the superintendent of schools to the local school board, and the frequency with which the reports shall be submitted by the superintendent of schools to the local school board, and the frequency with which the reports shall be submitted."

Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board states that, "at minimum, the Superintendent should provide reconciled bank statements, a statement of revenues and expenditures, current budget status, a cash flow statement by month, and a combined balance sheet or current fund equity balances."

Finding Detail: During our review of the District's Board minutes, the auditor noted that a complete set of required monthly financial statements for July 2020 through June 2021 were not submitted to the School Board.

Failure to comply with the financial reporting requirements established by the State Board of Education constitutes a violation of the *Mississippi Public School Accountability Standards*. Additionally, presenting false or inaccurate information to the Board could lead to the School Board not being appropriately and timely informed of the District's financial status, which would influence decisions made by the Board concerning claims.

Recommendation: We recommend the Lee County School District ensure compliance by assuring an accurate and complete set of financial reports are submitted to the Board each month, as required by state law and regulations.

District's Response: Regarding the Statement of Revenues and Expenditures, we have presented a budget status report, which shows year to date revenues and expenditures for each fund. However, the requirement is that we present a report showing month to date amounts. We will add a report to our monthly financials that includes that information. We agree that financials were not present for July, August, and September of 2020, and June of 2021. It has always been our practice to not present the financials for June because year-end entries are not finalized until FETS is submitted. In addition, until we close out the preceding year's financials, we haven't presented the new fiscal year's statements. Our goal was to not present inaccurate information to the board. However, we will begin presenting financials for all 12 months.

Repeat Finding: No.

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

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.

Section 31-7-13(d)(i), Mississippi Code Annotated (1972), states, “Purchases may be made from the lowest and best bidder. In determining the lowest and best bid, freight and shipping charges shall be included. Life-cycle costing, total cost bids, warranties, guaranteed buy-back provisions and other relevant provisions may be included in the best bid calculation. All best bid procedures for state agencies must be in compliance with regulations established by the Department of Finance and Administration. If any governing authority accepts a bid other than the lowest bid actually submitted, it shall place on its minutes detailed calculations and narrative summary showing that the accepted bid was determined to be the lowest and best bid, including the dollar amount of the accepted bid and the dollar amount of the lowest bid. No agency or governing authority shall accept a bid based on items not included in the specifications.”

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

- Two vendor purchases for other-than-lowest bids were made; however, they were not spread upon the Board minutes; and
- The Child Nutrition department provided a narrative to the Board for the other-than-lowest purchase of Pin Pads; however, the District did not document in the minutes the discussion of the narrative or detailed calculation showing the determination of the lowest and best bid when an other than lowest purchase was made.

Failure to spread upon the minutes the Board’s approval of bids other-than-lowest bid and to document the narrative and detailed calculations resulted in noncompliance with state law.

Recommendation: We recommend the Lee County School District ensure compliance by assuring that all other-than-lowest bid purchases are spread upon the District’s Board minutes and that they include narratives and detailed calculations, as required by state law.

District’s Response #1: We agree with this exception. The purchase was not made from the lowest bidder due to supply chain issues with the lowest vendor which would have resulted in an unacceptable delay. However, we should have spread this upon the board minutes.

District’s Response #2: The “lowest bidder” in this case did not meet our specs, and therefore we didn’t consider their quote valid. In the future, we will make certain such situations are well documented. We agree with this exception. In the future, any purchases from other than lowest bidder will be documented with both a narrative and a detailed calculation.

Repeat Finding: No.

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

Applicable State Law: *Section 37-9-21, Mississippi Code Annotated (1972)*, states, “It shall be illegal for any superintendent, principal or other licensed employee to be elected by the school board if such superintendent, principal or licensed employee is related within the third degree by blood or marriage according to the common law to a majority of the members of the school board. No member of the school board shall vote for any person as a superintendent, principal or licensed employee who is related to him within the third degree by blood or marriage or who is dependent upon him in a financial way. Any contract entered into in violation of the provisions of this section shall be null and void.”

Finding Detail: During the review of the School District's Board minutes and related party memos, the auditor noted a Board member's niece was approved by the Board to be re-appointed to a position as teacher; however, the minutes do not document the Board member's recusal from the vote.

