

ENTERPRISE SCHOOL DISTRICT MISSISSIPPI

COMPLIANCE REPORT

Limited Internal Control and Compliance Review Management
For the year ended *June 30, 2022*

SHAD WHITE, CFE
State Auditor

Stephanie C. Palmertree, CPA, CFE, 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**

June 5, 2023

Limited Internal Control and Compliance Review Management Report

Enterprise School District
503 River Road
Enterprise, MS 39330

Dear Members of the Enterprise School District:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the **Enterprise School District** for the Fiscal Year 2022. In these findings, the Auditor's Office recommends the **Enterprise School District**:

1. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approval;
2. Strengthen Internal Controls and Ensure Compliance with State Law over District – Owned Residential Homes;
3. Ensure Compliance with State Law over Purchasing Expenditures;
4. Ensure Compliance with State Law over Merchant – Specific Credit Cards and Membership Club Cards;
5. Ensure Compliance with State Law over Monthly Financial Reports;
6. Ensure Compliance with State Law over Free Admissions to School – Sponsored Events; and
7. Ensure Compliance with State Law over Surety Bonds.

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 Enterprise 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, CFE, 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 **Enterprise School District** for the year ended **June 30, 2022**.

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 *deficiencies* in internal control. These matters are noted under the heading **OTHER DEFICIENCIES**.

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

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: The School 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..."

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

- On July 19, 2021, the Board approved the 2021-2022 original budget that included 12 funds reflecting a projected negative fund balance at year end:
 - Special Education Fund (1130) – **(\$231,750)**;
 - Softball Fund (1169) – **(\$213)**;
 - Special Projects Pass Thru Fund (1901) – **(\$90,282)**;
 - Account Payable Fund (1993) – **(\$233)**;
 - Summer Food Service Program 2021 Fund (2131) – **(\$1,056)**;

- Title I A-Basic Fund (2211) – **(\$13,617)**;
- Title V Rural & Low Income Fund (2311) – **(\$859)**;
- ESSER (Elementary Sec Elementary Relief Fund) (2590) – **(\$122)**;
- EDLA (Equity in District Learning Act Fund) (2592) – **(\$22,494)**;
- ESSER II (Elementary Sec School Emergency Relief Fund) (2594) – **(\$388)**;
- Preschool Fund (2620) – **(\$19)**;
- Vocational Fund (2711) – **(\$138,276)**;
- Capital Improvement Fund (4093) – **(\$189,577)**; and
- On September 12, 2022, the Board approved the amended 2021-2022 budget included one fund reflecting a projected negative fund balance at year end ESSER (Elementary Sec Elementary Relief Fund) (2590) – **(\$122)**.

The approval of the fund budgets with ending deficit fund balances could result in a violation of state law. The actual fund balances at June 30, 2022 were not negative.

Recommendation: We recommend the Enterprise School District strengthen internal controls and ensure compliance by implementing sound budgeting practices that will prevent projected negative fund balances from being presented to the School Board. A thorough review of such budgets should be made prior to presentation to the Board for approval.

District's Response: In reviewing, ESD found that general journals were not completed before final budget approvals were submitted for Board approval. Going forward, the Business Manager will ensure that all entries are recorded in a timely manner and budgets are thoroughly reviewed to verify that negative balances do not exist before final Board approval.

Repeat Finding: No.

Finding 2: The School District Should Ensure Compliance with State Law over District – Owned Residential Homes.

Internal Control Deficiency: The Trustees of the School Board is responsible for ensuring the assets of the District are safeguarded at all times. The District's Board of Education may not lease its property for less than the fair market value to current employees. Setting rental payments less than the fair market value would constitute an unlawful donation.

Applicable State Law: *Section 37-9-15, Mississippi Code Annotated (1972)*, and *AG Opinion 1991 WL 577900*, states only after the Board of Education has approved the Superintendent's recommendation, may the Superintendent enter into a contract and have it entered in the minutes.

Mississippi Attorney General Opinion 1979 WL 41450 states, the office is unaware of any procedure whereby a school district could allow the use of school-owned residential house rent-free or for less than value."

