

LAUDERDALE COUNTY 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

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

October 3, 2023

Limited Internal Control and Compliance Review Management Report

Lauderdale County School District
301 46th Court, P.O. Box 5498
Meridian, MS 39302

Dear Members of the Lauderdale County School Board:

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

1. Strengthen Internal Controls over Activity/Athletic Fund Revenue;
2. Strengthen Internal Controls and Ensure Compliance with State Law over Sixteenth Section Land Deposits, Taxes, and Lease Payments;
3. Strengthen Internal Controls and Ensure Compliance with State Law over Budget Approval;
4. Strengthen Internal Controls and Ensure Compliance with State Law over Bank Reconciliations;
5. Ensure Compliance with State Law over District – Owned Residential Homes;
6. Ensure Compliance with State Law over Certified Employee's Salaries and Maintaining Background Checks;
7. Ensure Compliance with State Law over Reemployment of Retired Public Employees;
8. Ensure Compliance with State Law over District over Walkable Items; and
9. 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 **Lauderdale County School District** to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

STEPHANIE PALMERTREE, CPA, CGMA
Deputy State Auditor
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the **Lauderdale County 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 significant deficiencies in internal control and certain deficiencies in internal control that we consider to be *significant deficiencies* in internal control. These matters are noted under the headings **SIGNIFICANT DEFICIENCY** and **OTHER 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 heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**. The Auditor's Office has also made a recommendation for management's consideration that it is not in violation of state law.

SIGNIFICANT DEFICIENCY

Finding 1: The School District Should Strengthen Internal Controls over Activity/Athletic Fund Revenue.

Internal Control Deficiency: *The Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway 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.

School Board Policy: *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 much be deposited daily..."

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

- Nine deposits were not made in a timely manner; and
- There was a net shortage of **\$554** between deposits and ticket sales for varsity basketball and football games.

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

Recommendation: We recommend the Lauderdale County School District strengthen internal controls by implementing adequate policies and procedures to ensure receipts from all activity are safeguarded, adequately recognized, and recorded.

District's Response: Administration has taken the necessary steps to strengthen controls over athletic event funds in relation to revenue collection, proper receipting and depositing timely of these funds.

Repeat Finding: No.

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Sixteenth Section Deposits, Taxes, and Lease Payments.

Internal Control Deficiency: The *Internal Control – Integrated Framework published by the committee of Sponsoring Organizations of the Tread-way Commission* specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Good internal controls require the functions of processing, recording transactions, and maintaining custody of related assets be properly recorded to ensure the assets are safeguarded against loss from unauthorized use or theft.

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

Section 29-3-57, Mississippi Code Annotated (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 the following exceptions:

- Eight lease payments were not deposited in a timely manner;
- Six leases' taxes were not current, totaling **\$2,926**; however, the lease agreements were not terminated;
- Three lease payments were more than 60 days late; however, the lease agreements were not terminated; and
- The District received partial payments on two lease agreements. The full payments were made 60 days after the due dates; however, the leases were not terminated.

Failure to have adequate internal controls over sixteenth section land lease agreements resulted in noncompliance with state law.

Recommendation: We recommend the Lauderdale County School District strengthen internal controls and ensure compliance by assuring the total lease payments are made within 60 days, taxes are current, and deposits are made within a timely manner, as required by state law.

District's Response: Internal controls have been strengthened to ensure proper payment is received within 60 days, taxes are current and payments are properly receipted.

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 budgeting expenditures for fiscal year 2022, the auditor noted the following exceptions:

- One August 10, 2021, the Board approved the 2021-2022 original budget that included 22 fund reflecting a projected negative fund balance at year end, totaling **\$5,648,899**; and
- The amended 2021-2022 budget included the following 11 funds reflecting a negative fund balance at year-end, totaling **\$15,725,844**:
 - Alternative School (1140) – **(\$948)**;
 - At Risk (1145) – **(\$175)**;
 - Extended School Year (2090) – **(\$7,914)**;
 - School Improvement (2213) – **(\$287,101)**;
 - ESSER II (2594) – **(\$3,480,251)**;
 - ARP ESSER III (2598) – **(\$10,438,571)**;
 - IDEA Part B ARP Grant (2599) – **(\$305,937)**;
 - IDEA Part B Pre-k ARP Grant (2600) – **(\$26,905)**;
 - Preschool FY 2000 (2620) – **(\$41,110)**;
 - Vocational Education (2711) – **(\$12,095)**; and
 - 3 Mill Loan 2022 (3026) – **(\$1,124,837)**

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

Recommendation: We recommend the Lauderdale County 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: We have reviewed the disposition concerning the negative fund balances on our budget. We will correct our balances to match the actual fund balance amount at the district’s end of fiscal year procedures.