Failure of the District not spreading upon the minutes the recusal of the Board member in the original Board minutes resulted in noncompliance with state law.

Recommendation: We recommend the Lee County School District ensure compliance by assuring all Board members recuse themselves from the vote of hiring relatives and that it is spread upon the Board minutes, as required by state law.

District's Response: We concur with this finding. In the future, the Board Member in question will recuse herself when her niece's recommendation is voted upon.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Ad Valorem Advertisement and Escrow Calculations.

Applicable State Law: *Section 27-39-207(2)(a), Mississippi Code Annotated (1972)*, states, "The school board of the school district shall advertise its intent to increase its ad valorem tax effort in dollars in a newspaper of general circulation in the county. The advertisement shall be no less than one-fourth (¼) page in size and the type used shall be no smaller than eighteen (18) point and surrounded by a one-fourth-inch solid black border. The advertisement shall not be placed in any portion of the newspaper where legal notices and classified advertisements appear."

Section 27-39-207(2)(b), Mississippi Code Annotated (1972), provides that except as provided for in subsection (1) of this section, if a school district is requesting an increase in ad valorem tax effort in dollars pursuant to *Sections 37-57-105 and 37-57-107*, it shall be written in the requisite form.

Section 37-57-107(3), Mississippi Code Annotated (1972), states, "Except as otherwise provided for excess revenues generated pursuant to an election, if revenues collected as the result of the taxes levied for the fiscal year pursuant to this section and *Section 37-57-1* exceed the increase limitation, then it shall be the mandatory duty of the school board of the school district to deposit such excess receipts over and above the increase limitation into a special account and credit it to the fund for which the levy was made. It will be the further duty of such board to hold said funds and invest the same as authorized by law. Such excess funds shall be calculated in the budgets for the school districts for the purpose for which such levies were made, for the succeeding fiscal year. Taxes imposed for the succeeding year shall be reduced by the amount of excess funds available. Under no circumstances shall such excess funds be expended during the fiscal year in which such excess funds are collected."

Finding Detail: During the review of the School District's ad valorem taxes, the auditor noted the following exceptions:

- The District included additional language within the ¼ advertisement; and
- The District received more ad valorem taxes and homestead exemption reimbursements than the amount allowed by *Section 37-57-107(3), Mississippi Code Annotated (1972)*. This excess is the result of the District receiving more tax revenue from the County than the District's base amount. Per review of the District's financial statements, **\$93,023** was reserved for its escrow; however, the 2020-2021 ad valorem escrow could have resulted in a total escrow of **\$583,413**.

Due to the inadequate calculations, controls, policies, and procedures, surrounding the escrow of the excess ad valorem and homestead tax revenue and publishing the advertisement of tax increase the District is in violation of *Mississippi Code Sections 27-39-207(2)(a), 27-39-207(2)(b), and 37-57-107(3)*.

Recommendation: We recommend the Lee County School District ensure compliance with the ad valorem advertisement by following the guidelines specified by the aforementioned statutes.

District's Response: We agree with this exception. We will run this additional language outside the "Notice of Proposed Ad Valorem Tax Effort" newspaper advertisement in the future.

Repeat Finding: No.

Finding 9: The School District Should Ensure Compliance with State Law over Booster Club Fundraisers and School – Sponsored Events.

Applicable State Law: *Mississippi Attorney General Opinion 1981 WL 39051*, states, "...Monies raised through activities that are a part of the school program and are partially financed with public funds or may be supplemented by public funds are considered public funds. For example, gate receipts for school athletic events are classified as public funds." Since the funds were generated from a school program, the funds should be deposited within the District's bank account not the Booster Club.

Finding Detail: During the review of the School District's activity funds, the auditor noted there were three varsity basketball events that were sponsored by the Saltillo High School Basket Booster Club. There was no Board approval for the use of the District's facility. Additionally, the District could not provide auditors with the actual number of tickets sold; therefore, OSA could not determine the amount of public funds that were deposited into a private entities' bank account.

Failure to deposit gate receipts within the District's approved depository resulted in the misappropriation of public funds and noncompliance with state law.

Recommendation: We recommend the Lee County School District ensure compliance by assuring all revenue generated from school programs are properly deposited in the District's depository, as required by state regulations.

