

NESHOBA COUNTY SCHOOL DISTRICT

MISSISSIPPI

COMPLIANCE REPORT

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT

For the year ended *June 30, 2023*

SHAD WHITE, CFE
State Auditor

Charlotte L. Duckworth
Director, *Compliance Audit Division*





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

July 25, 2024

Limited Internal Control and Compliance Review Management Report

Neshoba County School District
580 East Main Street
Philadelphia, MS 39350

Dear Neshoba County School Board:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the **Neshoba County School District** for the fiscal year **2023**. In these findings, the Auditor's Office recommends the **Neshoba County School District**:

1. Strengthen Internal Controls Regarding Bank Reconciliations;
2. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget Procedures and Approval;
3. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Travel Reimbursements;
4. Ensure Compliance with State Law Regarding Board Member Ethics;
5. Ensure Compliance with State Law Regarding Principal's Supervision of Relatives Within the First Degree;
6. Ensure Compliance with State Law Regarding Monthly Financial Reports;
7. Ensure Compliance with State Law Regarding the Public Depositor's Annual Report;
8. Ensure Compliance with State Law Regarding Purchasing and Invoice Payments;
9. Ensure Compliance with State Law Regarding Credit Card Usage and Approval;
10. Ensure Compliance with State Law Regarding Certified Employees' Supplemental Contracts, Verifications, and Certifications;
11. Ensure Compliance with State Law Regarding Education Enhancement (EEF) Procurement Cards;
12. Ensure Compliance with State Law Regarding Sixteenth Section Land Lease Payments and Taxes;
13. Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees; and
14. 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 **Neshoba County School District** to carry out its mission more efficiently. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charlotte L. Duckworth". The signature is fluid and cursive, with the first name "Charlotte" being the most prominent part.

CHARLOTTE L. DUCKWORTH

Director, *Compliance Audit*

Office of the State Auditor

The Office of the State Auditor does not discriminate on the basis of race, religion, national origin, sex, age, or disability.

The Office of the State Auditor has completed its limited internal control and compliance review of the **Neshoba County School District** for the year ended **June 30, 2023**.

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*, 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 *material weakness* in internal control. These matters are noted under the headings **MATERIAL WEAKNESS**.

We identified certain deficiencies in internal controls over financial reporting that we consider to be other deficiencies in internal control. These matters are noted under the headings **OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

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**.

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 – *Neshoba County School District*

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

Section – *Mississippi Code Annotated (1972)*

MATERIAL WEAKNESS

Finding 1: The District Should Strengthen Internal Controls Regarding 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.

Finding Detail: Based on the review of the District's bank reconciliations, the auditor noted the following exceptions:

- The payroll bank account was not properly reconciled to the general ledger's cash balance resulting in a difference, totaling **(\$705,506)**; and
- The investment account was not properly reconciled to the financial statements resulting in a difference, totaling **(\$10,901.23)**.

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

Recommendation: We recommend the District strengthen internal controls by ensuring all transactions are properly recorded in the District's general ledger and all variances from book balances are accounted for in a timely manner. Also, we recommend the District reconcile bank accounts monthly to the general ledger by each fund in order to effectively and timely account for any variance from the District's book balances

District's Response #1: In response to the payroll bank account not being properly reconciled. The amount of **\$705,506** is the earned July payroll. The **\$705,506** was accounted for on the bank reconciliation.

District's Response#2: In response to investment accounts not being properly reconciled. The district will reconcile the investment account to ensure that the entries made to adjust investments to fair market value are accurate.

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 and Approval.

Internal Control Deficiency: The Board of Education establishes priorities for the financial management of the District, reviews and approves all presented budgets, and assures expenditures for the District fund are within the legal requirements of the approved budget.

