

SOUTH PANOLA 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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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR**

March 10, 2023

Limited Internal Control and Compliance Review Management Report

South Panola School District
209 Boothe Street
Batesville, MS 38606

Member of the South Panola School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the **South Panola School District** for the fiscal year **2021**. In these findings, the Auditor's Office recommends the **South Panola 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 Cash Receipts and Deposits;
3. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approval;
4. Ensure Compliance with State Law over Bank Reconciliations;
5. Ensure Compliance with State Law over Ratifying Checks Disbursed by Individuals Other Than the Superintendent;
6. Ensure Compliance with State Law over Presentation of Monthly Financial Reports;
7. Ensure Compliance with State Law over Board Member Ethics and Nepotism;
8. Ensure Compliance with State Law over Recommendation and Supervision of Relatives;
9. Ensure Compliance with State Law over Mississippi High School Activities Association (MHSAA) State Passes;
10. Ensure Compliance with State Law over Approved Contracts, Obtaining and Maintaining Background Checks and the Maintenance of Personnel Files; and
11. Ensure Compliance with State Law over Reemployment of Retired Public Employees.

Please review the recommendations and submit a plan to implement them by April 3, 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 South Panola 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 **South Panola 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 *significant deficiencies* in internal control. These matters are noted under the heading **SIGNIFICANT DEFICIENCY**. We also noted a certain deficiency 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. An effective system of internal controls should include 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 auditor noted the bookkeepers at each school location were collecting cash, preparing deposit slips, taking the deposits to the bank, and creating journal entries.

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

Recommendation: We recommend the South Panola School District strengthen internal controls by implementing effective and proper segregation of duties surrounding monies collected and deposited within all school locations.

District's Response: The District strives to provide sound internal controls with segregation of duties while maximizing cost efficiency. Each month when the activity funds are submitted to the finance department, the accountant and compliance manager review all transactions.

Repeat Finding: No.

OTHER DEFICIENCY AND INSTANCES 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 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.

School Board Policy, Section D, Fiscal Management, Policy DK, Student Activities Fund Management, states, “A person remitting activity funds to the principal for deposit will be given the original receipt, the second copy will be attached to the transmittal report to the central office, and the third copy will be kept in the book and on permanent file in the principal’s office. All of these pre-numbered receipts must be accounted for ... All funds collected within the school must be deposited daily...”

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

Finding Detail: During the testing of the School District’s activity funds, the auditor noted the following exceptions out of 36 tested:

- Seventeen varsity football and basketball games revenue were not receipted, totaling **\$32,942**;
- Five deposits were made four to nine days late; and
- There was a net overage of **\$30** between deposits and ticket sales for both varsity football and basketball games.

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

Recommendation: We recommend the South Panola School District strengthen internal controls and ensure compliance by assuring all receipts from all activity are safeguarded, adequately recognized, and recorded.

District’s Response: The school event receipt form(s) are tied back to the deposit ticket. The District will implement procedures to issue a receipt for each school event receipt form. The District stresses to schools the importance of counting for all tickets and monies. The District compliance manager meets with each employee after the event if the tickets and monies do not balance for proper procedures. The District will hold school bookkeepers accountable for timely deposits. The District will continue training and implement accountability measures with principals, athletics director, bookkeepers, ticket sellers, and ticket takers, and reiterate the importance of reconciling tickets sold to monies received for school events at the local school level. The District emphasizes this issue with local schools at annual training and throughout the year.

Repeat Finding: No.

Finding 3: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Budget 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 from a fund in excess of the resources available within that fund...”

Finding Detail: During the review of the School District’s budgets, the auditor the amended budget for fiscal year 2021 included one fund, **Fund 1145** (At-Risk Fund), reflecting a negative fund balance at year-end in the amount totaling **\$238,893**.

The actual fund balances at June 30, 2021 were not negative; however, the approval of the fund budgets with ending deficit fund balances could result in a violation of state law.