District's Response: Upon further investigation, the District determined that one of the three games cited by the Office of the State Auditor was cancelled due to COVID. The District is currently working with the club to determine the amount of revenue generated by the other two games, and once that amount is determined the club will be asked to pay those funds back to the Saltillo High School Activity Fund. In the future, no clubs will be allowed to collect the gate from any District sporting event. All gate receipts will be deposited directly into the activity fund.

Repeat Finding: No.

Finding 10: The School District Should Ensure Compliance with State Law over Free Admission to School – Sponsored Events and the Purchase of Mississippi High School Activity Association (MHSAA) State Passes.

Applicable State Law: *Mississippi Attorney General Opinion 2005 WL 832129*, provides that free admission to sporting and social events would not be permissible.

Mississippi Attorney General Opinion 2011-00405 states, "Pursuant to Section 96, teachers who are current under contract to perform services during the school year may not be given extra compensation using state dollars for services rendered

which are already covered by the contract. *MS AG Op., Adams January 10, 2003*. If teachers have already contracted with the school district and part of their contractual duties include working games and extra-curricular activities, Article 4, Section 96 of Mississippi Constitution prohibits the school district from using state dollars to compensate the teachers for services rendered which are already covered by the contract.”

Mississippi Constitution, 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...”

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

- All District’s personnel are allowed free entry to all sporting events for the District employees and their spouses. Failure to ensure free admission is not allowed to public employees to extracurricular activities could result in an illegal donation;
- The District paid for Mississippi High School Activity Association (MHSAA) statewide passes for the following employees, totaling **\$450**:
 - Five Lee County Board of Supervisors;
 - Three School Board Members;
 - Business Manager;
 - Career & Technical Center Director;
 - Saltillo High School Safety Officer;
 - Saltillo High School Secretary;
 - One Teacher; and
 - Two Employees’ Spouses.

Failure to ensure 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 Lee County School District ensure compliance over game admissions by implementing policies and procedures in regards to the free admissions and the payment of MHSAA statewide pass of its personnel to school – sponsored events to avoid making an illegal donation to public servants.

District’s Response #1: The Lee County Board of Supervisors were provided passes to all sporting events hosted by Lee County School District as a goodwill gesture. We concur with your finding and will cease this practice effective immediately. The remaining individuals listed in the finding were all provided with a state pass from the Mississippi High Schools Activities Association (MHSAA). We concur with your finding on the three school board members and the two employee spouses. Per MHSAA guidelines, it is allowable for the district to purchase a pass for the school board members, but only if the board members reimburse the district the **\$30** cost of the pass. The two employee spouses were supposed to reimburse the district, but did not as an oversight. We have already collected the **\$30** from one of the two, and will collect the other **\$30** as well.

District’s Response #2: We do not agree with the finding as it relates to the following:

Business Manager and Career and Technical Center Director - Although these positions are not included in the list of eligible positions, the guidelines do allow a Superintendent to request passes for additional staff members, subject to MHSAA Executive Director approval. Both of these individuals were approved in a prior year by MHSAA. MHSAA does not require an additional letter each year, so there isn't a letter for 2020-21.

Saltillo High School Safety Officer, Saltillo High School Secretary, and Teacher #1- MHSAA guidelines allow school activity funds to purchase passes for spouses of eligible individuals to purchase a pass as long as their spouse purchases one. These three individuals are all of coaches for whom a pass was purchased. There is no mention of the spouse reimbursing the district for the passes, so we feel these three individuals were also eligible to receive a pass.

Teacher #2 and Teacher #3 – Teacher #2 and Teacher #3 are both employees of the district who volunteer their time to assist Saltillo High School's coaching staff. In order to allow them admittance to road games, passes were purchased for both of them by the school.

Auditor's Note: The MHSAA is a private entity and its guidelines do not negate the requirements of the *Mississippi Constitution* as it pertains to illegal donations. The District is allowed to purchase the MHSAA passes for eligible employees and their spouses; however, the cost of the passes for their spouses should be reimbursed to the District. The MHSAA allows the Superintendent to select individuals to have additional passes, and the cost of these passes should be reimbursed to the District or included within the employees' contract at the beginning of the school year. The purchases made by the District for County Board members, School Board Members, coaches' spouses, and additional personnel approved by the Superintendent could be a violation of the *Mississippi Constitution*.

