

NOXUBEE 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

Charlotte L. Duckworth
Director, *Compliance Audit Division*





STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

May 21, 2024

Limited Internal Control and Compliance Review Management Report

Noxubee County School District
P.O. Box 540
Macon, MS 39341

Dear Members of the Noxubee County School Board:

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

1. Strengthen Internal Controls Regarding Cash, Revenues, Receivables, and Receipts;
2. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget Procedures;
3. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Activity/Athletic Funds Cash Receipts and Deposits;
4. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Sixteenth Section Deposits, Reporting, Payments, Appraisals, and Taxes;
5. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Board Minutes;
6. Ensure Compliance with State Law Regarding Director's Supervision of Relatives Within the First Degree;
7. Ensure Compliance with State Law Regarding Monthly Financial Reports;
8. Ensure Compliance with State Law Regarding Credit Card Approval and Usage;
9. Ensure Compliance with State Law Regarding the Unemployment Compensation Fund;
10. Ensure Compliance with State Law Regarding Certified Employees' Background Checks and Supplemental Contracts;
11. Ensure Compliance with State Law Regarding Education Enhancement Fund (EEF) Cards;
12. Ensure Compliance with State Law Regarding the Reemployment of Retired Public Employees and the Payment of Employer Contributions; and
13. Ensure Compliance with State Law Regarding Surety Bonds.

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 our recommendations enable the **Noxubee County School District** to accomplish its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,



CHARLOTTE L. DUCKWORTH

Director, Compliance Audit

Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the **Noxubee 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. 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 identified certain deficiencies in internal control over financial reporting that we consider to be other 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 Law that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

Terms used in this Report.

OSA- *Office of the State Auditor*

AGO – *Attorney General's Office*

MS AG Op. – *Mississippi Attorney General's Opinion*

COSO - *The Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission*

District – *Noxubee County School District*

MDEAMSD – *Mississippi Department of Education Accounting Manual for School Districts*

Section – *Mississippi Code Annotated (1972)*

SIGNIFICANT DEFICIENCIES

Finding 1: The District Should Strengthen Internal Controls Regarding Cash, Revenues, Receivables, and Receipts.

Internal Control Deficiency: Proper internal controls require the District to have an independent review of bank reconciliations, to properly allocate interest to each fund, to identify details of all items deposited, and to have manual entries into the general ledger approved and to be reviewed by someone other than the one performing the entry.

Finding Detail: During the review, the auditor noted that the District does not have independent review of bank reconciliations, does not properly allocate interest to each fund, does not identify details of all items deposited, and does not have manual entries into the general ledger approved and reviewed by someone other than the one performing the entry.

Failure to have proper internal controls over cash, revenues, receivables, receipts and bank reconciliations could lead to fraud, misappropriation, or loss of public funds.

Recommendation: We recommend the District strengthen internal controls by implementing adequate procedure that would include independent review of transactions relating to cash, revenues, and receivables. Also, the District should allocate interest to each fund, and include details of all items deposited.

District's Response: The Business Manager will get the Superintendent or Payroll Clerk to review all bank reconciliations in the future.

Repeat Finding: No.

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget Procedures.

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 are within the legal requirements of the approved budget.

Applicable State Law: *Section 37-61-19*, "It shall be the duty of the superintendents 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. Furthermore, it shall be unlawful for any contract to be entered into or any obligation incurred or expenditure made in excess of the resources available for such fiscal year. Any member of the school board, superintendent of schools, or other school official, who shall knowingly enter into any contract, incur any obligation, or make any expenditure in excess of the amount available for the fiscal year shall be personally liable for the amount of such excess.

Finding Detail: During the review of the District's budgeted expenditures, the auditor noted the following exceptions:

- The original 2021-2022 combining budget's total expenditures did not tie to the original combined budget's total expenditures with a difference totaling **\$263,409**; and
- On June 28, 2021, the Board approved the original 2021-2022 budget that included the following funds reflecting a negative fund balance at year-end:
 - District Maintenance Fund (1120) – **(\$99,112)**;
 - B.F. Liddell Middle School Act (1153) – **(\$2,500)**; and
 - High School Club Fund (1159) – **(\$2,000)**.