Recommendation: We recommend the South Panola 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: The fiscal year 2021 amended budget accidentally showed a negative fund balance in At-Risk. The actual financial statements show a zero fund balance.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 4: The School District Should Ensure Compliance with State Law over Bank Reconciliations.

Internal Control Deficiency: Management is responsible for ensuring that the assets of the District are safeguarded and transactions are properly documented in the District’s financial records. A critical aspect outstanding checks to the balance per bank statement to reconcile to the amount of cash that is listed on the general ledger of the District to what is recorded at the bank. The reconciliation process enables the Business Office to make adjusting journal entries to correct any mistakes or unrecorded items in the District’s financial records.

Applicable State Law: *Mississippi Department of Education’s Policy Manual, Chapter 71, Rule 71.3*, “Required Monthly Reports to be Furnished to Local School Board,” states, “...Presentation of reconciled bank statements should be made at the next regular board meeting after the bank statements are reconciled to the District’s general ledger cash balances in a timely and accurate manner.”

Finding Detail: During testing of the School District’s bank reconciliations, the auditor noted two bank accounts were not properly reconciled to the general ledger’s cash balance, totaling a difference of **(\$1,911,184)**:

- General Operating - **(\$1,815,579)**; and
- Food Service Fund - **(\$95,605)**.

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

Recommendation: We recommend the South Panola School District strengthen internal controls and ensure compliance by assuring all transactions are properly recorded in the general ledger and all variances from book balances are accounted for in a timely manner.

District's Response: The difference in the bank reconciliation and general ledger is the "old July Payroll," which is posted as an expenditure as of June 30, 2021, but the actual payroll date is July 2021. The financial statements property reflects "old July Payroll."

Auditor's Note: As noted above, management is responsible for reconciling the District's bank statements monthly to its general ledger trial balance. At the time of testing, the expenditures for the old July payroll difference were not recorded with the general ledger; therefore, the bank accounts above were not properly reconciled to the general ledger.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Law over Ratifying Checks Disbursed by Individuals Other than the Superintendent.

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

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

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

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

Failure to ensure disbursements made by Principals were approved by the Board prior to the disbursement resulted in a violation of state law and could result in fraud or misappropriation of public monies.

Recommendation: We recommend the South Panola School District ensure compliance by assuring the Board authorizes all payments prior to disbursing the monies, by individuals allowed by state law and regulations.

District's Response: *The Mississippi Department of Education's Financial Accounting Manual for Public School Districts, Section F*, states, "Decentralized Accounting System: This method of accounting provides for both the receipt of funds and the expenditure of funds at the local school level. The school principal has the authority to receipt funds and disburse those funds by writing checks. The receipting of funds and the writing of checks must be performed according to the guidelines established by this section." The receipting of funds and the writing of checks are performed according to the guidelines established by this section. As the board minutes reflect, the principal at each school has the authority to sign activity fund checks.

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

Repeat Finding: No.

Finding 6: 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."

Mississippi State Board of Education's Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board, states: "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."

Mississippi Public School Accountability Standards, Process Standards 4.5, prescribed by the Mississippi Department of Education, states, "The most recent annual financial audit report of the school district, as conducted under the guidelines of the Office of the State Auditor, verifies the local school board has received, reviewed and discussed, as reflected in official minutes of the regularly scheduled monthly meeting, the financial reports required by state law and/or the State Board of Education. *Miss. Code Ann. § 37-9-18(1), § 37-37- 7(2)(e), § 37-37-13, Miss. Admin. Code 7-3: 71.3, State Board Policy Chapter 71, Rule 71.3.*"

Finding Detail: During the review of the School District's monthly financials, the auditor noted the Cash Flow Statement for April 2021 was not documented in the official Board Minutes as being presented.

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 incomplete 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 South Panola 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: The cash flow statement for April 2021 was inadvertently missing from the report. The report did include the summary cash flow balance. In addition, the May 2021 report included the detail cash flow report.

Repeat Finding: No.

Finding 7: The School District Should Ensure Compliance with State Law over Board Member Ethics and Nepotism.