Applicable State Law: *Section 37-61-19*, "...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 budgeting, the auditor noted the following exceptions:

- The amended 2022-2023 budget included three funds reflecting a negative fund balance at year-end:
 - ESSER Fund (2590) – **(\$36)**;
 - Special Education Fund (2610) – **(\$47,340)**; and
 - Preschool Fund (2620) – **(\$1,800)**.
- The District manually entered the fund amounts in the original and amended budgets for fiscal year 2023, which resulted in the following errors:
 - The sum of the original combined and combining budgets' expenditures for fiscal year 2023 did not match, resulting in a difference totaling **\$15,107,335**;

- The sum of the original combined and combining budget's fund balance for fiscal year 2023 did not match, resulting in a difference totaling **\$101,100**;
- The sum of the amended combined and combining budget's fund balance for fiscal year 2023 did not match, totaling **(\$6,085)**;
- The sum of the original combining budget total expenditures by fund compared to the total expenditure had a difference totaling **\$278,200**; and
- The sum of the amended combining budget total expenditures by fund compared to total expenditures had a difference totaling **\$2,735**.

The actual fund balances could not be determined to be negative at June 30, 2023; however, the approval of the fund budgets with ending deficit fund balances could result in the noncompliance with state law.

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

District's Response: In response to findings pertaining to NCSD FY23 Budget. Innovak software does not generate the combined and combining budget. The Business Manager must key all numbers in manually. An error was made and should have been corrected before being presented to the School Board for approval.

Repeat Finding: No.

Finding 3: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Travel Reimbursements.

Internal Control Deficiency: Management is responsible for ensuring that all travel reimbursements expenditures are correctly recorded, allowed, and documented, as required by the Department of Finance and Administration. Proper internal controls would include maintaining corroborating evidence such as conference schedules and attendance certifications and completing travel request forms.

Applicable State Law: *Section 25-3-41(1)*, "Subject to the provisions of subsection (10) of this section, when any officer or employee of the State of Mississippi, or any department, agency or institution thereof, after first being duly authorized, is required to travel in the performance of his official duties, the officer or employee shall receive as expenses for each mile actually and necessarily traveled, when the travel is done by a privately owned automobile or other privately owned motor vehicle, the mileage reimbursement rate allowable to federal employees for the use of a privately owned vehicle while on official travel."

Section 25-3-41(3), "Where two (2) or more officers or employees travel in one (1) privately owned motor vehicle, only one (1) travel expense allowance at the authorized rate per mile shall be allowed for any one (1) trip. When the travel is done by means of a public carrier or other means not involving a privately owned motor vehicle, then the officer or employee shall receive as travel expense the actual fare or other expenses incurred in such travel."

Applicable Administrative Decisions and Guidance: *Mississippi State Travel Policy Rules and Regulations, Section 3 – Transportation, 109. Vehicle Travel, D. Calculating Reimbursement for Driving vs. Flying*, states, "When travel is by private vehicle, the total travel expense reimbursed, including meal and lodging costs incurred as a result of driving instead of flying, shall not exceed the cost of the lowest unrestricted air fare unless a complete written justification signed by the employee's Agency Head determines that it is in the best interest of the agency that the employee drive, or that, on comparison of "total driving" and "total flying" expenses, it is less expensive to drive than to fly. If the employee chooses to drive and expenses exceed the cost of the lowest unrestricted air fare, reimbursement will be limited to the cost of flying."

*MS AG Op., Ranck, Ph.D., *1 (November 3, 1993)*, states in part: “When travel by public carrier is to a location where a private or state-owned vehicle is not available, and transportation by motor vehicle is necessary such that a rental vehicle is required, and such having previously been authorized, we are of the opinion *Section 25-3-41* authorizes such officer or employee to be reimbursed the actual, reasonable and necessary expense incurred for such rental vehicle.”

Finding Detail: During the review of the District’s travel reimbursements, the auditor noted the following exceptions:

- Two travel vouchers did not have corroborating evidence for the purpose of the trip;
- One District employee was reimbursed for a rental car and mileage in the rental car, totaling **\$1,752**; and
- The District did not have evidence of calculating reimbursement for driving vs. flying on two travel vouchers.