Repeat Finding: No.

Finding 11: The School District Should Ensure Compliance with State Law over Merchant – Specific Credit Cards, Statements, and Membership Club Cards.

Applicable State Law: *Section 39-5-9, Mississippi Code Annotated (1972)*, and the Mississippi Department of Archives and History states, financial records should be retained five (5) years following submissions of all final financial reports on federal grant projects providing audit has been releases one (1) year. All financial records of school districts and local schools includes purchase orders, material invoices, receivable reports, receipt copies, etc.

Mississippi Procurement Manual, Chapter 10, 10.112.03, Merchant-Specific Credit Cards, 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, 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 auditors noted the following exceptions:

- The District utilizes a Lowes credit card; however, it was not approved by the School Board or spread upon the minutes;
- The District could not provide OSA the monthly Sam's Direct statements for four purchases; therefore; no comparison could be made to the charge slips; and
- The Board did not have on file a justification for the use of the Sam's cards that would show the anticipated savings.

Failure to have adequate internal controls surrounding credit card purchases resulted in the auditors being unable to determine if the credit card charges were for legitimate and legal school expenditures or personal use.

Recommendation: We recommend Lee County School District ensure compliance by implementing adequate policies and procedures concerning its credit card use, as required state law and regulations.

District's Response: These are not credit card purchases. The District doesn't use credit cards. These were purchases using a District purchase order that were made at Sam's Club. The auditors noted that the credit card statement was not provided, however, the district does not pay bills from statements. We pay from invoices. In all four cases, charges slips (invoices) were provided. Although we reconcile the statements monthly, they are not routinely filed with the claim documentation.

Auditor's Note: Although the District may not have physical credit cards, the District has accounts that offer a credit limit.

Repeat Finding: No.

Finding 12: The School District Should Ensure Compliance with State Law over Criminal Background Checks and Certified Employees' Salaries.

Applicable State Law: *Section 37-9-17(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 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.

Section 37-9-23, Mississippi Code Annotated (1972), states, "The superintendent shall enter into a contract with each assistant superintendent, principal, licensed employee and person anticipating graduation from an approved teacher education program or the issuance of a proper license before October 15 or February 15, as the case may be, who is elected and approved for employment by the school board. Such contracts shall be in such form as shall be prescribed by the State Board of Education and shall be executed in duplicate with one (1) copy to be retained by the appropriate superintendent and one (1) copy to be retained by the principal, licensed employee or person recommended for a licensed position contracted with. The contract shall show the name of the district, the length of the school term, the position held (whether an assistant superintendent, principal or licensed employee), the scholastic years which it covers, the total amount of the annual salary and how same is payable...If any superintendent, other than those elected, principal, licensed employee or person recommended for a licensed position who has been elected and approved shall not execute and return the contract within ten (10) days after same has been tendered to him for execution, then, at the option of the school board, the election of the licensed employee and the contract tendered to him shall be void and of no effect."

Mississippi Attorney General Opinion 1984 WL 247596 and Section 37-9-43, Mississippi Code Annotated (1972), states, "It shall be unlawful for a superintendent, principal, or teacher to be paid for any services as such until a written contract has been executed as is provided and required by this chapter. If any county superintendent or municipal separate school district superintendent shall make any such payment prior to the execution of the contract he shall be civilly liable for the amount thereof, and, in addition, the county superintendent shall be liable upon his bond. Therefore, it is our opinion that since teachers can only be paid pursuant to the written contract, they could not, under the circumstances you describe, receive pay for extra work which is not a part of their contract with the school District."

Section 37-19-7, Mississippi Code Annotated (1972), states, "The allowance in the Mississippi Adequate Education Program for teachers' salaries in each county and separate school district shall be determined and paid in accordance with the scale for teachers' salaries as provided in this subsection."

Finding Detail: During the review of the School District's personnel files, the auditor noted the following exceptions out of 15 tested:

- Two certified employees' personnel files did not have evidence of a background check;
- One certified employees' salary did not agree to the appropriate salary prescribed by *Section 37-19-7*; and
- One certified employee was paid for a bus route; however, the route was not included in their contract and there was no contract addendum.