Applicable State Law: *Section 25-4-105 (1), Mississippi Code Annotated (1972)*, prohibits a public servant from using his or her position to obtain or attempt to obtain any pecuniary benefit for his or her spouse or other “relative,” as that term defined in *Section 25-4-103(q)*.

Mississippi Ethics Commission Opinion 10-014E, provides that a Board Member should avoid participating in budget matters which do not directly affect the relatives but from which the relative may indirectly benefit. This opinion also provides the Board Member would not be required to recuse himself or herself from the approval of budgets where the relative is a licensed employee of the school district whose salary is set by the *Mississippi Department of Education* and the District has not supplemented that employee’s salary, or provided other discretionary salary or benefits to the relative. When possible a school board may separate the budget into parts and vote on parts separately, even when such separation is not necessary to maintain a quorum. The guiding requirement is that a board member must recuse from actions which would result in a monetary benefit to the board member’s relative. Therefore, a school trustee who’s financially independent child is employed by the school district as a certified teacher may vote on the adoption of a budget, provided that all local salary or other supplemental benefits are excluded from the budget as voted upon and acted upon separately by the other trustees, even when such separation is not so required to obtain a quorum. Additionally, the Board Member may not use his or her position to avoid a monetary detriment to his or her relative, such as termination or unpaid furlough. There should be a total and complete recusal the Board Member in matters of relatives described in *Mississippi Code Section 25-4-103(q)*. This action should be spread upon the District’s minutes.

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 party questionnaires, the auditor noted the following exceptions:

- One Board member approved the building recommendations, salaries, athletic supplemental pay scale, and supplemental salaries in the high school building for fiscal years 2021 and 2022. This Board member’s son-in-law salary was included within those approvals;
- One Board member approved the salaries for fiscal year 2022, which included the salary of their child; and
- One Board member approved building recommendations and all salaries included local District supplements for fiscal years 2021 and 2022, which included the salary of their sibling.

Failure of the Board members to recuse themselves from the votes on rehire of a child or sibling, budget matters that may or may not affect the relatives directly or indirectly, and salaries that include District local supplements resulted in the violation of nepotism and ethics law and regulations.

Recommendation: We recommend the South Panola School District ensure compliance by assuring all Board members recuse themselves during the rehire of certified employees within the third degree, as required by *Mississippi Code Section 37-9-21*. Additionally, the District should ensure Board members recuse themselves during the approval of budget matters that include relatives defined in *Mississippi Code Section 25-4-103(q)*. This matter has been referred to the *Mississippi Ethics Commission*.

District's Response: The Board members state that each of the relatives referenced in the letter were completely independent from a financial standpoint from the Board Members. The Board Members gained no personal pecuniary benefit from the employment or salaries of the relatives. The Board members took measure to recuse and avoid voting on the initial hiring of relatives. In addition, the Board Members with relatives employed always took measures to recuse themselves from any approvals of the District's budget. This conduct shows that the Board has taken action to avoid any conflicts of interest and act in good faith to comply with the law. The employee recommendations and salaries for the relatives were always part of a larger group of recommendations when brought before the Board. The salaries approved were the same for all employees of the same certifications and employment level and based on the salary scales required by *Miss. Code Ann. 37-19-7*. The relatives were given no special treatment above what other similarly situated employees received. One of the relatives is no longer employed with the District. This Board has not received any type of warning or indication in the past that it was not in compliance with nepotism and conflict of interest laws as it relates to relatives. The District will take steps that no relatives within the third degree of any Board Members do not approve salaries or supplements for any relatives. Any relatives will be removed from any hiring and salary approval group lists and be considered on an individual basis to allow for any recusals. The District will also provide additional training to its Board Members regarding nepotism and conflict of interest laws.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Recommendation and Supervision of Relatives.

Applicable State Law: *Section 25-4-105 (1), Mississippi Code Annotated (1972)*, prohibits a public servant from using his or her position to obtain or attempt to obtain any pecuniary benefit for his or her spouse or other "relative," as that term defined in *Section 25-4-103(q)*.