The actual fund balances at June 30, 2022 were not negative; however, the approval of the fund budgets with ending deficit fund balances could result in noncompliance with State Law.

Recommendation: We recommend the District strengthen internal controls and ensure compliance by implementing sound budgeting practices that will prevent 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: The Business Manager will ensure that the combined and combining match expenditures for each fund. No fund has a deficit balance. In the Integrity software, you must manually enter a projected fund balance for the original budget. Moving forward, the business manager will manually place a beginning fund balance for all funds.

Repeat Finding: No.

Finding 3: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Activity/Athletic Funds Cash Receipts and Deposits.

Internal Control Deficiency: The *COSO* 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.

Applicable Administrative Guidance: *MDEAMSD, Section B, Miscellaneous Issues, Subject E – Receipt Files*, 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.)”

MDEAMSD, Section F, Activity Funds, General Financial Requirements – Reporting, “No later than five working days after the close of the month, the principal will deliver to the central office a transmittal report of all activity fund transactions for the preceding month.” The Mississippi Department of Education prescribes the receipt and transmittal report forms to be used by the school districts.

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

- 39 transmittals forms were not completed by the school principal and submitted to central office within five working days after the close of the month;
- Two game deposits were between four and six days after monies were receipted; and
- There was a net shortage of **\$48** between deposits and ticket sales for varsity football and basketball games deposited.

Inadequate internal controls related to activity funds revenue collections, proper receipting, and depositing could result in a loss of assets and improper revenue recognition.

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

District’s Response: The Noxubee County School District will strengthen internal controls to ensure that all receipts are accurately recorded and timely deposited.

Repeat Finding: No.

Finding 4: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Sixteenth Section Deposits, Reporting, Payments, Appraisals, and Taxes.

Internal Control Deficiency: The *COSO* 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*, “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 29-1-3(3), “Any state, county or municipal official shall supply annually to the state land commissioner such sixteenth section management information as shall be requested by the commissioner. Such information shall include, but not be limited to, the following items pertaining to all new leases, rights of way, easements and sales of school trust lands: the number of acres in each parcel; the consideration paid for each transaction; the length and expiration of each lease, easement, or right of way; and the use to be made of each parcel. The applicable public official shall likewise report information requested by the state land commissioner upon principal fund investments. Such information shall include, but not be limited to, the following items: amounts of monies invested; dates of investment; where invested; form of investment; rate of return of each investment; and the amount of revenue earned upon each investment.”

Section 29-3-57, “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.”

Section 29-3-65, “One (1) year prior to the date, when any such lands, not subject to competitive bid procedures, shall become available for lease, the Board of Education shall appoint a competent appraiser to appraise the land and report to the Board his recommendation for the fair market rental amount. The Board shall then determine whether the same be a reasonable amount, and shall grant the lease pursuant to *Section 29-3-63*.” Additionally, management is responsible for ensuring adequate internal controls over the collections for sixteenth section lease revenue.

Finding Detail: During the review of the District’s sixteenth section land leases, the auditor noted the following exceptions:

- 15 lease agreements did not have appraisals on file to verify appraisals were completed prior to entering into new lease agreements;
- Eight lease payments were not deposited in a timely manner;
- The annual rental amounts for six lease agreements were not accurately reported on the Mississippi Secretary of State’s (SOS) Sixteenth Section Trust Land Report.
- Three lease payments were more than 60 days late; however, the leases were not terminated;
- Two lease payments were less than the lease agreement amount, totaling **\$153**; however, the lease agreements were not terminated;
- Two leases’ taxes were not current, totaling; however, the lease agreements were not terminated, totaling **\$2,730**;
- Two lease agreements were cancelled; however, the District collected lease payments without the renewal of the lease agreements;
- The District did not file two lease agreements on its annual SOS’s Sixteenth Section Trust Land Report;
- There were rent adjustments on three lease agreements; however, there was no explanation or documentation for them.; and
- One lease agreement remained unpaid at the conclusion of the fieldwork; however, the lease agreement was not terminated.