Failure to obtain background checks of all new hires could result in a wrongful hire of an individual and resulted in noncompliance with state law. Additionally, failure to ensure payments of salaries are as required resulted in noncompliance with state law.

Recommendation: We recommend the Lee County School District ensure compliance by assuring all criminal background checks are obtained and maintained in the personnel files of its employees. Additionally, the School District should ensure to verify all salaries are paid according to the contracts approved by the Board, as required by state law.

District's Response #1: Background checks missing from files – We agree that the personnel files (hired 8/1/12 and 7/30/08) do not contain evidence of background checks. However, the Business Office has seen a complete turnover since those employees were hired, with different personnel in the Business Manager, Insurance and Benefits Clerk, and Payroll Clerk positions. Current Business Office personnel is careful to ensure all new employees have a background check and that evidence of the background check is placed in their personnel file.

District's Response #2: Salary calculated incorrectly – We agree with this exception. Upon questioning by OSA, our Payroll Clerk realized she'd calculated the experience incorrectly.

District's Response #3: Employee paid for bus route not on contract – We agree with this exception.

Repeat Finding: No.

Finding 13: 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 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:

- Twelve Form 4Bs did not have evidence of being filed with PERS; and
- Three Form 4Bs did not have evidence of the retirement date; therefore, OSA could not determine if the retiree was re-hired before 90 days after retirement.

Failure to file the 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.

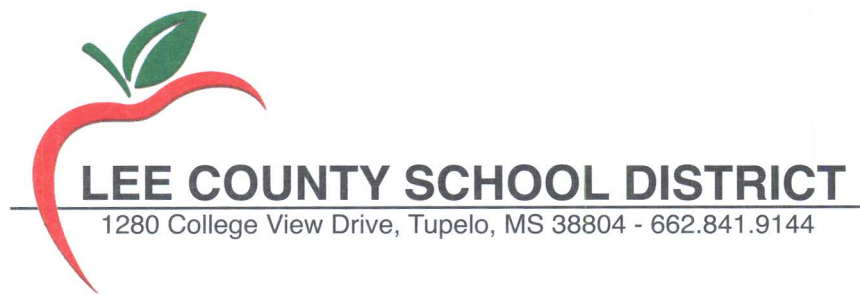
Recommendation: We recommend the Lee County School District ensure compliance by properly completing and filing Form 4Bs with PERS, as required by state law.

District's Response #1: Fourteen PERS Form 4Bs did not have evidence of being filed within five days - We agree that there was no evidence. However, as a result of our fiscal year 2020 audit, we have since began attaching confirmation emails as evidence.

District's Response #2: Three PERS Form 4Bs did not have evidence of the retirement date - We agree with this exception.

Repeat Finding: No.

End of Report



COMPLIANCE REVIEW FINDINGS

April 3, 2023

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

Dear Mr. White:

Below you will find our responses to findings and corrective action plan information related to the Office of the State Auditor's limited internal control and compliance review of the district for the year ended June 30, 2021. As noted below, many of the items have already been corrected in the interim between the end of the audit fieldwork and the issuance of this report. We appreciate the opportunity to share our responses and thank you for your consideration.

AUDIT FINDINGS

Finding 1: The School District Should Strengthen Internal Controls over Segregation of Duties Surrounding Deposits, Bank Reconciliations, and Journal Entries.

Response: The district operates with a relatively small Business Office staff. While we are proud of our efficiency, unfortunately this reduces our ability to fully segregate duties. We received a similar finding from our financial auditors in the fiscal year 2020 audit report, and we have implemented mitigating controls including but not limited to additional review procedures, software controls, etc. Although we recognize the risk, we feel these mitigating controls limit risk to an acceptable level.

Corrective Action Plan:

- A. Mitigating controls were put in place including additional review procedures, software controls, etc.
- B. Business Manager
- C. Completion date: Mitigating controls have already been implemented, and were in place during OSA's audit, although they were not in place for the entire year under audit due to the timing of the FY 2020 financial audit.

Finding 2: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Activity Fund Cash Receipts and Deposits.