Failure to have adequate internal controls could result in fraud, loss, or misappropriation of public funds and resulted in noncompliance with state law.

Recommendation: We recommend that the District strengthen internal controls and ensure compliance by implementing adequate policies and procedures to ensure reimbursements for professional travel expenses are as required by state law and regulations.

District’s Response #1: The District will implement procedures to ensure documentation is provided to support the purpose of professional travel.

District’s Response #2: The District will implement procedures to ensure that employees will be reimbursed actual cost of gas and not mileage when travel is in a rental vehicle.

District’s Response #3: The District will ensure that a cost comparison will be obtained when car rental and airfare is necessary for district employees' professional travel.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 4: The District Should Ensure Compliance with State Law Regarding Board Member Ethics.

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.”

Applicable Administrative Decisions and Guidance: *Mississippi Ethics Opinion 10-014E*, provides that a Board Member should avoid participating in budget matters which do not directly affect the relatives but from which the relative may indirectly benefit. This opinion also provides the Board Member would not be required to recuse himself or herself from the approval of budgets where the relative is a licensed employee of the school district whose salary is set by the Mississippi Department of Education and the District has not supplemented that employee’s salary, or provided other discretionary salary or benefits to the relative. When possible, a school board may separate the budget into parts and vote on parts separately, even when such separation is not necessary to maintain a quorum. The guiding requirement is that a board member must recuse from actions which would result in a monetary benefit to the board member’s relative. Therefore, a school trustee who’s financially independent child is employed by the school district as a certified teacher may vote on the adoption of a budget, provided that all local salary or other supplemental benefits are excluded from the budget as voted upon and acted upon separately by the other trustees, even when such separation is not so required to obtain a quorum. Additionally, the Board Member may not use his or her position to avoid a monetary detriment to his or her relative, such as termination or unpaid furlough. There should be a total and complete recusal the Board Member in

matters of relatives described in *Mississippi Code Section 25-4-103(q)*. This action should be spread upon the district's minutes.

Finding Detail: During the review of the District's related party questionnaires and Board Minutes, the auditor noted one Board Member voted on both the budget and salary scales that directly benefited their sister (assistant teacher).

Failure to ensure the Board Member was not recused from the vote of the both the budgets and pay scales that include local supplements resulted in a noncompliance with state law and regulations.

Recommendation: We recommend the District ensure compliance by assuring all personnel procedures are in compliance with state law and regulations. Also, this matter has been referred to the *Mississippi Ethics Commission*.

District's Response: Thank you for bringing attention to the matter involving board members voting on budgets while having relatives within the third degree employed in the district. The incident mentioned was an oversight involving a newly elected board member and their sister, who is a teacher assistant. The board member approved the salary scale set by the state of Mississippi, along with a district supplement applicable to all teacher assistants in the district.

Moving forward, we will ensure that board members do not vote on items pertaining to their relatives to the third degree and that they recuse themselves in accordance with the law. As a school district, we will take the following steps to ensure compliance with the applicable laws:

- **Review Relevant Laws and Regulations:** First, we will thoroughly review the applicable state laws, local regulations, and the school district's policies regarding conflicts of interest and recusal procedures. It's crucial to have a clear understanding of the legal framework governing such situations.
- **Educate Board Members:** We will conduct training sessions or provide educational materials to all board members to ensure they understand their obligations and responsibilities regarding conflicts of interest and recusal. This training would cover the definition of conflicts of interest, the types of relationships that could create conflicts, and the procedures for recusal.
- **Establish Clear Procedures:** We will work with the board to establish clear procedures for identifying potential conflicts of interest and for recusal when necessary. This could include implementing a disclosure process where board members are required to disclose any potential conflicts before a vote occurs.
- **Develop Recusal Guidelines:** We will develop specific guidelines outlining when recusal is necessary, particularly regarding relationships to the third degree of consanguinity (e.g., great-grandparents, great-grandchildren, first cousins once removed). These guidelines would clarify the circumstances under which a board member must recuse themselves from voting on a particular matter.
- **Provide Legal Advice and Guidance:** Board members should have access to legal advice and guidance when questions arise regarding conflicts of interest or recusal. We will ensure our board attorney makes himself available to provide legal counsel and clarification on these matters as needed.
- **Monitor Compliance:** It's important to monitor board members' compliance with recusal procedures and to address any potential violations promptly. This may involve regularly reviewing meeting minutes, monitoring disclosures, and investigating any concerns or complaints raised regarding potential conflicts of interest.
- **Enforce Consequences for Non-Compliance:** If a board member fails to recuse themselves when required by law or district policy, appropriate disciplinary actions should be taken in accordance with established procedures outlined by the Mississippi School Board Association.
- **Regular Review and Updates:** Finally, we will recommend regular reviews of the conflict-of-interest policies and recusal procedures to ensure they remain up-to-date and effective in addressing potential conflicts as they arise.

By following these steps, we will work to ensure that board members understand their obligations regarding conflicts of interest, that appropriate procedures are in place to address potential conflicts, and that the integrity of the decision-making process is maintained within the school board.

Repeat Finding: No.

Finding 5: The District Should Ensure Compliance with State Law Regarding Principal'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."

Applicable Administrative Guidance: *Mississippi Ethics Opinion 21-033E* requires that even if the principal fully recuses from the recommendation of relatives within the first degree, the principal would still be directly supervising his or relative, a situation which can create an appearance of impropriety. *Section 25-4-101* admonishes all public servants of state and local government to pursue a course of conduct which does not raise suspicion among the public that they are violating the public trust. Public servants should avoid situations which reflect unfavorably upon the government. For these reasons, school principals should not be allowed to directly supervise their relatives, and those relatives should be transferred to other schools.

Finding Detail: During the review of the District's related party memos and Board minutes, the auditor noted one Principal was the direct supervisor of their mother (certified teacher) and sister (certified teacher).

Failure to ensure that Principals do not supervise relatives within the first degree resulted in noncompliance with state law and regulations.

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

District's Response: Thank you for bringing to our attention the matter regarding the supervision of employees related within the first degree by their respective principals within our school district. We take this matter seriously and understand the importance of adhering to ethical standards and regulations set forth by the *Mississippi Ethics Commission*.

In response to your inquiry, we have devised a plan to ensure that proper supervision is maintained for employees related within the first degree. Board minutes reflect that the relatives of the principal were approved by: 1) a previous principal (Relative 1), and 2) the assistant superintendent (Relative 2). Our approach for both relatives involves the utilization of the assistant principal to oversee and conduct supervision, thereby avoiding any potential conflicts of interest. The assistant principal assumes responsibility for overseeing the performance evaluations, addressing any concerns, and ensuring that all policies and procedures are followed diligently.

Furthermore, in accordance with the guidance provided by the Mississippi Ethics Commission, our district will handle any and all issues pertaining to the relatives of employees consistently and ethically. This includes but is not limited to:

- Ensuring impartiality in decision-making processes regarding promotions, assignments, and disciplinary actions.
- Implementing clear and transparent communication channels to address any conflicts of interest or concerns that may arise.
- Providing ongoing training and education to all staff members regarding ethical standards and the importance of maintaining professionalism in the workplace.
- Maintaining thorough documentation of any interactions or decisions related to employees who are relatives within the first degree.

We are committed to upholding the highest standards of integrity and accountability within our school district and will take the necessary actions to ensure compliance with the Mississippi Ethics Commission.

Repeat Finding: No.

Finding 6: 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 by the superintendent of schools to the local school board, and the frequency with which the reports shall be submitted.”