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

Recommendation: We recommend the District strengthen internal controls and ensure compliance by assuring all taxes are current, payments are properly receipted, all lease agreements are properly executed, and an appraiser is appointed one year before the rental of sixteenth section land, as required by State Law.

District's Response: Deposits are made when there are enough to place in the warrant book. Warrant books are over \$2,500, will not place one deposit on one page of the warrant book. Cash deposits are made daily. The School District will work closely with our 16th Section Land Manager to correct these findings.

Auditor's Note: The cost of warrant books does not negate state law when it concerns the depositing of revenue. School Districts should deposit public funds daily.

Repeat Finding: No.

Finding 5: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Board Minutes.

Internal Control Deficiency: Management is responsible for ensuring the assets of the District are safeguarded, and transactions are properly documented and recorded in the District's board minutes. A critical aspect of internal controls includes numbering the Board minute pages.

Applicable State Law: *Section 37-6-9, "...Minutes shall be kept of all meetings of the school board showing (a) the members present and absent; (b) the date, time and place of the meeting; (c) an accurate recording of any final actions taken at such meeting; (d) a record by individual member of any votes taken at such meeting; and (e) any other information that the school board requests to be reflected in the minutes. Each member of the school board present shall either vote or abstain on every question upon which a vote is taken at such meeting. All action taken by a school board shall become official at the time it is taken. All minutes of the school board shall be signed by the president of the board, shall be attested by the secretary of the board and shall be adopted by the board at the next regular meeting, or within thirty (30) working days, whichever occurs later."*

Section 37-61-9(3), "Prior to the adoption of a budget pursuant to this section, the school board of each school district shall hold at least one (1) public hearing to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. The public hearing shall be held at least one (1) week prior to the adoption of the budget with advance notice. After final adoption of the budget, a synopsis of such budget in a form prescribed by the State Department of Audit shall be published in a newspaper having general circulation in the school district on a date different from the date on which the county or any municipality therein may publish its budget."

Finding Detail: During the review of the District's Board minutes, the auditor noted the following exceptions:

- The official Board minute book's pages were not numbered;
- Minutes for the Board meeting held on May 12, 2020 were documented between April 13, 2021 and May 11, 2021, which is not in sequential order;
- The Public Hearing for fiscal year 2022 budget was held on May 12, 2021; however, this action was not spread upon the District's Board minutes;
- The minutes for the following 15 meetings were tabled and not approved until June 14, 2022:
 - November 10, 2020;
 - November 16, 2020;
 - November 20, 2020;
 - December 8, 2020;
 - December 15, 2020;
 - December 21, 2020;
 - February 3, 2021;
 - February 9, 2021;
 - March 4, 2021;

- March 16, 2021;
 - April 13, 2021;
 - May 11, 2021;
 - August 27, 2021;
 - November 9, 2021; and
 - November 19, 2021.
- Six agenda dates did not match the dates referred to in the minutes:
 - January 14, 2021,
 - May 11, 2021,
 - August 27, 2021,
 - September 14, 2021,
 - November 19, 2021, and
 - December 14, 2021.
- The minutes for the June 28, 2021 Board meeting were unsigned;
- The consent agenda item for the December 14, 2021 minutes included travel, however, the approved minutes reflect the approval of the consent agenda items from November 9, 2021; and
- The November 19, 2021 minutes reflected bids that were submitted and negotiated for sixteenth section land, however, no action was recorded.

Failure to properly maintain the District's Board minutes resulted in noncompliance with State Law.

Recommendation: We recommend the District strengthen internal controls and ensure compliance by implementing adequate policies and procedures to assure all Board minutes are maintained as required by state law and regulations. In addition, we recommend the District ensure that public hearings that are held are spread upon its Board minutes, as required by state law.

District's Response: The District will strengthen procedures to assure Board Minutes are as state law required.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 6: The District Should Ensure Compliance with State Law Regarding Director's Supervision of Relatives Within the First Degree.