Repeat Finding: No.

Finding 4: The School District Should Strengthen Internal Controls and 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 of internal controls is to ensure outstanding checks and deposits are balanced per the District’s bank statements and reconciled against the amount of cash listed on the District’s general ledger. 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 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: Based on the review of the School District's bank reconciliations, the auditor noted one bank account (Education & Skills Center) was not properly reconciled to the general ledger's cash balance resulting in a difference, totaling \$1,000.

Failure to record all transactions 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 Lauderdale County School District strengthen internal controls and ensure compliance by assuring all transactions are properly recorded in the District's general ledger and all variances from book balances are accounted for in a timely manner. Also, we recommend the School District reconcile bank accounts monthly to the general ledger by each fund in order to effectively and timely account for any variance from the District's book balances.

District's Response: The district has strengthened the controls to be certain all bank accounts are reconciled to the general ledger.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 5: The School District Should Ensure Compliance with State Law over District – Owned Residential Homes.

Applicable State Law: *Article 4, Section 66, Mississippi Constitution*, states, "No law granting a donation or gratuity in favor of any person or object shall be enacted except by the concurrence of two-thirds of the members elect of each branch of the Legislature, nor by any vote for a sectarian purpose or use."

Article 4, Section 96, Mississippi Constitution, provides that the Legislature shall never grant extra compensations, 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;

Mississippi Attorney General's Opinion 1979 WL 41450, states, "This 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 to 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 which 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 it is...leased. "Obviously, all of these required determinations and findings are factual issues 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 homes, the auditor noted the following exceptions:

- On December 17, 2009, the School Board of Education approved waiving rental payments on three teachers’ homes located on its campuses; however, the employee is responsible for paying all utilities;
- There are no rental agreements on file within the District; therefore, the District is not utilizing the fair market value of all three houses to set the rental payments; and
- The District paid the electric bill on one residential home that was rented between two employees during the fiscal year 2022 totaling **\$2,285**.

Failure to ensure District employees pay no less than fair market value in rental payments and utilities resulted in noncompliance with state law.

Recommendation: We recommend the Lauderdale County School District ensure compliance by assuring that residential housing is rented for no less than the actual fair market value and utilities are paid by the District’s employees to avoid an illegal donation, as required by state law.

District’s Response: The School Board has been made aware of this deficiency and are in the process of making corrections.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Law over Certified Employee’s Salaries and Maintaining Background Checks.

Applicable State Law: *Section 37-9-17, 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. Additionally, employees employed under the recommendation of a personnel supervisor may not be paid compensation in excess of their approved contract without Board approval.

Finding Detail: During the review of the School District’s certified employees’ personnel files, the auditor noted the following exceptions out of 20 tested:

- Six certified employees did not have evidence of a background check in their personnel files; and
- One certified employee’s contract did not match her approved salary.

Recommendation: We recommend the Lauderdale County School District ensure compliance by assuring criminal background checks are obtained and maintained in personnel files of its employees, as required by law. Also, the School District should ensure salary increases are approved by the School Board.

District’s Response: The district has put the necessary pay scales in place to accommodate certified employees so there will be no question how a certified employee will be paid. The Human Resource Department will strengthen the controls of handling background checks of all employees.

Repeat Finding: No.

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

Applicable State Law: *Section 25-11-127 (1)(a), Mississippi Code Annotated (1972)*, states, “No person who is being paid a retirement allowance or a pension after retirement under this article shall be employed or paid for any service by the State of Mississippi, including services as an employee, contract worker, contractual employee or independent contractor, until the retired person has been retired for not less than ninety (90) consecutive days from his or her effective date of retirement. After the person has been retired for not less than ninety (90) consecutive days from his or her effective date of retirement or such later date as established by the board, he or she may be reemployed while being paid a retirement allowance under the terms and conditions provided in this section.”