Applicable Administrative Guidance: *Mississippi State Board of Education Policy Manual, Chapter 71, School Business Officials, 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 the monthly Current Budget Status Report was not presented during fiscal year **2023**.

Failure to submit a complete set of financial reports to the School Board monthly could result in the loss or misappropriation of public funds and resulted in noncompliance with state law.

Recommendation: We recommend the District ensure compliance by assuring all monthly financial reports are submitted to the Board, as required by state law.

District’s Response: In response to the current budget status report not being presented to the board. The district software provider is in the process of building the report required to be presented each month and will be included in January 2024 Board Agenda.

Repeat Finding: No.

Finding 7: The District Should Ensure Compliance with State Law Regarding the Public Depositor’s Annual Report.

Applicable State Law: *Section 27-105-5(6)(b)*, “No later than thirty (30) days following its fiscal year end, a public depositor shall notify the State Treasurer of its official name, address, federal tax identification number, and provide a listing

of all accounts that it had with qualified public depositories, including the deposit balance in those accounts, as of its fiscal year end.”

Finding Detail: During the review of the District’s Public Depositor Annual Report, the auditor noted the Elementary Agency bank Account with a balance totaling **\$35,360** was not reported.

Failure to submit an accurate Public Depositor Annual Report could result in the State Treasurer’s Office could increase the risk that the District’s total deposits may not be properly collateralized and resulted in noncompliance with state law.

Recommendation: We recommend the District ensure compliance by making sure the Public Depositor Annual Report is submitted accurately to the State Treasurer’s Office within 30 days of fiscal year, as required by state law.

District’s Response: In response to the Elementary Agency account be left off the Public Depositors Annual Report. The district will ensure that all district bank accounts are included in the annual Public Depositors Report.

Repeat Finding: No.

Finding 8: The District Should Ensure Compliance with State Law Regarding Purchasing and Invoice Payments.

Applicable State Law: *Section 31-7-13 (b)*, provides:

“(b) **Bidding procedure for purchases over \$5,000.00 but not over \$75,000.00.** Purchases which involve an expenditure of more than Five Thousand Dollars (\$5,000.00) but not more than Seventy-five Thousand Dollars (\$75,000.00), exclusive of freight and shipping charges, may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two (2) competitive written bids have been obtained. Any state agency or community or junior college purchasing commodities or procuring construction pursuant to this paragraph (b) may authorize its purchasing agent, or his designee, to accept the lowest competitive written bid under Seventy-five Thousand Dollars (\$75,000.00). Any governing authority purchasing commodities pursuant to this paragraph (b) may authorize its purchasing agent, or his designee, with regard to governing authorities other than counties, or its purchase clerk, or his designee, with regard to counties, to accept the lowest and best competitive written bid. Such authorization shall be made in writing by the governing authority and shall be maintained on file in the primary office of the agency and recorded in the official minutes of the governing authority, as appropriate. The purchasing agent or the purchase clerk, or his designee, as the case may be, and not the governing authority, shall be liable for any penalties and/or damages as may be imposed by law for any act or omission of the purchasing agent or purchase clerk, or his designee, constituting a violation of law in accepting any bid without approval by the governing authority. The term “competitive written bid” shall mean a bid submitted on a bid form furnished by the buying agency or governing authority and signed by authorized personnel representing the vendor, or a bid submitted on a vendor’s letterhead or identifiable bid form and signed by authorized personnel representing the vendor. “Competitive” shall mean that the bids are developed based upon comparable identification of the needs and are developed independently and without knowledge of other bids or prospective bids. Any bid item for construction in excess of Five Thousand Dollars (\$5,000.00) shall be broken down by components to provide detail of component description and pricing. These details shall be submitted with the written bids and become part of the bid evaluation criteria. Bids may be submitted by facsimile, electronic mail or other generally accepted method of information distribution. Bids submitted by electronic transmission shall not require the signature of the vendor’s representative unless required by agencies or governing authorities.”