Mississippi Ethics Opinion 10-067-E, provides that a Director should not recommend or supervise his or her relative, this would be a violation of *Section 25-4-105(1), Mississippi Code Annotated (1972)*.

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

Finding Detail: During the review of the School District's Board minutes and related party questionnaires, the auditor noted the Technology Director recommended his son for employment on June 22, 2020 and April 27, 2021. Additionally, the Technology Director's wife was the office manager within the Technology Department for fiscal year 2021; however, she recommended by another District employee.

Failure to ensure the Technology Director does not recommend or supervise his spouse and child resulted in a violation of state laws and regulations.

Recommendation: We recommend the South Panola School District ensure compliance by assuring management does not recommends or supervise their relatives as defined in *Mississippi Code Section 25-4-103(q)*. This matter has been referred to the Mississippi Ethics Commission.

District's Response: The Technology Director's child and spouse is supervised by the Assistant Director of Technology, District assistant superintendent, and the District Superintendent. They do not report directly or indirectly to the Technology Director. The Technology Director does not have any supervisory role or capacity as it pertains to their son and spouse. The Technology Director does not make any recommendations concerning employment, salary, performance evaluations, disciplinary proceedings, benefits or any other action which are a necessary predicated to his child nor spouses' employment with the District.

Auditor's Note: Based on a documentation obtained from the District, the Director of Technology made the recommendation for rehire of his son for fiscal years 2020 and 2021 to the Superintendent and the School Board. According to the District's organizational chart, the Technology Director is the ultimate head of this department. An organizational chart represents the chain of command in each and every department. As of April 20, 2022, the District does not have a policy to contradict its minutes or organizational chart. The wife of the Technology Director was not recommended by him; however, she is the office manager within the same department and building. This is a clear violation of *Mississippi Ethics Opinion 10-067-E* and should be remedied immediately.

Repeat Finding: No.

Finding 9: The School District Should Ensure Compliance with State Law over Mississippi High School Athletic Association (MHSAA) State Passes.

Applicable State Law: *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 athletic revenue, the auditor noted the District paid for Mississippi High School Athletic Association (MHSAA) state passes for the following District employees without being reimbursed, totaling \$60:

- Alternative School Director; and
- Transportation Director.

Failure to be reimbursed for the purchase of MHSAA state passes for District employees other than Game Administrators, Coaches, Superintendent, Athletic Director, and High School and Middle School Principals could result in an illegal donation.

Recommendation: We recommend the South Panola School District ensure compliance by assuring the payment of MHSAA state passes are issued to personnel that are Board required according to their contracts or job descriptions to attend home and away athletic events, are reimbursed to the District to avoid making an illegal donation to public servants.

District's Response: The Alternative School Director and Transportation Director served as administrators and chaperons for students at District athletic events. *Section 37-7-301(s)* of the *Mississippi Code* authorizes school districts to expend activity funds for "necessary expenses or travel costs, including advances, incurred by students and their chaperons in attending any in-state or out-of-state school related programs, conventions, or seminars." *Miss. Cod Ann. 37-7-301(s)*. The

District purchased athletic passes for the Alternative School Director and Transportation Director using activity funds as it was a necessary expense for attending and chaperoning at the various athletic events. See *Miss. Opin. Att’y Gen No. 2001-0279, 2001 WL 668764*.

The Alternative School Director and Transportation Director attended these athletic events in order to supervise and chaperon the students of the District to help insure their safety. There was not present as spectators or in an unofficial capacity. In addition, the Alternative School Director and Transportation Director served as administrators which the Mississippi High School Activities Association requires at home sporting events and suggests for away sporting events. The purchase of the athletic event passes for the Alternative School Director and Transportation Director were a necessary expense allowed and authorized by *Mississippi Code Annotated 37-7-301(s)*, so there is no violation of *Article 4, Section 96* of the *Mississippi Constitution*.