Mississippi Attorney General Opinion 2015-00433 states, "School buildings, land, property and other related facilities may be sold, conveyed, leased or otherwise disposed of under *Sections 37-7-471 through 37-7-483*, to any charter school, to any group of persons, ... to enhance property values within the district, or to be used for any similar or related purpose activity ... "Assuming the Trustees make this determination, there are other statutory requirements that must also be met. *Section 37-7-471*, likewise requires various factual determinations and findings to be made by the Trustees...Subsection (c) requires that the Trustees find that the use of the school building, land, property or other facility for the purpose it is be ...leased will promote and foster the development and improvement of the community in which it is located and the civic, social, educational, cultural, moral, economic or industrial welfare thereof..." "In determining proper terms, conditions, and considerations, the statute requires the Trustees to do so "in consideration of the benefits with will inure to the school district or the community in which the school ...property ...is located by the use thereof for the purpose for which must be decided

by the Trustees. *Section 37-7-477* additionally requires that the lease must contain a provision that title to the property “automatically revert to the school district, if such property shall cease to be used for the purpose for which it is leased ...”

Finding Detail: During the review of the School District’s residential housing, the auditor noted the District does not have evidence of an appraisal of its two homes that are being rented to its employees; therefore, OSA was unable to determine if the units are being rented at or below fair market value.

Failure to obtain the fair market value of the District’s residential homes resulted in the non-compliance with state laws and regulations.

Recommendation: We recommend the Enterprise School District ensure compliance by assuring a licensed appraiser appraises the home each time there is a new lease agreement. Working with an appraiser and/or realtor to set rental price will ensure the District is charging at least fair market value for the home.

District’s Response: In the past, the District has rented these homes to employees and non-employees at the same rental payment. The District will now work with a realtor to attempt to determine fair market rental value on one of the homes. The other home has been converted into an Academic Facility effective 4/1/2022.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 3: The School District Should Ensure Compliance with State Law over Purchasing Expenditures.

Applicable State Law: *Section 31-7-13(b), Mississippi Code Annotated (1972)*, states that purchases which involve an expenditure of more than \$5,000, but not more than \$50,000, maybe made without publishing or posting advertisement for bids, provided at least two competitive written bids have been obtained.

Section 3-7-13 (m)(ii), Mississippi Code Annotated (1972), states, “Repairs to equipment, when such repairs are made by repair facilities in the private sector; however engines, transmission, rear axles and/or other such components shall not be included in this exemption when replaced as a complete unit instead of being repaired and the need for such total component replacement is known before disassembly of the component...”

Finding Detail: During the review of the School District’s purchasing expenditures, the auditor noted two quotes were not obtained for the replacement of the charged air cooler and repair to an engine totaling **\$23,188:**

- Waters International (Charge Air Cooler) - **\$6,144**
- Waters International (Engine) - **\$17,044**

Failure to follow proper purchasing procedures could result in fraud or misappropriation of public monies and resulted in noncompliance with state law.

Recommendation: We recommend the Enterprise School District ensure compliance by assuring that purchasing guidelines are followed and monitored, as required by state law.

District’s Response: In the future, Enterprise School District will ensure purchasing laws are followed by making sure that two quotes are obtained for expenditures over **\$5,000** but not over **\$50,000**.

Repeat Finding: No.

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

Applicable State Law: *Section 37-9-18(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, “At minimum, the Superintendent should provide reconciled bank statements, a state 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 the review of the School District’s financial reports, the auditor noted that a complete set of financial reports for June 2021 through December 2021 were not presented to the School Board.

Failure to comply with the financial reporting requirements established by the State Board of Education constitutes a violation of state law and regulations. 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 Enterprise 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: Enterprise School District discovered this omission and self-corrected this starting in February 2022.

Repeat Finding: No.

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

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

Mississippi Procurement Manual, Chapter 10, 10.112.05, Membership Club Cards, prescribed by the Mississippi Department of Finance Administration (DFA), 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 credit cards, the auditor noted that the School Board did not approve the use of its BestBuy, Sam's Club, or BizCard Platinum Credit Card and does not have on file a justification for the use of the Sam's card that would show the anticipated savings.

Failure to approve merchant – specific cards and maintain on file the justification for their use resulted in noncompliance with state law.

Recommendation: We recommend the Enterprise School District ensure compliance annually by implementing policies to ensure compliance with state law in regards to the use of merchant – specific and membership cards.