Section 31-7-305(2), “All public bodies that are authorized to issue checks in payment of goods and services and are not required to issue requisitions for payment to the State Fiscal Management Board shall mail or otherwise deliver such checks no later than forty-five (45) days after receipt of the invoice and receipt, inspection and approval of the goods or services; however, in the event of a bona fide dispute, the public body shall pay only the amount not disputed.”

Applicable Administrative Decisions and Guidance: *MS AG Op., Jernigan *1 (May 26, 2022)*, states in part: “Section 31-7-13(b) defines two specific and detailed types of “competitive written bids” that are acceptable for a purchase over the amount of \$5,000 but not over the amount of \$50,000. A printed cost with a description of an item “in cart” is not one of the “competitive written bids” contemplated by or allowed by the statute.”

Finding Detail: During the review of the District’s purchase expenditures, the auditor noted the following exceptions:

- The District utilized shopping carts for two vendor purchases totaling **\$11,589**; rather than obtaining bids/quotes;
- The District made a purchase from Express Products List #3760 totaling **\$7,196**; however, a second bid/quote was not obtained, which is required in the EPL instructions; and
- Two invoices were paid more than 45 days after being received within the District.

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

Recommendation: We recommend the District ensure compliance by paying invoices within 45 days of receiving items, obtain two quotes/bids, and not allowing shopping cart quotes, as required by state law and regulations.

District’s Response #1: In response to shopping cart quotes being used. The district will no longer accept shopping cart quotes as legitimate quotes when making purchases.

District’s Response #2: In response to the district not requiring 2 quotes for products on EPL. The district will require 2 quotes for items over **\$5,000** even if the product is on EPL.

District’s Response #3: In response to district not paying invoices within 45 days. The district held the payment on invoices because not all items ordered had been received.

Auditor’s Note #3: Per review of the documentation provided to OSA, there is no evidence of the commodities being received; therefore, OSA cannot determine if the full orders were received and must use the invoice date.

Repeat Finding: No.

Finding 9: The District Should Ensure Compliance with State Law Regarding Credit Card Usage and Approval.

Applicable State Law: *Section 31-7-13(o)*, “No contract or purchase as herein authorized shall be made for the purpose of circumventing the provisions of this section requiring competitive bids, nor -shall it be lawful for any person or concern to submit individual invoice for amounts within authorized for a contract or purchase where the actual value of the contract or commodity purchased exceeds the authorized amount and the invoices therefor are split so to appear to be authorized as purchases for which competitive bids are not required.”

Applicable Administrative Guidance: *Mississippi Procurement Manual, Chapter 10, Special Procedures, 10.111.03, State of Mississippi Procurement Card Program*, provides that the maximum amount of a single purchase transaction shall be \$5,000 (entities may establish stricter guidelines).

Mississippi Procurement Manual, Chapter 10, Special Procedures, 10.112.03, Merchant – Specific Credit Cards, provides “The use of the Small Purchase Procurement card should prevent the need for merchant specific credit cards (i.e. Walmart, Home Depot, Texaco, etc.) and should be utilized if the need for a credit card is established. Exceptions may be approved if circumstances arise which require the need for a merchant specific credit card. State agencies desiring to obtain a merchant

specific credit card shall submit to the Office of Purchasing, Travel and Fleet Management for approval, written justification for the need of a merchant-specific credit card. 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.”

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

- One invoice paid was over **\$5,000**. The District had not received quotes for the purchase and asked the vendor to run two separate credit card charges under **\$5,000**; and
- The District did not approve the use nor justification for its merchant – specific credit cards (Walmart and Lowes).

Failure to approve the merchant – specific credit cards and require bids for purchases over **\$5,000** resulted in noncompliance with state law and regulations.

Recommendation: We recommend the District ensure compliance by reviewing credit card charges and ensuring compliance annually with state law and regulations over merchant-specific credit cards.