Applicable State Law: *Section 25-4-105(1)*, "No public servant shall use his official position to obtain, or attempt to obtain, pecuniary benefit for himself other than that compensation provided for by law, or to obtain, or attempt to obtain, pecuniary benefit for any relative or any business with which he is associated."

Section 25-4-103(q), "Relative" means: (i) The spouse of the public servant; (ii) The child of the public servant; (iii) The parent of the public servant; (iv) The sibling of the public servant; and (v) The spouse of any of the relatives of the public servant specified in subparagraphs (ii) through (iv)."

Applicable Administrative Decisions and Guidance: *Mississippi Ethics Opinion 19-014-E*, states in part, "...When an employee works under the direct supervision of his or her relative, a violation of *Section 25-4-105(1)*, *Miss. Code of 1972*, is virtually inevitable."

Finding Detail: During the review of the District's related party questionnaires, the auditor noted the SPED Director is the direct supervisor of their sister (SPED Assistant/Caregiver).

Failure to ensure that a director did not have direct supervision of their relative within the first degree resulted in noncompliance of *Mississippi Ethics Opinion 19-014-E*.

Recommendation: We recommend the Board ensure compliance by making sure administrators do not have direct supervision over relatives within the first degree, as required by State Law. This matter has been referred to the *Mississippi Ethics Commission*.

District's Response: The SPED Director is not the direct supervisor for her sister. The high school principal is her direct supervisor.

Auditor's Note: The sibling is being paid from the SPED Grant, which is proposed and submitted by the SPED Director. Also, the SPED Assistant/Caregiver falls within the SPED Department, which is supervised by the SPED Director regardless of the location of the employee.

Repeat Finding: No.

Finding 7: The District Should Ensure Compliance with State Law Regarding Monthly Financial Reports.

Applicable State Law: *Section 37-9-18(1)(a)*, "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. The rules and regulations promulgate by the board shall include: (i) A requirement that the reports be listed as an agenda item for discussion at a regularly scheduled meeting of the board; (ii) A requirement that the minutes of the board meeting reflect that the reports were discussed; (iii) A requirement that each board member present be provided a copy of all required reports; and (iv) A requirement that a copy of all required reports be included in the official minutes of the board meeting at which the reports were discussed."

Applicable Administrative Guidance: *Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board* provides:

1. The State Board of Education is directed by *Miss. Code Ann. §37-9-18* to 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. At a minimum, the superintendent of schools shall furnish to the local school board the following required financial reports each month at the regular school board meeting:
 - a. Reconciled Bank Statements...
 - b. Statement of Revenues and Expenditures ...
 - c. Current Budget Status...
 - d. Cash Flow Statement by Month...
 - e. Combined Balance Sheet ...
 - OR
 - f. Current Fund Equity Balances...

Finding Detail: During the review of the District's financial reports, the auditor noted that a complete set of required monthly financial reports for July 2021 through May 2022 were not presented to the School Board nor spread upon its minutes.

Failure to comply with the financial reporting requirements resulted in noncompliance with state law and regulations.

Recommendation: We recommend the District ensure compliance by making sure an accurate and complete set of financial reports are submitted to the Board each month and spread upon the Board's minutes, as required by State Law.

District's Response: The required financial reports were presented and discussed at each board meeting each month. The board clerk only scanned the first page of the report for part of the Board minutes; however, all reports are in the board packet for each month on the identified dates.

Auditor's Note: As noted in the State Law above, it is a requirement for the financial statements to be spread upon the Board's minutes. Including the financial statements in the attached Board packet does not meet the requirement of state law.

Repeat Finding: No.

Finding 8: The District Should Ensure Compliance with State Law Regarding Credit Card Approval and Usage.

Applicable State Law: *Section 27-65-105*, "The exemption from the provisions of this chapter which are of a governmental nature or which are more properly classified as governmental exemptions than any other exemption classification of this chapter shall be confined to those persons or property exempted by this section or by provisions of the Constitutions of the United States or the State of Mississippi...The tax levied by this chapter shall not apply to the following: (a) Sales of property, labor, services or products taxable under *Sections 27-65-17, 27-65-19, 27-65-23 and 27-19-26*, when sold to and billed directly to and payment therefor is made directly by ... school districts of said counties and municipalities."

