

PEARL RIVER 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

May 15, 2024

Limited Internal Control and Compliance Review Management Report

Pearl River County School District
130 Alphabet Avenue
Carriere, MS 39426

Dear Pearl River County School Board:

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

1. Strengthen Internal Controls Regarding Activity/Athletic Fund Cash Receipts and Deposits;
2. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget Approval;
3. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Sixteenth Section Land Lease Deposits and Payments;
4. Ensure Compliance with State Law Regarding Monthly Financial Reports;
5. Ensure Compliance with State Law Regarding Membership Club Card Justification;
6. Ensure Compliance with State Law Regarding Statement of Economic Interest (SEIs);
7. Ensure Compliance with State Law Regarding Obtaining and Maintaining Background Checks;
8. Ensure Compliance with State Law Regarding Sixteenth Section Educable Child Lists;
9. Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees; and
10. 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 you find our recommendations enable the **Pearl River 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, reading "Charlotte L. Duckworth".

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

The Office of the State Auditor has completed its limited internal control and compliance review of the **Pearl River 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, Mississippi Code Annotated (1972)*, 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 that we consider to be *significant deficiencies* in internal control. These matters are noted under the headings **SIGNIFICANT DEFICIENCY**. We also identified other deficiencies that we have noted under the heading **OTHER DEFICIENCIES**.

In addition, while performing our review, we noted certain instances of noncompliance with State Law that require the attention of management. These matters are noted under the heading **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**.

Terms used in this Report.

OSA- *Office of the State Auditor*

AGO – *Attorney General's Office*

DFA – *Mississippi Department of Finance Administration*

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 – *Pearl River County School District*

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

Section – *Mississippi Code Annotated (1972)*

SIGNIFICANT DEFICIENCY

Finding 1: The District Should Strengthen Internal Controls Regarding Activity/Athletic Fund Cash Receipts and Deposits.

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

Board Policy: *Section D, Fiscal Management, Policy DK – Student Activities Fund Management*, states, “A person remitting activity funds to the principal for deposit will be given the original receipt, the second copy will be attached to the transmittal report to the central office, and the third copy will be kept in the book and on permanent file in the principal's office. All of these pre-numbered receipts must be accounted for ... All funds collected within the school must be deposited daily...”

Finding Detail: During the review of the District's activity/athletic fund revenue, the auditor noted the following exceptions:

- Seven game deposits were not made in a timely manner; and
- Two game deposits had an overage in deposits totaling \$4.

Failure to have adequate internal controls related to activity fund revenue collection and receipting could result in a loss of assets and improper revenue recognition.

Recommendation: We recommend the District strengthen internal controls by implementing adequate policies and procedures to ensure receipts from all activity funds are timely deposited, properly recognized, and recorded.

District's Response: The District will put in place to help prevent this issue in the future.

Repeat Finding: No.

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 2: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget 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 the duty of the superintendent of schools and the school boards of all school districts to limit the expenditure of school funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures form a fund in excess of the resources available within that fund..."

Finding Detail: During the review of the District's budgets, the auditor noted the original 2022-2023 budget included the following 16 funds reflecting a negative fund balance at year-end:

- Special Education Fund (1130) – (\$8,737);
- Alternative School Fund (1140) – (\$2,131);
- PRC Athletic Grades 7-12 Fund (1151) – (\$8,969);
- Title I-A Basic FYE-2003 Fund (2211) – (\$973,104);
- Title I-School Improvement Fund (2213) – (\$110,107);
- Title I/School Improvement Fund (2240) – (\$10,353);
- ESSER II Fund (2594) – (\$285,744);
- ESSER III Fund (2598) – (\$273,313);
- IDEA ARP Grant Fund (2600) – (\$4,695);
- CTE ESSER II Fund (2602) – (\$10,472);
- EHA, Part B Fund (2610) – (\$825,523);
- EHA, Preschool Fund (2620) – (\$41,932);
- Vocational Stat Fund (2711) – (\$5,349);
- FY 22 MDE CTE Grant Fund (2935) – (\$13,308);
- Ready Set Read LPRVF Grant (Stupack) Fund (2940) – (\$36); and
- Three Mill Notes Retirement Fund (4022) – (\$1,834).

The actual fund balances were not negative at June 30, 2023; however, the approval of the fund budgets with ending deficit fund balances could result in noncompliance with State Law.

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

District's Response: The original budget was approved prior to booking the interfund loans to these funds. The District will make these entries prior to approving the original budget in the future. Please note these funds did not have a deficit fund balance at the end of the FY 2023.

Repeat Finding: No.

Finding 3: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Sixteenth Section Land Lease Deposits and Payments.

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

Applicable State Law: *Section 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."

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

- 12 lease payments were not deposited in a timely manner;
- Four lease payments were more than 60 days late; however, the leases were not terminated; and
- The entire lease payment for one lease agreement was not paid within 60 days; however, the lease agreement was not terminated.