Section 25-11-127(4)(a)(b), Mississippi Code Annotated (1972), states, “The provisions of this section shall not be construed to prohibit any retiree, regardless of age, from being employed and drawing a retirement allowance either: (a) For a period of time not to exceed one-half (½) of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half (½) of the salary in effect for the position at the time of employment, or (b) For a period of time in any fiscal year sufficient in length to permit a retiree to earn not in excess of twenty-five percent (25%) of retiree’s average compensation.”

Finding Detail: During the review of the School District’s PERS Form 4Bs, the auditor noted the following exceptions:

- Five retirees were paid more than the allowed salary by PERS, totaling **\$3,116**; and
- Five Form 4Bs did not have evidence of the complete retirement date; therefore, the auditor could not verify if the retiree was hired 90 days after retirement.

Failure to have adequate controls over the rehire of retirees resulted in noncompliance with state law.

Recommendation: We recommend the Lauderdale County School District ensure compliance by assuring all rehired retirees are properly paid and all PERS Form 4Bs are properly completed, as required by state law.

District’s Response: The district will strengthen the controls surrounding the completion, required timely submission(s) and reporting accurate information on the PERS Form 4B.

Repeat Finding: No.

Finding 8: The School District Should Ensure Compliance with State Law over Highly – Walkable Items.

Applicable State Law: *Accounting Manual for School Districts, Section G, Capital Assets*, prescribed by Mississippi Department of Education, states, “The school district must have a capital asset capitalization policy. The Office of the State Auditor requires certain items (with certain threshold amounts) to be coded to a capitalized expenditure code. These capitalized items must also be maintained on an inventory listing of the school district. At a minimum, the policy must state that the school district will capitalize all assets with a useful life of greater than one year and with a historical cost of at least \$1,000 and all highly walkable items. Highly walkable items, will, at a minimum, include all televisions, computers, cameras, and camera equipment equal to or greater than \$250.00, cellular telephones, radio equipment and weapons.”

Finding Detail: During the review of the School District’s capital asset listing, the auditor noted the following walkable items were not tagged: 16 cellphones and 12 mobile hotspots.

Failure to ensure highly – walkable items were capitalized and included on the District’s inventory listing resulted noncompliance with state law.

Recommendation: We recommend the Lauderdale County School District ensure compliance by assuring the District's highly – walkable items are capitalized and included on its capital asset listing.

District's Response: Internal controls have been enhanced to ensure walkable items are properly documented. This finding was corrected as soon as it was discovered.

Repeat Finding: No.

Finding 9: 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 25-1-15(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. The school board may execute a blanket bond for each school district official and employee (including school business managers and any other employee who receipts and/or disburses school district funds) in the penalty of Fifty Thousand Dollars (\$50,000), unless a different penalty is prescribed by statute, to be payable, conditioned and approved in the manner provided by law. The premium on said bond shall be paid out of the school district maintenance fund."

Section 37-9-27, Mississippi Code Annotated (1972), states, "The superintendent of any school district, before entering upon the duties of his office, shall furnish a good and sufficient surety bond in the penal sum of One Hundred Thousand Dollars (\$100,000)..."

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

- Twenty – one surety bonds were not original bonds but were "continuation bonds with indefinite time limits" for the following positions:
 - Five Board Members;
 - Superintendent;
 - One Purchase Agent;
 - Business Manager;
 - Thirteen Principals;
- 194 employees that handle cash were not bonded:
 - Two Hundred - thirty Gatekeepers;

- Twelve Bookkeepers;
- Twelve Secretaries; and
- Forty Cafeteria Cashiers

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. Failure to be correctly and sufficiently bonded could limit the amount available for recovery in the event of fraud, theft, or misappropriation of public funds.

Recommendation: We recommend the Lauderdale County School District ensure compliance by securing new bonds every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee, as required by state laws and regulations.

District’s Response: Our insurance company has been notified to communicate that we will immediately started with an annual renewal procedure.

Repeat Finding: No.

End of Report