

# OCEAN SPRINGS SCHOOL DISTRICT MISSISSIPPI

## COMPLIANCE REPORT

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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**

August 11, 2023

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

Ocean Springs School District  
2300 Government Street  
Ocean Springs, MS 39564

Dear Ocean Springs School Board:

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

1. Strengthen Internal Controls and Ensure Compliance with State Law over Bank Reconciliations;
2. Strengthen Internal Controls over Contracts and Policies and Ensure Compliance with State Law over Teacher Incentive Programs;
3. Ensure Compliance with State Law over the Advertisement of Depositories;
4. Ensure Compliance with State Law over Merchant – Specific Credit Cards and Membership Club Cards;
5. Ensure Compliance with State Law over Free Admissions to School – Sponsored Events;
6. Ensure Compliance with State Law over Reemployment of Retired Public Employees; 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 **Ocean Springs 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 **Ocean Springs 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 headings **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**.

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## **OTHER DEFICIENCIES AND INSTANCE OF NONCOMPLIANCE WITH STATE LAW**

**Finding 1:** 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 outstanding checks to the balance per bank statement to reconcile to the amount of cash that is listed on the general ledger of the District to what is recorded at the bank. The reconciliation process enables the Business Office to make adjusting journal entries to correct any mistakes or unrecorded items in the District's financial records.

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

**Finding Detail:** During the review of the School District's bank reconciliations, the auditor noted there was a difference between the District's bank balance and book balance at fiscal year – end for its Payroll Clearing bank account in the amount totaling **\$1,271,388**.

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 and results in noncompliance with state regulations.

**Recommendation:** We recommend the Ocean Springs 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, as required by state regulations.

**District's Response:** The bank reconciliation was performed prior to the July payroll accrual being posted; therefore, the **\$1,271,388** was included in the Fund Balance Clearing Fund Bank Reconciliation. In the future, the District will complete June bank reconciliations a second time once the fiscal year has closed to ensure that the reconciliations match the final June 30 balances.

**Repeat Finding:** No.

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**Finding 2:** The School District Should Strengthen Internal Controls and Ensure Compliance with State Law over Teacher Incentive Programs.

**Internal Control Deficiency:** The Board of Education may establish or adopt any orders, resolutions, or ordinance with respect to District affairs, property, and finances which are consistent with other state law (Home Rule). The Board of Education must also establish and oversee the performance of the School District in order to comply with applicable law and internal controls. *The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and The Standards for Internal Control in the Federal Government (Greenbook)* dictate that in order to have a successful control environment, the organization must design and implement internal control policies and procedures that ensure compliance with all relevant regulations.

**Applicable State Law:** *Mississippi Attorney General Opinion No. 2010 WL 2019883* states, "Payments in which there is no pre-existing obligation to make the payments, as in the case of bonuses, or in which payments are made for future services that have not been provided at the time the payments are made, as in the case of donations, are considered unlawful, in accordance with *Mississippi Constitution Article IV, Sections 66 and 96. MS AG Op., Allen (June 11, 2004); MS AG Op., Ellis (June 27, 1994)*. To the contrary, we have previously opined that employee incentive payments which are implemented prospectively and for which payment is made pursuant to conditions met in the future do not run afoul of these constitutional provisions. *MS AG Op., Meredith and Jones (December 22, 2006); MS AG Op., Silver (July 18, 2003); MS AG Op., Jackson (June 29, 1992)*. See also *MS AG Op., Murdock (August 7, 2009) and MS AG Op., Bowman (November 14, 2005)* (incentive provision may be included in contracts when incentive payments are contemplated by contract, there are predetermined objective standards of measurement, payments have been earned and proper amount paid and does not exceed maximum amount)."

*Article 4, Section 66, Mississippi Constitution*, states, "No law granting a donation or gratuity in favor of any person or object shall be enacted exacted 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 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;

**Finding Detail:** During the review of the School District's contractual obligations and salary payments to employees, the auditor noted that the school adopted an "incentive pay" program to reward certified teachers, teacher assistants, and support staff. The Mississippi Attorney General's Office (AGO) has consistently opined that School Boards have the authority to adopt such programs, as long as they meet the following criteria:

1. The incentives are contracted for prior to the date to when services are performed;
2. The incentives are determined in accordance with objective standards of measurement; and

3. The incentives are earned by personal services performed by the employees.

Further, the AGO has consistently opined that compliance with the above criteria are essential to ensure incentive payments do not constitute prohibited payments, such as bonuses or donations.

The incentive program, Loyalty Supplements, designed by the Ocean Springs School District currently provides incentives for services contracted for prior to the date they were performed. Not following this requirement as defined by *Attorney General Opinion No. 2010 WL 2019883* could lead to noncompliance with state law.

Failure to properly document or account for how the school is in compliance with the criteria stated above could result in incentive payments being classified as improper payments to employees.

**Recommendation:** We recommend the Ocean Springs School District strengthen internal controls and ensure compliance over incentive payments by ensuring that all payments are in compliance with the required criteria. We further recommend that the School District consult with their Board Attorney, Mississippi Department of Education, or the Attorney General's Office to ensure their incentive program is in compliance with the law.

**District's Response:** The district will ensure that future supplements are not paid for services rendered in a prior year. The additional step increase for classified staff was included in the at-will agreement. In the future, the at-will agreement will detail the number of years an employee has been in the district. The \$100 loyalty amount for certified staff is included in the certified contract amount. A footnote will be added to the bottom of the contract that indicates the number of years the employee has been in the district and the amount being added the contract.