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

Mississippi Procurement Manual, Chapter 10, 10.112.03, Merchant-Specific Credit Cards, states, "...Governing authorities desiring to obtain a merchant specific credit card shall submit to their governing board for approval, written justification for the need of a merchant specific credit card. Approval of such action shall be placed on the minutes of the board of the governing authority."

Mississippi Procurement Manual, Chapter 10, 10.112.04 Merchant Specific Credit Card Minimum Requirements, states, "Upon receipt of the monthly statement, the cardholder shall review all charges to assure accuracy, complete applicable dispute documents, reconcile the statement with copies of receipts and order logs, and approve and sign the statement. The appropriate agency official shall maintain a file with the statements and all applicable receipts and dispute documents."

Mississippi Procurement Manual, Chapter 10, 10.112.05, Membership Club Cards, states, "Membership club 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 from 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 savings for the previous year which substantiate the cost of the card. This would not mean documenting savings on each and every purchase but enough documentation to substantiate adequate savings to justify the expense of the card. State agencies desiring to obtain a membership club card shall submit to the Office of Purchasing, Travel and Fleet Management for approval with written justification for the need of a membership club card."

Finding Detail: During the review of the District's procurement cards, the auditor noted the following exceptions:

- 13 procurement card purchases did not have evidence of statements; therefore, OSA could not determine if the

expenses were allowable or in compliance with purchasing law;

- Three procurement card purchases had no evidence of independent review of charges by approving official;
- The School Board did not approve the use of a merchant – specific cards (Sam’s, Walmart, and Lowes); and
- The School Board did not have on file a justification for the use of the Sam’s card that would show the anticipated savings.

Failure to have adequate controls surrounding the District’s procurement card purchases could result in waste, fraud, and abuse of public funds. Additionally, failure to approve merchant – specific cards and maintain on file the justification for the use of a Sam’s, Walmart, and Lowes cards resulted in noncompliance with state law and regulations.

Recommendation: We recommend the District ensure compliance by implementing adequate policies to in regards to obtaining and usage of credit cards.

District’s Response: The District will strengthen credit card usage policies. We have procedures outlined in the Accounting Manual that are followed.

Repeat Finding: No.

Finding 9: The District Should Ensure Compliance with State Law Regarding the Unemployment Compensation Fund.

Applicable State Law: *Section 71-5-359(5)*, “Each political subdivision, unless it elects to make contributions to the unemployment compensation fund as provided in subsection (9) of this section, shall establish a revolving fund and deposit an amount equal to two percent (2%) of the first Six Thousand Dollars (\$6,000.00) paid to each employee thereof during the next preceding year. However, the department shall by regulation establish a procedure to allow reimbursing political subdivisions to elect to maintain the balance in the revolving fund as required under this subsection or to annually execute a surety bond to be approved by the department in an amount not less than two percent (2%) of the covered wages paid during the next preceding year.”

Finding Detail: During the review of the District’s Unemployment Fund, the auditor noted the Unemployment Compensation Fund’s balance was **\$2,045** less than the limitations required by the aforementioned statute.

Failure to maintain an adequate balance in the Unemployment Compensation Fund resulted in noncompliance with state law.

Recommendation: We recommend the District ensure compliance by making sure adequate monies are deposited in the Unemployment Compensation Fund, as required by State Law.

District’s Response: When calculating the unemployment fund balance, substitute teacher pay is not used in the calculation. Substitute teachers are not eligible for unemployment.

Auditor’s Note: Per *Section 71-3-359(5)*, this calculation is done based on 2% of the first **\$6,000** paid to each employee; therefore, substitutes are included within this calculation. Additionally, the District’s software company utilizes the same numbers to calculate the required unemployment balance.

Repeat Finding: No.

Finding 10: The District Should Ensure Compliance with State Law Regarding Certified Employees’ Background Checks and Supplemental Contracts.

Applicable State Law: *Section 37-9-17(2)*, "...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..."