Response: We agree with these exceptions. We believe the exceptions noted at two of our schools were isolated errors. However, we recognize the seriousness of the exceptions noted at another high school. Central Office Administration, including the Superintendent and Business Manager, have met with the principal and school bookkeeper and discussed expectations.

Corrective Action Plan:

- A. Meetings were held with the principal and bookkeeper in question to emphasize the importance of internal controls and compliance with state laws. Business Office personnel continue to monitor the school's activity fund transactions and reports to ensure compliance.
- B. Superintendent and Business Manager
- C. Completion date: Meetings with principal and bookkeeper were held during spring of 2022, and monitoring is an ongoing process.

Finding 3: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approvals and Budgeted Expenditures.

Response: We provided OSA a detailed response during their audit which we will not repeat here due to space considerations. In short, although there were valid explanations for some of OSA's findings, we concur with some of the findings and have already implemented controls to prevent a recurrence.

Corrective Action Plan:

- A. A thorough review of budgets was made prior to presentation to the Board for approval for the 2022-23 budget and this process will continue in future fiscal years.
- B. Business Manager
- C. Completion date: Summer of 2022 during the budget process

Finding 4: The School District Should Ensure Compliance with State Law over Ratifying Checks Disbursed by Principals.

Response: The process followed by the district is common among Mississippi decentralized districts, including multiple districts who've been through a compliance audit and did not receive a finding. Likewise, we have been using this procedure for at least the last 11 years, and have never received an audit finding. This process is also the prescribed procedure for decentralized activity funds according to the Mississippi Department of Education's accounting manual. The district's principals are bonded as Purchase Agents, and controls are in place to ensure compliance with state purchasing laws and other laws and regulations.

Corrective Action Plan:

- A. The district will amend our board policy to specifically give authority to principals to issue payment without prior board approval for certain activity fund expenses. We would also welcome the opportunity to work with MDE and OSA to find a suitable solution to this issue for all decentralized districts that does not require hiring additional business office staff or having more frequent board meetings, but does allow districts to remain in compliance with all state laws.
- B. Superintendent, Business Manager and Principals

- C. Revised policies for bill payment authorization and activity funds will be presented to our board at our April 17, 2023 board meeting.

Finding 5: The School District Should Ensure Compliance with State Law over Presenting Monthly Financial Reports.

Response: Regarding the Statement of Revenues and Expenditures, we have presented a budget status report, which shows year to date revenues and expenditures for each fund. However, the requirement is that we present a report showing month to date amounts. We will add a report to our monthly financials that includes that information. We agree that financials were not present for July, August and September of 2020, and June of 2021. It has always been our practice to not present the financials for June because year-end entries are not finalized until FETS is submitted. In addition, until we close out the preceding year's financials, we haven't presented the new fiscal year's statements. Our goal was to not present inaccurate information to the board. However, we will begin presenting financials for all 12 months.

Corrective Action Plan:

- A. Financials, which include month to date revenues and expenditures by fund, are now being presented to the school board every month, regardless of whether all year-end entries have been posted.
- B. Business Manager
- C. Completion Date: Spring of 2022

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

Response: We concur with the findings.

Corrective Action Plan:

- A. All purchases from other than lowest bidder will be spread upon the board minutes, and will include a narrative and a detailed calculation.
- B. Business Manager
- C. Completion date: Spring of 2022

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

Response: We concur with this finding.

Corrective Action Plan:

- A. The board member in question has recused herself when her relative's recommendation was voted upon the last two years.
- B. Superintendent and Business Manager
- C. Completion date: Spring of 2022

Finding 8: The School District Should Ensure Compliance with State Law over Ad Valorem Escrow Advertisement and Escrow Calculations.

Response: We agree with this exception. The language added is required by the Mississippi Department of Revenue in order to receive our Homestead Exemption due to reassessment of the property in our district. However, we will run this language outside the "Notice of Proposed Ad Valorem Tax Effort" newspaper advertisement in the future.

Corrective Action Plan:

- A. The “Notice of Proposed Ad Valorem Tax Effort” newspaper advertisement will include the exact language prescribed in the statutes, and only that language.
- B. Business Manager
- C. Completion date: Summer of 2022.

