



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*



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

February 21, 2024

Limited Internal Control and Compliance Review Management Report

Petal School District
P.O. Box 523
Petal, MS 39465

Dear Members of the Petal School District:

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

1. Strengthen Internal Controls over Activity/Athletic Fund Cash Receipts and Deposits;
2. Ensure Compliance with State Law over Superintendent's Ethics;
3. Ensure Compliance with State Law over Director's Recommendation and Supervision of Relatives within the First Degree;
4. Ensure Compliance with State Law over Bank Reconciliations;
5. Ensure Compliance with State Law over Publication of Its Notice of Ad Valorem Tax Increase;
6. Ensure Compliance with State Law over Sixteenth Section Lease Payments and Taxes;
7. Ensure Compliance with State Law over Reemployment of Retirees; and
8. Ensure Compliance with State Law over 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 you find our recommendations enable the **Petal 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, reading "Charlotte L. Duckworth".

CHARLOTTE L. DUCKWORTH
Director of Compliance
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the **Petal 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 *significant deficiency* in internal control. These matters are noted under the heading **SIGNIFICANT 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 Cash Receipts and Deposits.

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

Finding Detail: During the review of the School District's activity/athletic fund deposits and receipts, the auditor noted five game deposits were not made in a timely manner.

Failure to have adequate internal controls related to activity funds revenue collections and depositing could result in a loss of assets and improper revenue recognition.

Recommendation: We recommend the Petal School District strengthen internal controls by implementing adequate policies and procedures to ensure receipts from all activity are deposited in a timely manner.

District's Response: The District makes every effort to deposit funds in a timely manner. This has been addressed with the bookkeepers and will be monitored closely by the Business Office.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The School District Should Ensure Compliance with State Law over Superintendent's Ethics.

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

Mississippi Ethics Opinion 15-059-E, provides that the Superintendent will be in violation of *Section 25-4-105(1) Mississippi Code 1972*, if his or her spouse is employed within an administration position of the entire District and not limited to the functions of one particular school.

Finding Detail: During the review of the School District's Board minutes, the auditor noted the Superintendent's spouse is employed as the District's Alumni Coordinator, which serves the School District as a whole and not a specific school location.

Failure to ensure the spouse of the Superintendent is not employed within the School District's administration resulted in noncompliance with *Mississippi Ethics Opinion 15-059-E*.

Recommendation: We recommend the Petal School District ensure compliance by assuring hiring procedures of the relatives of personnel is as required by state law and regulations. Additionally, this matter has been forwarded to the *Mississippi Ethics Commission*.

District's Response: The Superintendent's wife is employed as the District's Alumni Coordinator, which serves the District as a whole and also serves Petal High School students. This position responsibilities include contacting seniors about alumni sign-up, focus group feedback from PHS graduates on college/job preparation and creates alumni scholarships for students. The Alumni Relations Coordinator meets with PHS seniors multiple times during the school year and provides them with information from our alumni about career opportunities. These monthly alumni meetings allow all high school students to meet with people in all types of careers they are interested in and then finds Petal alumni to talk with students about their field. Students can ask question and make connections with established adults in their career field. Also, upon reviewing the *Advisory Opinion No. 5-059-E* the question is about being a coordinator of a federal program. This position is not funded with federal program grant but is paid with District funds.

Auditor's Note: As stated in the ethics opinion above, the spouse of the Superintendent cannot be employed within an administration position that serves the whole School District. Per the District's response, the Alumni Coordinator serves the whole District and paid with public funds.

Repeat Finding: No.

Finding 3: The School District Should Ensure Compliance with State Law over Director's Recommendation and Supervision of Relatives within the First Degree.

Applicable State Law: *Section 25-4-105(1), Mississippi Code Annotated (1972)*, states, "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 37-9-17(1), Mississippi Code Annotated (1972), states, "The school board of any local school district shall be authorized to designate a personnel supervisor or another principal employed by the school district to recommend to the

superintendent licensed employees or noninstructional employees; however, this authorization shall be restricted to no more than two (2) positions for each employment period for each school in the local school district. Any noninstructional employee employed upon the recommendation of a personnel supervisor or another principal employed by the local school district must have been employed by the local school district at the time the superintendent was elected or appointed to office; a noninstructional employee employed under this authorization may not be paid compensation in excess of the statewide average compensation for such noninstructional position with comparable experience, as established by the State Department of Education.”

Mississippi Ethics Opinion 19-014-E, states no employee should work under the direct supervision of his or her relative, this would be a violation of *Section 25-4-105(1), Mississippi Code Annotated (1972)*.

Finding Detail: During the review of the School District’s related party questionnaires, the auditor noted the Director of Child Nutrition recommended and supervises their brother as Petal Upper Elementary Kitchen Assistant.

Failure to ensure the Director did not recommend nor supervise their relative within the first degree resulted in noncompliance with *Mississippi Ethics Opinion 19-014-E, Mississippi Code Sections 25-4-105(1), and 37-9-17(1)*.

Recommendation: We recommend the Petal School District ensure compliance by assuring all personnel procedures are in compliance with state law and regulations. Additionally, this matter will be forwarded to the *Mississippi Ethics Commission*.

District’s Response: This was an oversight by the School District and measures have been put into place through the Assistant Superintendent Office to ensure this doesn’t happen in the future.

Repeat Finding: No.

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

Internal Control Deficiency: Management is responsible for ensuring that the assets of the District are safeguarded and transactions are properly documented in the District’s financial records. A critical aspect 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 board meeting after the bank statements are reconciled to the School District’s general ledger cash balance in a timely and accurate manner.”