Applicable Administrative Decisions and Guidance: *MS AG Op., Massey at *1 (January 23, 1984)*, states in part: "...Section 37-9-43 provides in part the following: It shall be unlawful for a superintendent, principal or teacher to be paid for any services as such until a written contract has been executed as is provided and required by this chapter. If any county superintendent or municipal separate school district superintendent shall make any such payment prior to the execution of the contract he shall be civilly liable for the amount thereof, and in addition, the county superintendent shall be liable upon his bond. Therefore, it is our opinion that since teachers can only be paid pursuant to the written contract, they could not, under the circumstances you describe, receive pay for extra work which is not a part of their contract with the school district."

Applicable Administrative Guidance: *MDEAMSD, Section B, Miscellaneous Issues, Personnel Files*, "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 District's personnel files, the auditor noted the following exceptions:

- 15 certified employees did not have background checks documented within their personnel files; and
- Nine certified employees received additional supplements totaling **\$19,360**; however, there was no evidence of supplemental contracts nor Board approval within their personnel files.

Failure to have adequate internal controls and proper procedures surrounding contracts and payroll resulted in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by assuring all criminal background checks are obtained and maintained in the personnel files of its employees, as required by State Law. Also, we recommend the District ensure all salaries are paid according to the appropriate salary scales and all contracts are properly executed prior to paying the salaries of its employees, as required by State Law.

District's Response: Background checks will be filed in the personal file moving forward instead of the employee's HR file. None of these employees were overpaid. Others performed approved after school tutoring.

Repeat Finding: No.

Finding 11: The District Should Ensure Compliance with State Law Regarding Education Enhancement Fund (EEF) Cards.

Applicable State Law: *Section 37-61-33(3)(a)(iii)*, "On or before September 1 of each year, local school districts shall determine and submit to the State Department of Education the number of teachers eligible to receive an allocation for the current year. For purposes of this subparagraph, "teacher" means any employee of the school board of a school district, or the Mississippi School for the Arts, the Mississippi School for Math and Science, the Mississippi School for the Blind or the Mississippi School for the Deaf, who is required by law to obtain a teacher's license from the State Department of Education and who is assigned to an instructional area of work as defined by the department, but shall not include a federally funded teacher."

Finding Detail: During the review of the District's Education Enhancement Fund (EEF) procurement cards, the auditor noted two federally funded teachers were issued cards.

Failure to ensure federally funded teachers were not issued EEF cards resulted in noncompliance with State Law.

Recommendation: We recommend the District strengthen internal controls and ensure compliance by implementing adequate policies surrounding the issuance of EEF procurement cards, as required by State Law.

District's Response: The District will ensure moving forward that non-federally funded teachers receive the EEF cards.

Repeat Finding: No.

Finding 12: The District Should Ensure Compliance with State Law Regarding the Reemployment of Retired Public Employees and the Payment of Employer Contributions.

Applicable State Law: *Section 25-11-127 (1)(a)*, "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), "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."

Applicable Administrative Guidance: *Mississippi Public Employment Retirement System (PERS), Board Regulation, Chapter 34, 107(2)*, "The employer of a PERS retiree reemployed in a position as an employee or as a contractual employee under the limited reemployment provisions of Section 103.1.a or 103.1.b. shall pay to the board the full amount of the employer's contribution, as is in effect at the time of employment, on the amount of compensation received by the retiree for his or her employment under the applicable section."

Mississippi Public Employment Retirement System (PERS) Board Regulation, Chapter 60, 101, "Pursuant to *Mississippi Code Annotated § 25-11-123 (1972, as amended)*, the Board of Trustees of the Public Employees' Retirement System of Mississippi is authorized to set the contribution rates for both employee and employer contributions based on the basis of the liabilities of the retirement system as shown by the actuarial valuation.

The employee and employer contribution rates are as follows:

1. Employee Contribution Rate - 9.00 percent of earned compensation effective July 1, 2010; and
2. Employer Contribution Rate - 17.40 percent of earned compensation effective July 1, 2019."