Auditor’s Note: As of April 20, 2022, the District could not provide to OSA job descriptions, which would include assigned duties of both the Alternatives School Director and Transportation Director nor did the District provide a Board policy that requires either of these positions to attend all home and away sporting events. The *Attorney General Opinions 2001-0279* and *2001 WL 668764* referred to by the Board Attorney speaks about field trip and does not apply to the purchase of MHSAA state passes for individuals that are not required by neither their job description nor Board policy to attend all home and away games to benefit the District. Due to this, this would be considered an illegal donation under the *Mississippi Constitution*, if the District is not reimbursed the **\$30** per pass purchased.

Repeat Finding: No.

Finding 10: The School District Should Ensure Compliance with State Law over Approved Contracts, Obtaining and Maintaining Background Checks, and Maintenance of Personnel Files.

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.

Accounting Manual for School Districts, Section B, Miscellaneous Issues, Personnel Files, prescribed by the Mississippi Department of Education, states, “There shall be individual personnel files in the school district central office, which include contracts, a copy of teacher certificates, wage authorizations, federal and state withholding authorizations, and other deduction information. Individual personnel files shall stand alone to support payroll checks issued to individuals.” Additionally, all new hired licensed and non-licensed employees are required to have criminal records background and child abuse registry checks.

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

- Four certified employees’ personnel files did not have evidence of a background checks;
- Three certified employees’ personnel files did not have evidence of the contract for the School Recognition Program (SRP) supplements received; and
- Three out of five National Board Certified Teacher did not have evidence of a current National Board Certification certificates within their personnel file.

Failure to obtain background checks of all new hires could result in a wrongful hire. Additionally, failure to implement adequate controls, policies, and procedures in regards to maintenance of personnel files could lead to improper payments made to employees.

Recommendation: We recommend the South Panola School District ensure compliance by assuring all criminal background checks are obtained and maintained. Also, the School District should ensure all other required documentation is maintained in the personnel files of its employees, as required by state law and regulations.

District's Response: The four employees were hired between 2000-2011 before I became superintendent. The District will continue to strive to perform background checks on all new employees. The District has multiple personnel files on each employee, including electronic files. The three school recognition contracts are in the electronic files for your review. All National Board documentation is in a file in the District office and can be reviewed at your convenience.

Auditor's Note: As noted in the *Accounting Manual*, the personnel files of all employees within the District should stand alone. Based on the testing performed by OSA, the District stored items that belonged in the personnel files in different places within the District, which does not meet the requirements of the Mississippi Department of Education.

Repeat Finding: No.

Finding 11: 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, "To lawfully employ a PERS service retiree under Section 103, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of \$300 penalty per occurrence payable by the employer."

inding Detail: During the review of the School District's PERS Form 4Bs, the auditor noted 19 Form 4Bs did not have documentation maintained within the District to determine that the forms were submitted to PERS.

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 South Panola School District ensure compliance by properly maintaining supporting documentation and filing Form 4Bs with PERS, as required by state law and regulations.

District's Response: The PERS forms for reemployment of retired public employees were submitted to PERS by fax, and the forms were stamped "faxed" when submitted. The District has implemented procedures to include the date submitted to PERS next to the stamped "faxed" and file in a timely manner.

Auditor's Note: Stamping is not adequate documentation of submission of Form 4BS. The District should maintain the official fax transmittal documentation along with each form.

Repeat Finding: No.

End of Report



South Panola School District

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Providing Opportunities for Educational Excellence

COMPLIANCE REVIEW FINDINGS

March 31, 2023

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

Dear Mr. White:

Thank you and your staff for a thorough compliance review over the last 19 months. The South Panola School District has reviewed the report of minor findings from the Limited Internal Control and Compliance Review conducted for the fiscal year ending June 30, 2021. Below are the responses to the findings and corrective action plans if needed.

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

Response: Respectfully, the District disagrees with the State Auditor's Finding. The District strives to provide sound internal controls with segregation of duties while maximizing cost efficiency. A minimum of three employees are involved with the process of using the components of internal control from start to finish for collecting cash at the school level, including bank reconciliation at the central office. Furthermore, the majority of the transactions will have additional employees involved.