Finding Detail: During the review of the School District’s bank reconciliations, the auditor noted the Payroll Clearing bank account was not properly reconciled to the general ledger’s cash balances resulting in a difference totaling (\$2,020,991).

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

Recommendation: We recommend the Petal School District strengthen internal controls by ensuring all transactions are properly recorded in the School 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 School District's book balances.

District's Response: The payroll clearing account is reconciled monthly and is in balance. The amount in question is not a reconciling item. Teachers are paid August through July each year. We refer to the July payment as Old July. This is what is owed to teachers once the July (Old July) payroll is process. We also process any employees that work in July in this payroll as well. The (\$2,020,991) in question is an accrual for what we owe teachers in July (Old July). This is processed the same every year using our accounting software closing documents. This entry is made for June 30th and reverses on July 1st. I have attached a copy of the journal that was made.

Auditor's Note: Per review of the bank reconciliations provided to OSA, the payroll clearing bank reconciliation was not updated after the School District made its journal entry for the Old July payroll. Therefore, the District's bank statements were not properly reconciled to the District's book balance.

Repeat Finding: No.

Finding 5: The School District Should Ensure Compliance with State Law over the Publication of Its Notice of Ad Valorem Tax Increase.

Applicable State Law: *Section 27-39-207(2)(a), Mississippi Code Annotated (1972)*, states, "The school board of the school district shall advertise its intent to increase its ad valorem tax effort in dollars in a newspaper of general circulation in the county. The advertisement shall be no less than one-fourth (¼) page in size and the type used shall be no smaller than eighteen (18) point and surrounded by a one-fourth-inch solid black border. The advertisement shall not be placed in any portion of the newspaper where legal notices and classified advertisements appear."

Section 27-39-207(2)(b), Mississippi Code Annotated (1972), provides that: Except as provided for in subsection (1) of this section, if a school district is requesting an increase in ad valorem tax effort in dollars pursuant to *Sections 37-57-105 and 37-57-107*, it shall be written in the requisite form.

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

- The advertisement did not have the one-fourth-inch solid black border; and
- The School District included additional language within the ¼ page advertisement.

Failure to accurately advertise the ad valorem tax increase as adopted by the School Board could lead to a loss of public trust and transparency, and resulted in noncompliance with state law.

Recommendation: We recommend the Petal School District ensure compliance by assuring its ad valorem tax advertisement is in proper form, as required by state law.

District's Response: The Petal School District uses the Hattiesburg American newspaper to run the Ad Valorem advertisement. This is the only newspaper that runs three times per week. We requested the newspaper run the advertisement according to the proper border required by law, but the paper did not comply with the request. This will be stressed next time the Petal School District runs the advertisement in the newspaper. The additional language is required when the District is in a reassessment period. The Petal School District will ensure the language is only used during the proper period.

Auditor's Note: Per review of the email exchange with the Hattiesburg American, the District was to be provided a proof before the advertisement was published. Because the District had a reassessment, the additional language should not be included within the published advertisement, as required by state law.

Repeat Finding: No.

Finding 6: The School District Should Ensure Compliance with State Law over Sixteenth Section Lease Payments and Taxes.

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 taxes 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 Section (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:

- Three lease payments were more than 60 days late; however, the lease agreements were not terminated; and
- Three leases where taxes were not current; however, the lease agreements 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 Petal School District ensure compliance by assuring all taxes are current and lease payments are made within 60 days, as required by state law.

District's Response: The District will have leases fall behind on their payments from time to time. When this happens, a report is given to the School Board with a recommendation to cancel or negotiate payment. All leases are current and all taxes have been paid as of April 2023.

Auditor's Note: Per communication with the School District's management, by the time the Board was given the sixteenth section report on late leases, the lessee had paid the lease payments in full. Therefore, the issue is timing.

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 ($\frac{1}{2}$) of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half ($\frac{1}{2}$) 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:

- Four PERS Form 4Bs did not have evidence of the retiree’s retirement date; therefore, OSA could not verify if the retiree was not rehired before 90 days after retirement;
- Three PERS Form 4Bs did not have evidence of being filed with PERS;
- One PERS Form 4B did not have evidence of rehire date and filing date with PERS; and
- One retiree was paid more than the allowed salary by PERS, totaling **\$646**.

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

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

District’s Response: We pulled the 4Bs for the five employees in question for hire/rehire date and have attached copies showing this information. The one employee paid more than allowed by PERS was due to a mid-year raise for that department. This was an oversight and measure have been put into place to prevent this from occurring in the future. The four 4Bs that did not have evidence of being filed with PERS were emailed. A copy of the email was not retained but measures have been put into place to ensure proper documentation is retained in the employees’ file moving forward.

Repeat Finding: No.

Finding 8: 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.”

Finding Detail: Based on the review of the Petal School District’s surety bonds, the auditor noted the following exceptions:

- One Board Member’s bond was for an indefinite term; and
- 18 District employees that hold a credit card were not bonded.

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 and result in the loss of public funds. Additionally, failure to ensure all employees are correctly and sufficiently bonded resulted in noncompliance with state law and regulations.

Recommendation: We recommend the Petal School District ensure compliance by assuring that new bonds are secured 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 statutorily required. Additionally, the District should ensure all employees’ bonds are correct, proper, and sufficient.

District’s Response: The Board member’s bond in question has finished his term and been replaced with a new Board member. The new Board member has the proper bond. The 18 employees not bonded has credit cards. We will review this, and place bonding, as required.

Repeat Finding: No.

End of Report