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

- The PERS Employer Contributions were not paid on behalf of four retired employees, totaling **\$6,551**;
- The PERS Employer Contributions were not paid on behalf of one regular employee, totaling **\$6,479**; and
- One retiree was paid more than the allowed salary by PERS, totaling **\$5,482**.

Failure to have adequate controls over the rehire of retirees resulted in noncompliance with state law. Additionally, failure to properly pay the employer contributions of all employees could result in the District being assessed penalties by PERS.

Recommendation: We recommend the District ensure compliance by assuring salaries rehired retirees are as required by state law. Also, we recommend the District ensure employer contributions are remitted to PERS for all employees.

District's Response #1: We will monitor more closely the days that are worked for the part-time cafeteria staff. Retirement was not held out of the Hazard Pay Incentive, therefore no Form 4B was revised. Part-time employees are hired, but they do not come in on the day they are hired to complete their paperwork. As soon as the employee completes the form, it is faxed on the same day.

Auditor's Note #1: The PERS allowed salary is based on the gross salary paid to the retiree; therefore, according to PERS, the District is responsible for the revision of the PERS Form 4Bs with PERS if the gross salary is changed for an incentive or salary increase.

District's Response #2: PERS is not paid for retire employees that come back on a part time basis. All four instances listed are retired employees. The contributions have been paid.

Auditor's Note #2: House Bill 957 which passed during the 2010 Regular Legislative Session provides that the employer of any retired member who is working after retirement (other than local elected officials) will pay the full amount of the employer's contributions on the amount of compensation received by the retiree for his or her post-retirement limited employment. The PERS employer and employee contributions were paid by the District to PERS on August 31, 2022. On February 27, 2023, when the auditor asked for a copy of the reimbursement by the employee for the employee portion, the response was that the District was setting up a payment plan for this since this was the District's mistake. As of March 15, 2023, a request for a copy of the payment plan agreement that was set up has not been provided.

Repeat Finding: No.

Finding 13: The District Should Ensure Compliance with State Law Regarding Surety Bonds.

Applicable State Law: *Section 25-1-12(1)*, "Notwithstanding any other provision of law to the contrary, any public officer or employee handling or have 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 37-9-31, "All school principals and attendance center principals shall furnish good and sufficient surety bonds in like manner as required of superintendents. The amount of such bonds shall be not less than Fifty Thousand Dollars (\$50,000), with sufficient surety. The premium upon said bond shall be paid from the maintenance funds of the district served by such principal. Such bond shall be payable, conditioned and approved in the manner provided by law. All such bonds shall be filed and recorded in the office of the clerk of the chancery court of the county in which the school district is located."

Section 25-1-15(2), "...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 25-1-19(1), "... The bonds 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 office of the clerk of the chancery court of the

county, except that the original of the chancery clerk's bond, after it is recorded, shall be deposited and filed in the office of the clerk of the circuit court."

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

- The following six employees were covered by continuation certificates:
 - Two Principals;
 - One Purchasing Agent;
 - Federal Programs Director;
 - Payroll Clerk, and
 - One Security Officer.
- Bonds were not on file in the Chancery Clerk's office for:
 - One Purchasing Agent;
 - Business Manager/CFO;
 - Chief Administrative Officer; and
 - Sixteenth Section Liaison.
- The District did not make a finding upon its Board minutes that jobs were: incidental to employment; do not require bonds; would be an occasional, not regularly recurring, handling of funds; would handle random, infrequent, or an immaterial amount of money.

A "continuation certificate" is a document that extends the life of the original surety bond. A continuation certificate only covers the current bonding period rather than both the current and previous periods. In the event of fraud or misappropriation of funds, having continuation certificates instead of new bonds could limit the amount available for recovery if the loss occurred over multiple terms.

Failure to have a bond in place for a specific term of office could limit the amount available for recovery if a loss occurred over multiple terms. Additionally, failure to comply with the state statute, by being correctly and sufficiently bonded, could result in the loss of public funds. Failure to file bonds with the County Chancery Clerk's office resulted in noncompliance with state law.

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

District's Response: These types of bonds have been corrected and all bonds have been filed with the Chancery Clerk's Office.

Repeat Finding: No.

End of Report