Corrective Action Plan: The District will continue with sound internal controls and adjust segregation of duties as needed.

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

Response: The District concurs with the finding. The District stresses to schools the importance of accounting for all tickets, monies, providing receipts and timely deposits. The District compliance manager meets with each employee after the event if the tickets and monies do not balance for proper procedures. The District will hold school bookkeepers accountable for timely deposits. The net overage of \$30 is an extremely small margin of error overall out of the total gate receipts. The District will continue to keep up the good work.

Corrective Action Plan: The District will continue training and implement accountability measures with principals, athletics director, bookkeepers, ticket sellers, and ticket takers, and reiterate the importance of reconciling tickets sold to monies received and receipting for school events at the local school level. The District emphasizes this issue with local schools at annual training and throughout the year.

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

Response: The District concurs with the finding. The fiscal year 2021 amended budget accidentally showed a negative fund balance in the At-Risk fund. The actual financial statements show a zero fund balance.

Corrective Action Plan: The District has implemented procedures to ensure compliance. Fiscal year 2022 amended budget was in compliance.

Finding 4: The School District Should Ensure Compliance with State Law over Bank Reconciliations.

Response: The difference in the bank reconciliation and general ledger is the "old July Payroll," which is posted as an expenditure as of June 30, 2021, but the actual payroll date is July 2021. The fiscal year 2021 financial statements property reflects "old July Payroll."

Corrective Action Plan: The District will ensure clarity with the bank reconciliation.

Finding 5: The School District Should Ensure Compliance with State Law over Ratifying Checks Disbursed by Individuals Other than the Superintendent.

Response: Respectfully, the District disagrees with the State Auditor's Finding. *The Mississippi Department of Education's Financial Accounting Manual for Public School Districts, Section F*, states, "Decentralized Accounting System: This method of accounting provides for both the receipt of funds and the expenditure of funds at the local school level. The school principal has the authority to receipt funds and disburse those funds by writing checks. The receipting of funds and the writing of checks must be performed according to the guidelines established by this section." The receipting of funds and the writing of checks are performed according to the guidelines established by this section. This language was originally written by the Office of the State Auditor and the auditor's office trained school districts with a decentralized accounting system that this was sufficient authority to not have to request board approval prior to releasing checks. This would reflect that the Office of the State Auditor has changed their position on this issue with the law without communicating their position change with school districts. Furthermore, there are several school districts that currently operate under a decentralized system that do not request prior approval from their board and did not receive findings during their compliance audit.

Corrective Action Plan: The District is in consultation with our attorneys to determine what action is needed to remain in compliance with the law.

Finding 6: The School District Should Ensure Compliance with State Law over Presenting Monthly Financial Reports.

Response: The District concurs with the finding. The cash flow statement for April 2021 was inadvertently missing from the financial report. The financial report did include the summary cash flow balance. In addition, the May 2021 financial report included the detail cash flow report.

Corrective Action Plan: The District will continue to ensure compliance.

Finding 7: The School District Should Ensure Compliance with State Law over Board Member Ethics and Nepotism.

Response: The District acknowledges that one Board Member approved recommendations and salaries for her son-in-law, one Board Member approved recommendations and salaries for her sister, and one additional Board Member approved the salary for his daughter. Each of these aforementioned relatives were financially independent from the Board Members. While the District acknowledges the Board Member's actions, the Board Members took measures to recuse and avoid voting on the initial hiring of relatives and to recuse themselves from any approvals of the District's Budget. This conduct shows that the Board has taken action to avoid any conflicts of interest and acted in good faith to comply with the law. The Board Members actions were inadvertent and there was no intent to provide relatives with any improper benefits. The salaries approved for any relatives were the same for all employees of the same certification and employment level and based on the salary scales required by Miss. Code Ann. § 37-19-7. The relatives were given no special treatment and received the same amounts as similarly situated employees.

