

# PEARL PUBLIC SCHOOL DISTRICT MISSISSIPPI

## COMPLIANCE REPORT

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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**

December 20, 2022

**Limited Internal Control and Compliance Review Management Report**

Pearl Public School District  
3375 Highway 80 East  
Pearl, MS 39208

Members of the Pearl Public School Board:

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

1. Strengthen Internal Controls over Activity Fund Cash Deposits;
2. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Preparation and Approval;
3. Ensure Compliance with State Law over Monthly Financial Report;
4. Ensure Compliance with State Law over Nepotism;
5. Ensure Compliance with State Law over Sixteenth Section Lease Payments; and
6. Ensure Compliance with State Law over Surety Bonds.

Please review the recommendations and submit a plan to implement them by **January 17, 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 Pearl Public 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 **Pearl Public 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 that we consider to be *significant deficiencies* in internal control. These matters are noted under the heading **SIGNIFICANT DEFICIENCY**. We also identified other deficiencies that we have noted under the heading **OTHER CONTROL DEFICIENCY**.

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

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## **SIGNIFICANT DEFICIENCY**

**Finding 1:** The School District Should Strengthen Internal Controls over Activity Fund Cash 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 to be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

**Finding Detail:** During the testing of the School District's activity/athletic fund deposits, the auditor noted four out of 21 game deposits were made between four to six business days after monies were receipted.

Inadequate internal controls related to activity funds revenue deposits could result in a loss of assets and improper revenue recognition.

**Recommendation:** We recommend the Pearl Public School District strengthen controls by implementing policies and procedures to ensure receipts from all activities are deposited in a timely manner.

**District's Response:** The deposits were held in a safe during illnesses/COVID. The district has established proper backup personnel to process deposits for future absences.

**Repeat Finding:** No

## OTHER DEFICIENCY AND INSTANCE OF NONCOMPLIANCE WITH STATE LAW

**Finding 2:** The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Budget Preparation and Approval.

**Internal Control Deficiency:** The Board of Education establishes priorities for the financial management of the District, reviews and approves all presented budgets, and assures 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 form a fund in excess of the resources available within that fund...”

**Finding Details:** During the review of the School District’s budgeting expenditures for fiscal year 2021, the auditor noted the following exceptions:

- The District’s actual expenditures for Fund 2598 (ESSER III) exceeded budgeted expenditures in the amount of **\$41,146**; and
- The amended 2020-2021 budget included six funds reflecting a negative fund balance at year-end:
  - EDLA (2592) – **(\$1,730,047)**;
  - ESSER II (2594) – **(\$23,667)**;
  - CTE ESSER (2597) – **(\$3,700)**;
  - IDEA (2610) – **(\$4,862)**;
  - Bond Note Investment Account (4926) – **(\$121)**; and
  - Accounts Payable (7500) – **(\$216)**

Failure for the District to ensure there are available resources for all expenditures could result in deficit fund balances. The approval of the fund budgets with ending deficit fund balances is in violation of state law; however, the actual fund balances at June 30, 2021 were not negative.

**Recommendation:** We recommend the Pearl Public School District ensure compliance with *Sections 37-61-19* by strengthening controls to ensure 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:** The Business Manager will ensure a thorough review of such budgets will be made prior to presentation to the Board for approval.

**Repeat Finding:** No.

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## INSTANCES OF NONCOMPLIANCE WITH STATE LAW

**Finding 3:** 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 State Board of Education Manual, Section B, Miscellaneous Issues, Timeliness* states that: “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 the financial reports for July 2020 through June 2021 were not properly and timely submitted to the School Board monthly. The monthly financial statements were approved more than one month after the end of their respective month.

Failure to submit a complete set of financial reports to 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 Pearl Public School District ensure compliance by assuring 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:** Financial statements are reviewed in conjunction with bank reconciliations to ensure accurate and financial reporting. Once bank accounts have been reconciled, all financial reports including bank reconciliation certifications are submitted to the Board for approval at the next regularly scheduled meeting. Our Board meets the second Monday of each month i.e. August our financials are submitted in October for approval. The District will work to submit all financial statements in the month following the Board meeting despite the short time frame to review reports for accuracy.

**Repeat Finding:** No.

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**Finding 4:** 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 related parties questionnaires and Board minutes, the auditor noted that one Board member did not recuse themselves when approving the hire of their niece, who is a certified teacher.

Failure of the Board member to recuse themselves during the vote of their relative within the third degree resulted in violation of *Mississippi Code Section 37-9-21*.

**Recommendation:** We recommend the Pearl Pubic School District ensure compliance with *Mississippi Code Section 37-9-21*, by recusing themselves during the vote of hiring relatives within the third degree.

**District’s Response:** The District will advise all Board members to recuse him/herself in future employment votes when any relatives are involved within the third degree by blood or marriage.

**Repeat Finding:** No

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**Finding 5:** The School District Should Ensure Compliance with State Law over Sixteenth Section Lease Payments.

**Applicable State Law:** *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.”

**Finding Detail:** During the review of the School District’s sixteenth section land leases, the auditor noted that one out of five lease payments was more than 60 days late; however, the lease was not canceled.