**Repeat Finding:** No.

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## INSTANCES OF NONCOMPLIANCE WITH STATE LAW

**Finding 3:** The School District Should Ensure Compliance with State Law over the Advertisement of Depositories.

**Applicable State Law:** *Section 37-7-333, Mississippi Code Annotated (1972)*, states, "All such allotments or funds shall be placed in the depository or depositories selected by the school board in the same manner as provided in *Section 27-105-305* for the selection of county depositories. Provided, however, the annual notice to be given by the school board to financial institutions may be given by the school board at any regular meeting subsequent to the board's regular December meeting but prior to the regular May meeting. The bids of financial institutions for the privilege of keeping school funds may be received by the school board at some subsequent meeting, but no later than the regular June meeting; and the selection by the school board of the depository or depositories shall be effective on July 1 of each year. School boards shall advertise and accept bids for depositories, no less than once every three (3) years, when such board determines that it can obtain a more favorable rate of interest and less administrative processing. Such depository shall place on deposit with the superintendent of schools the same securities as required in *Section 27-105-315*."

**Finding Detail:** During the review of the School District's Board minutes, the auditor noted the School Board did not spread across its minutes the approval to advertise for its depository.

Failure to ensure the School Board approves and spread upon its minutes the approval to advertise for the School District's depository resulted in noncompliance with state law.

**Recommendation:** We recommend the Ocean Springs School District ensure compliance by assuring that the Board approves to advertise to financial institutions as the School District's depository, as required by state law.

**District's Response:** The district concurs. All future depository bid advertisements will be board approved and spread upon the minutes.

**Repeat Finding:** No

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**Finding 4:** 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 and Administration, 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 and Administration, 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 the District did not approve its credit card policy until May 10, 2022 for the fiscal year ended June 30, 2022. Additionally, the District did not approve the use and justification for its merchant-specific credit cards (Walmart and Hobby Lobby) and membership club card (Sam’s) until April 12, 2022.

Failure to approve merchant – specific cards and maintain on file the justification for the use of a Sam’s and Walmart cards for the entire year of fiscal year 2022 resulted in violation of state law and regulations.

**Recommendation:** We recommend the Ocean Springs School District ensure compliance by implementing adequate policies and procedures concerning its credit card use, as required by state law and regulations.

**District's Response:** A policy regarding merchant specific credit cards and membership cards has been approved. The use of merchant – specific credit cards and membership cards will be approved by the Board of Trustees annually as stated in the new policy.

**Repeat Finding:** No.

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**Finding 5:** The School District Should 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 the School District's activity/athletic funds, the auditor noted that on February 15, 2022, the Board approved free admission to home games excluding playoff games for all personnel. The Board order noted no justification for free admission and the District does not have a Board policy.

Failure to have an approved Board 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 Ocean Springs School District ensure compliance by implementing policies in regards to free admission of its personnel to school – sponsored events to avoid noncompliance with state regulations.

**District's Response:** A policy has been approved addressing free admission of staff members at school – sponsored events.

**Repeat Finding:** No.

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**Finding 6:** 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."

*Board Regulation 34, Section 105*, prescribed by the Public Employees Retirement System (PERS) of Mississippi, states, "To lawfully employ a PERS service retiree under *Section 103*, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of a \$300 penalty per occurrence payable by the employer."

**Finding Detail:** Based on the review of the School District's PERs Form 4Bs, the auditor noted the following exceptions, out of seven forms tested:

- Two PERS Form 4Bs could not be verified by auditors as being submitted to PERS;
- Two retirees were paid more than the salary allowed by PERS in the combined amount totaling **\$1,407**;
- One PERS Form 4B did not list a retirement date; therefore, OSA was unable to verify that the School District met the 90-day requirement.

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



**Recommendation:** We recommend the Ocean Springs School District ensure compliance by implementing adequate internal controls to ensure rehired retirees are properly paid and all PERS Form 4Bs are properly completed, as required by state law.

**District's Response:** Ocean Springs School District will fax all PERS Form 4Bs individually to ensure each 4B has a fax transmittal form on file for each form as proof of submission. Employees who were overpaid were notified at the time it occurred, so they could make necessary payments to PERS. The district has implemented a new procedure to track payments to retirees to prevent future overpayments. The district will make necessary adjustments to ensure PERS Form 4Bs include all required information.

**Repeat Finding:** No.

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

**Applicable State Law:** *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 (\$50,000.00), with sufficient surety."

*Mississippi Attorney General Opinion 1996 WL 224003* provides that if an individual is serving in more than one position for which bonding is required, the individual must be bonded for each position and the total coverage must equal the combined bonding requirements for the positions in which employed.

**Finding Detail:** During the review of the School District's surety bonds, the auditor noted that one official was not sufficiently bonded as a Purchasing Agent and Chief Financial Officer for the amount of **\$100,000**.

Failure to comply with the state statute by ensuring those required are correctly and sufficiently bonded could result in the loss of public funds.

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

**District's Response:** The intent of the district was to have the surety bond for the Chief Financial Officer for the purchasing agent duties as outlined in the job description. It was not intended for the bond to be for two separate positions. The district has made the necessary changes as recommended and will ensure that all future surety bonds only list one position.

**Repeat Finding:** No.

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**End of Report**