District’s Response #1: In response to the district not receiving two quotes on an invoice over **\$5,000**. The district will ensure all purchasing laws are monitored and followed with state laws pertaining to two quotes for quotes over **\$5,000**.

District’s Response #2: In response to the Board failed to approve district's merchant – specific credit cards. All merchant specific credit cards will be approved starting January 2024 board meeting.

Repeat Finding: No.

Finding 10: The District Should Ensure Compliance with State Law Regarding Certified Employee’s Supplemental Contracts, Verifications, and Certifications.

Applicable State Law: *Section 37-9-33(1)*, “In employing and contracting with appointed superintendents, principals, and certified employees, the school board shall in all cases determine whether the amount of salary to be paid such superintendent, principal, and certified employees is in compliance with the provisions of the adequate education program. No contracts shall be entered into where the salary of a superintendent, principal, or certified employee is to be paid, in whole or in part, from adequate education program funds except were the reimbursements of said chapter as to the amount of salary are fully met... The allowance in the Mississippi Adequate Education Program for teachers’ salaries in each county and separate school district shall be determined and paid in accordance with the scale for teachers’ salaries as provided in this subsection.”

Applicable Administrative Decisions and Guidance: *MS AG Op., Massey * 1 (January 23, 1984)*. “*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...” “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.”

MDEAMSD, Section B, Miscellaneous Issues, Personnel Files, states, “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:

- Twelve certified employees’ certifications were not maintained within their personnel files;
- Ten certified employees received additional supplements totaling **\$29,683**; however, there was no evidence of supplemental contracts within their personnel files;
- Teaching verification for one certified employee was not maintained from the previous District; and
- The Board approved to split the supplemental salary of two certified employees (coaches); however, there was no supplemental contracts issued.

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 verifications and teacher certifications are obtained and maintained in the personnel files of its employees, as required by state law. Also, we recommend the District ensure all certified employees are issued supplemental contracts for extra work performed.

District’s Response #1: Moving forward, the district will maintain employees' certifications in their personnel files.

District’s Response #2: Employees will receive supplemental contracts for supplemental duties.

District’s Response #3: The verification of employment from previous school districts has been obtained and included in their personnel files.

District’s Response #4: The District will not split a vacant coaching supplement but will revise the supplements and get them reapproved by the Board.

Repeat Finding: No.

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

Applicable State Law: *Section 37-61-33(3)(a)*, “Local school districts shall issue such credentials or procurement cards to classroom teachers at the beginning of the school year, but no later than August 1 of each year, and shall be issued in equal amounts per teacher determined by the total number of qualifying personnel and the current state appropriation for classroom supplies with the Education Enhancement Fund.”

Finding Detail: During the review of the District’s EEF cards, the auditor noted eight teachers were not issued a EEF card by the August 1, 2022.

Failure to ensure the District’s teachers are issued the EEF procurement cards no later than August 1st resulted in a violation of state law and regulations.

Recommendation: We recommend the District ensure compliance by assuring to issue EEF Procurement cards by August 1st as required by state law.

District's Response: EEF Cards were delivered to each bookkeeper on the first day teachers reported to work (Aug. 1). Teachers were notified to go by, pickup cards and sign required paperwork. Some teachers were in meetings and did not make it on August 1st. Moving forward teachers will be required to pick up cards before August 1st.

Repeat Finding: No.

Finding 12: The District Should Ensure Compliance with State Law Regarding Sixteenth Section Land Lease Payments and Taxes.

Applicable State Law: *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 27-35-71, "All school lands known as the sixteenth sections, 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 assignee shall pass by the sale."

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

- One lease payment was more than 60 days late; however, the lease was not terminated; and
- Two leases' taxes were not current, totaling **\$465**; 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 District ensure compliance by assuring all lease payments are made within 60 days and taxes are current as required by state law.