Failure to terminate lease agreements due to lease payments being more than 60 days late resulted in non-compliance with state laws and regulations.

**Recommendation:** We recommend the Pearl Public School District ensure compliance by assuring all lease payments are made within 60 days of their due date, as required by state law.

**District’s Response:** The lease was scheduled to be presented to the Board for termination but payment was made on 4/9/2021 prior to the Board meeting 4/12/2021. The lease was paid in full after 67 days. The District will present these to the Board for a determination of extenuating circumstances.

**Repeat Finding:** No

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**Finding 6:** 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.

**Finding Detail:** During the review of the School District’s surety bonds, the auditor noted the following instances of noncompliance:

- Five Principals’ bonds were covered under a Government Crime blanket bond. The face of the bond did not include the job title, bond amount or list of employees covered under the bond; and
- One Board member’s bond was a “continuation certificate” instead of an official bond.

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.

A “continuation 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.

**Recommendation:** We recommend the Pearl Public School District ensure compliance by assuring all employees are properly and officially bonded, as required by state law and regulations.

**District's Response:** The District is requesting separate bonds on all Principals that will include job title and bond amount. In addition, the District will ensure all Board members receive a new bond instead of a continuation certificate.

**Repeat Finding:** No.

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**End of Report**





## PEARL PUBLIC SCHOOL DISTRICT

3375 HIGHWAY 80 EAST  
P.O. BOX 5750  
PEARL, MISSISSIPPI 39288-5750

### COMPLIANCE REVIEW FINDINGS

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

January 10, 2023

Dear Mr. White:

Pearl Public School District expects excellence in all areas. Below is a response and correction action plan for each finding noted in the FY21 Compliance Review.

#### AUDIT FINDINGS:

Finding 1: The School District Should Strengthen Internal Controls over Activity Fund Cash Deposits.

*Response:* The District concurs with the finding and has established proper backup personnel to process deposits for future absences.

#### Corrective Action Plan:

- A. Additional personnel is cross-trained and assigned to ensure deposits are made in the event of future absences
- B. Paige Broman
- C. Immediately and Ongoing
- D. not applicable

Finding 2: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Budget Preparation and Approval.

*Response:* The District concurs that there were negative budget balances. Federal Funds are not amended to actual revenues and expenses in the close-out process for the budget reports. These funds were presented on the final amended budget with expenses exceeding revenues although actual revenues and expenses were equal. The Business Manager will ensure a thorough review of such budgets will be made prior to presentation to the Board for approval.

#### Corrective Action Plan:

- A. As a final step in the close-out process, the Business Manager will review the budget report to ensure any funds that were not amended to actual, have budgeted revenues equaling budgeted expenditures.
- B. Paige Broman
- C. Immediately and Ongoing
- D. not applicable

**Finding 3:** The School District Should Ensure Compliance with State Law over Monthly Financial Reports.

*Response:* The District concurs with the finding. Financial statements are reviewed in conjunction with bank reconciliations to ensure accurate financial reporting. Once bank accounts have been reconciled, all financial reports including bank reconciliation certifications are submitted to the Board for approval at the next regularly scheduled meeting. Our Board meets the second Monday of each month i.e. August our financials are submitted in October for approval. The District will work to submit all financial statements in the month following the Board meeting despite the short time frame to review reports for accuracy.

Corrective Action Plan:

- A. The District will submit the financial reports and bank reconciliation statements to the Board within 30 days.
- B. Paige Broman
- C. Immediately and Ongoing
- D. not applicable

**Finding 4:** The School District Should Ensure Compliance with State Law over Nepotism.

*Response:* The District concurs with the finding. The District will advise all Board members to recuse him/herself in future employment votes when any relatives are involved within the third degree by blood or marriage.

Corrective Action Plan:

- A. Remind board members of the need to recuse him or herself before each personnel approval regarding any potential relatives
- B. Chris Chism, Paige Broman
- C. Immediately and Ongoing
- D. not applicable

**Finding 5:** The School District Should Ensure Compliance with State Law over Sixteenth Section Lease Payments.

*Response:* The District concurs with the finding. The lease was scheduled to be presented to the Board for termination but payment was made on 4/9/2021 prior to the Board meeting on 4/12/2021. The lease was paid in full after 67 days. The District will present these to the Board for a determination of extenuating circumstances.

Corrective Action Plan:

- A. Conducted staff training on late payments and required board approval
- B. Paige Broman
- C. Immediately and Ongoing
- D. not applicable

**Finding 6:** The School District Should Ensure Compliance with State Law over Surety Bonds.


*Response:* The District concurs with the finding. The District requested and received separate bonds on all Principals that included job titles and bond amounts. In addition, the Business manager will work with the insurance agent to ensure continuation certificates are not issued and to facilitate to purchase of new surety bonds each year.

Corrective Action Plan:

- A. Business manager or designee will contact the insurance agent each year for new bonds and ensure a continuation certificate is not issued.

- B. Paige Broman
- C. Immediately
- D. not applicable

Sincerely,



Chris, Chism, Superintendent  
Pearl Public School District