District's Response: The District will have the use of these cards Board approved on 10/13/2022 with a justification for the use of the Sam's card for savings.

Repeat Finding: No.

Finding 6: The School District Should Strengthen Ensure Compliance with State Law over Free Admissions to School – Sponsored Events.

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

Article 4, Section 96, Mississippi Constitution, 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 School District's activity/athletic funds, the auditor noted all District's personnel are allowed free entrance to all school – sponsored events with their District issued badges; however, the School District does not have a Board approved policy related to free admission of its employees.

Failure to have a Board – approved policy that states the benefit of allowing its personnel free admission or requiring the attendance of personnel to school – sponsored events could result in an illegal donation and resulted in noncompliance with state law and regulations.

Recommendation: We recommend the Enterprise School District ensure compliance by implementing policies in regards to the free admissions of its personnel to school – sponsored events to avoid noncompliance with state law and regulations

District's Response: The District will implement a policy concerning the free admission of personnel to school sponsored events.

Repeat Finding: No.

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

Applicable State Law: *Section 25-1-12(1), Mississippi Code Annotated (1972)*, states, “Notwithstanding any other provision of law to the contrary, any public officer or employee handling or having the custody of public funds, by virtue of his or her office or employment, shall give an individual bond or be covered by a blanket bond. The amount of such bonds shall not be less than Twenty-five Thousand Dollars (\$25,000.00) for each public officer or employee, unless a specific amount is otherwise required by law. The provisions of this section shall not apply to any public officer or employee

whose activity of handling or having custody of public funds is incidental to his or her employment or job duties, as defined by the regulations of the State Auditor's office."

Section 25-1-19, Mississippi Code Annotated (1972), states, "The bond of all other county officers and employees, or officers and employees for any district, subdivision, board or commission of a county, including public school districts, shall be approved by the board of supervisors of such county. All the bonds shall be filed and recorded in the chancery court of the county..."

Section 37-39-21, Mississippi Code Annotated (1972), states, "The purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety."

School Board Policy, Section D, Policy DJEA, Purchasing Authority, states, "(1)In addition to the superintendent the school board hereby designates the assistant superintendent and business manager as "purchasing agents" with general authority to negotiate for and purchase the commodities and services necessary for the operation of the school district, within the limits of budget categories and purchasing law. (2)This school board hereby designates the food service administrator as "purchasing agents" with the limited authority to negotiate for and purchase commodities and services for their specific areas of responsibility within the limits of budget and purchasing law. (3)This school board hereby designates the school principals as "purchasing agents" with the limited authority to negotiate for and purchase commodities and services necessary for the operation of their schools with the activity funds for which they are responsible as defined in board policy DK C Student Activities Fund Management, subject to all purchasing laws."

Finding Detail: During the review of the School District's surety bonds, the auditor noted the following exceptions:

- Bonds were not on file in the Chancery Clerk's office for the following 13 employees:
 - Five Board Members;
 - Superintendent;
 - Business Manager;
 - Three Principals;
 - One Purchase Agent;
 - Food Service Manager;
 - Accounts Payable Clerk;
- The Business Manager, three Principals, and Food Service Director were not bonded as Purchasing Agents; however, the District's Board policy designates the Business Manager, Principals, and Food Service Director as Purchasing Agents; and
- The District's school secretaries, gatekeepers, and cafeteria cashiers who collect cash, are not properly and officially bonded.

Recommendation: We recommend the Enterprise School District ensure compliance by assuring all employees are properly and sufficiently bonded, as required by state law and its Board policy. Additionally, the Board should ensure all bonds for employees' and officials' are filed with the Chancery Clerk's office.

District's Response: The transaction reports for our Surety Bonds were filed and recorded at the Clarke County Chancery Clerk's office; however, the Official Bond and Oath were only on file in our District Office. As of September 2022, all forms are now filed and recorded at the Chancery Clerk's office. At the October 7, 2022 ESD School Board Meeting, a change to *Policy DJEA* was approved to reflect only the Superintendent and Business Manager as Purchasing Agents. Both individuals are now properly bonded. The District is evaluating the process of ensuring all personnel who handle cash are properly bonded.

Repeat Finding: No.

End of Report