District's Response #1: One instance where a late payment was made 84 days after the due date. -The leaseholder's lease payment was due July 12 and 60 days after that date would have been September 10, the Saturday after the September Board Meeting. That was too late to meet the board agenda deadline for the September Board Meeting. She paid her lease October 4 before we had to cancel her lease on our October Board Meeting, October 14.

District's Response #2: Two instances where the leaseholder's taxes are not current-moving forward we will mail a letter stating if the taxes are not paid by a certain date that lease will be cancelled at the next board meeting.

Repeat Finding: No.

Finding 13: The District Should Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees.

Applicable State Law: *Section 25-11-124*, "Each employer shall pick up the member contributions required by *Section 25-11-123*, *Mississippi Code of 1972*, for all compensation earned after June 30, 1982, and the contributions so picked up shall be treated as employer contributions in determining tax treatment under the United States Internal Revenue Code and the Mississippi Income Tax Code; however, each employer shall continue to withhold federal and state income taxes based upon such contributions until the internal revenue service or the federal courts rule that, pursuant to *Section 414(h)* of the

United States Internal Revenue Code, these contributions shall not be included as gross income of the member until such time as they are distributed or made available...”

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.”

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

- The District did not properly calculate two retirees’ PERS allowed salary; and
- One PERS retiree was paid through Accounts Payable and not through Payroll.

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

Recommendation: We recommend the 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 #1: After review, there were errors found on two employees’ PERS form 4B. Human Resources personnel verified that the forms have been corrected and will ensure the forms in the future will be completely correct and verified by another HR person in the office.

District’s Response #2: A PERS retiree paid through Accounts Payable. The PERS retiree was approved as an independent contractor, however he was not approved every year. The PERS retiree will be approved starting January 2024 board meeting and every year that follows.

Repeat Finding: No.

Finding 14: The District Should Ensure Compliance with State Law Regarding Surety Bonds.

School Board Policy: *Section D, Fiscal Management, Policy Code DJEA, Purchasing Authority* provides that the school board designates the Superintendent, Assistant Superintendent, Chief Financial Officer, Director of Maintenance, and Principals as Purchasing Agents.

Applicable State Law: *Section 25-1-12(1)*, “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.”

Applicable Administrative Decisions and Guidance: *MS AG Op., Lamar, Jr., *1 (February 26, 2016)*, states, “The blanket bond should expressly identify and include each and every office or position required by law to be bonded, as well as those positions for which bonds are discretionary.”

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

- The Superintendent and Purchasing Agent bonds were verification certificates. Additionally, the District's blanket bond was a continuation bond;
- The District's blanket bond for 23 employees did not list the names of the individuals the bond covers;
- The District did not make a finding upon its Board minutes that 115 certified teachers working as gatekeepers and six cashiers' jobs were incidental to his or her employment and do not require bonds would be an occasional, not regularly recurring, handling of funds which is random and infrequent or immaterial amounts of money; and
- The District's purchasing authority policy designates the Superintendent, Chief Financial Officer, Assistant Superintendent, Director of Maintenance, and principals as purchase agents; however, the Superintendent is the only individual bonded as a Purchasing Agent.

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.

Recommendation: We recommend the District ensure compliance by assuring all employees are properly and sufficiently bonded, as required by state law. Additionally, the Board should ensure employees are bonded according to Board – approved policies.

District's Response #1: In maintaining the district's bonds, the NCSD will contact the bond provider and convert the continuous bonds to term bonds as recommended by the State Auditor's Office.

District's Response #2: In response to 23 employees' names not being listed on the blanket bond, NCSD will contact the bond provider and have the names added to the blanket bond.

District's Response #3: In response to the 115 Employees and Six Cashiers that handled cash for activity events, the NCSD is evaluating the process of ensuring all personnel who handle cash are properly bonded.

District's Response #4: At the December 8, 2023, NCSD board meeting, a change to policy *DJEA* will be approved to reflect on the Superintendent and Business Manager as Purchasing Agents. Both individuals are properly bonded.

Repeat Finding: No.

End of Report