Corrective Action Plan: The District's Board Members have received additional training on voting for matters which their relatives may obtain some benefit. The Board Members have corrected this matter as evidenced by their recusals from approving financial matters regarding relatives in board meetings subsequent to the State Auditor's findings. This includes recommendations for employment, approval of salaries, approvals of supplements and approvals of the budget. The son-in-law of the Board Member no longer works for the District. Additionally, the Board Member whose daughter works for the District recently resigned due to health reasons. The District's Board will continue to comply with all nepotism and ethics laws and will maintain a heightened awareness for any matters coming before it which may provide a pecuniary benefit for any relatives. If necessary to maintain a quorum, the Board will separate out any individual relatives when approving recommendations, salaries or other financial incentives so that any individual Board Member may completely recuse themselves. The Board will also receive annual training as an added precaution. Therefore, since the District Board is now complying with all laws regarding nepotism and ethics, will continue to comply with said laws and has received additional training, no further corrective action is necessary.

Finding 8: The School District Should Ensure Compliance with State Law over Recommendation and Supervision of Relatives.

Response: Respectfully, the District disagrees with the State Auditor's Finding 8. The District's technology director does not have the ability or authority to recommend the hiring of any employees. Personnel in the District's technology department may only be recommended for hiring by the school superintendent pursuant to Miss. Code Ann. § 37-9-3. It is not possible for anyone other than the District superintendent to recommend hiring employees in the technology department. The technology director also does not supervise his son or spouse. The assistant technology director supervises those individuals.

Corrective Action Plan: Even though the District disagrees with Finding 8, the District, out of an abundance of caution, will make sure no relatives supervise their relatives and will take steps to continually make sure no employees recommend or supervise their relatives. The District will also adopt a policy no later than July 31, 2023, that no employees may supervise their relatives. Further, in the event a relative serves in a department

underneath a director who does not supervise them, the Board will spread upon its minutes information to show that department director does not supervise the employee. The technology director and his spouse are retiring from the District effective June 30, 2023. The technology director's son no longer works for the District.

Finding 9: The School District Should Ensure Compliance with State Law over Mississippi High School Athletic Association (MHSAA) State Passes.

Response: The District respectfully disagrees with Finding 9. Mississippi law, specifically Miss. Code Ann. § 37-7-301(s), authorizes school districts to expend activity funds for “necessary expenses or travel costs, including advances, incurred by students and their chaperons in attending any in-state or out-of-state school-related programs, conventions or seminars.” The MHSAA passes were a necessary expense for the chaperons attending school-related programs. If the District was not able to purchase these passes as a necessary expense, then the District's students would have been unsupervised. This type of expenditure is exactly what Miss. Code Ann. § 37-7-301(s) contemplates and allows for.

Corrective Action Plan: The District will adopt a policy that covers employees who may serve as chaperons to school athletic events. The District may also include, as part of employee job descriptions, that employees may be required to attend events as chaperons. The District will also request an opinion from the Attorney General's office for further clarification on this issue and will proceed in accordance with the guidance from the Attorney General's office. No further corrective action is needed.

Finding 10: The School District Should Ensure Compliance with State Law over Approved Contracts, Obtaining and Maintaining Background Checks, and Maintenance of Personnel Files.

Response: The District concurs with the finding on maintaining background checks. The missing background checks were on four employees hired between 2000-2011. The District did have all School Recognition contracts and National Board documentation.

Corrective Action Plan: The District has implemented procedures and will continue to perform background checks on all new employees and maintain documentation of employees that is accessible.

Finding 11: The School District Should Ensure Compliance with State Law over Reemployment of Retired Public Employees.

Response: The District concurs with the finding. The PERS form 4Bs for reemployment of retired public employees were submitted to PERS by fax, and the forms were stamped “faxed” when submitted.

Corrective Action Plan: The District has implemented procedures to maintain the fax transmittal documentation with each form.

Respectfully,



Tim Wilder
Superintendent