Finding 9: The School District Should Ensure Compliance with State Law over Booster Club Fundraisers and School-Sponsored Events.

Response: After further investigation, we determined that only one gate was collected by the booster club, resulting in a deposit of \$455. Documentation of this amount was sent via email from a booster club representative to an OSA auditor on April 4, 2022. Two other games that were originally scheduled to be used as booster club fundraisers were cancelled due to the pandemic. In the future, no clubs will be allowed to collect the gate from any district athletic event. All gate receipts will be deposited into the activity fund.

Corrective Action Plan:

- A. The booster club has paid \$455 to the school activity fund. In the future, all gate receipts for athletic events and other school programs will be deposited into the activity fund.
- B. Business Manager and Principals
- C. Completion date: March 31, 2023

Finding 10: The School District Should Ensure Compliance with State Law over Free Admission to School-Sponsored Events and the Purchase of Mississippi High School Activity Association (MHSAA) State Passes.

Response:

We concur with your findings regarding MHSAA state passes. Passes will only be purchased for coaches, the Superintendent, athletic directors, and high school and middle school Principals. We also concur with your finding regarding the Lee County Board of Supervisors, who in the past were granted free admission to all sporting events hosted by district schools as a goodwill gesture.

Corrective Action Plan:

- A. MHSAA state passes will only be purchased for eligible employees, as listed above. The Lee County Board of Supervisors will no longer be granted free admission to sporting events hosted by the district.
- B. Superintendent, Business Manager and Principals
- C. Completion date:
 - Board of Supervisors – 2021-22 school year
 - MHSAA passes – 2022-23 school year
 - Spouses of district employees – 2023-24 school year
- D: The district plans to continue to allow free entry to sporting events for district employees and their spouses. We expect our employees to support the extracurricular activities of our students, and they also might be needed in a supervisory role. We will revise our policy to describe this practice and the expectation of staff members in attendance.

Finding 11: The School District Should Ensure Compliance with State Law over Merchant-Specific Credit Cards, Statements, and Membership Club Cards.

Response: These are not credit card purchases. The district doesn't use credit cards. These were purchases using a district purchase order that were made at Sam's Club. The auditors noted that credit card statements were not provided; however, the district does not pay bills from statements. We pay from invoices, and in all four cases, charge slips (which serve as invoices) were provided to the auditors. Although we reconcile the statements monthly, that are not routinely filed with the claim documentation.

Corrective Action Plan:

- A. The district will obtain board approval annually for the use of Lowe's, Sam's and a Mississippi Department of Finance and Administration virtual travel card. In addition, the district will provide a calculation justifying the cost of Sam's Club membership.
- B. Business Manager
- C. Completion date:
Board approval – 2022-23 school year
Calculation of savings – 2023-24 school year
- D. We believe our procedure of paying from charge slips and reconciling charge slips to the monthly statement provides adequate control and documentation, and do not believe that attaching the account statement to each claim is necessary.

Finding 12: The School District Should Ensure Compliance with State Law over Criminal Background Checks and Certified Employees' Salaries.

Response: We concur with all exceptions. We would like to note that the two employees with no evidence of a background check were hired in 2008 and 2012. Current Business Office personnel is careful to ensure all new employees have a background check and evidence of the background check is placed in the file. We believe that the other two items noted were isolated incidents.

Corrective Action Plan:

- A. The district will exercise more care to ensure that evidence of background checks is placed in all personnel files, all salaries are calculated correctly, and all job duties are reflected on employee contracts.
- B. Business Manager, Payroll Clerk and Insurance and Benefits Clerk
- C. Completion date: Spring of 2022

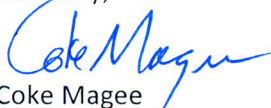
Finding 13: The School District Should Ensure Compliance with State Law over Reemployment of Retired Public Employees

Response: We concur with OSA's findings.

Corrective Action Plan:

- A. The district has already began attaching confirmation emails from PERS as evidence of the filing date. In addition, we are taking more care to ensure each 4B form includes the retirement date.
- B. Business Manager, Payroll Clerk and Insurance and Benefits Clerk
- C. Completion date: Spring of 2022

Sincerely,



Coke Magee
Superintendent