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

Recommendation: We recommend the District strengthen internal controls and ensure compliance by assuring all lease payments are made within 60 days, as required by State Law. Also, we recommend the District ensures deposits are made in a timely manner.

District's Response: The District will put procedures in place to help prevent this issue in the future.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 4: 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.” Also, a copy of all required reports must be included in the official minutes of the board meeting in which the reports are discussed.

Applicable Administrative Guidance: *Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to Mississippi State Board of Education Policy Manual, Chapter 71, Rule 71.3, Required Monthly Reports to be Furnished to Local School Board* states, “At minimum, the Superintendent should provide reconciled bank statements, a statement of revenues and expenditures, current budget status, a cash flow statement by month, and a combined balance sheet or current fund equity balances.”

Finding Detail: During the review of the District’s financial reports, the auditor noted the monthly financial statements were present in OAgendas Board packets; however, the required financial statements were not spread upon the Board’s official minutes. The District utilizes OAgendas as its official minutes; however, this system does not have the necessary controls to be considered as the District’s official minutes. This system should only be utilized to create and manage Board packets, give access to information, and conduct meetings.

Failure to comply with the financial reporting requirements resulted in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by assuring an accurate and complete set of financial reports are submitted to the Board each month and spread upon its official minutes as required by State Law.

District’s Response: The District will put procedures in place to help prevent this finding in the future.

Repeat Finding: No.

Finding 5: The District Should Ensure Compliance with State Law Regarding Membership Club Card Justification.

Applicable Administrative Guidance: *DFA Procurement Manual, Chapter 10, 10.112.05, Membership Club Cards*, 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 District’s procurement card expenditures, the auditor noted the Board did not have on file a justification for the use of its membership club card (Sam’s) that would show the anticipated savings of its use.

Failure to maintain on file the justification for the use of the District’s membership club card resulted in a noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by assuring justification of the use of its membership club card each subsequent year, as required State Law.

District’s Response: The District will put procedures in place to help prevent this finding in the future.

Repeat Finding: No.

Finding 6: The District Should Ensure Compliance with State Law Regarding Statements of Economic Interest (SEIs).

Applicable State Law: *Section 25-4-25(b)*, “Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter: (b) Members of local school boards that administer public funds, regardless of whether such members are elected or appointed.” *Section 25-4-29(1)(a)*, *Mississippi Code Annotated (1972)*, provides that “Required statements hereunder shall be filed as follows: a) Every incumbent public official required...to file a statement of economic interest shall file such statement with the commission on or before May 1 of each year that such official holds office, regardless of duration.

Section 25-4-29(2), “Any person who fails to file a statement of economic interest within thirty (30) days of the date of the statement is due shall be deemed delinquent by the commission...a fine of Fifty Dollars (\$50.00) per day, not to exceed a total fine of One Thousand Dollars (\$1,000.00) shall be assessed against the delinquent filer for each day thereafter in which the statement of economic interest is not properly filed. The commission shall enroll such assessment as a civil judgment with the circuit clerk in the delinquent filer’s county of residence...”

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

- Two Board members did not file SEIs for the fiscal year 2023; and
- Two Board members did not file SEIs by May 1, 2023.

Failure to file the Statements of Economic Interest could result in fines being assessed and a civil judgment being enrolled against the delinquent filers, as allowed by *Section 25-4-29(2)*, and resulted in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by assuring all School Board members file a Statement of Economic Interest no later than May 1st of each year that such official holds office, regardless of the duration.

District’s Response: The District will put procedures in place to prevent this issue in the future.

Repeat Finding: No.

Finding 7: The District Should Ensure Compliance with State Law Regarding Obtaining and Maintaining Background Checks.

Applicable State Law: *Section 37-9-17*, “Current criminal records background checks and current child abuse registry checks are obtained, and that such criminal record information and registry checks are on file for any new hires applying for employment as a licensed or non-licensed employee at a school and not previously employed in such school under the purview of the State Board or at such local school district prior to July 1, 2000.” Ultimately, the criminal records information and registry must be kept on file for any and all new hires. Additionally, employees employed under the recommendation of a personnel supervisor may not be paid compensation in excess of their approved contract without Board approval.

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 certified employees, the auditor noted eight out of 25 personnel files did not have evidence of a background check being obtained by the District.

Failure to obtain background checks of all new hires could result in the wrongful hire of an individual and resulted in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by making sure criminal background checks are obtained and maintained in personnel files of its employees, as required by State Law.

District's Response: The District will put procedures into place to maintain background checks in the personnel files.

Repeat Finding: No.

Finding 8: The District Should Ensure Compliance with State Law Regarding Sixteenth Section Educable Child Lists.

Applicable State Law: *Section 29-3-121*, "It shall be the duty of the superintendent of each school district to make or cause to be made annual lists of the children enrolled in the schools of such district and who reside in such district, which lists shall be based upon the end of the first month enrollment required to be reported to the State Department of Education for the then current school year. The lists shall be made separately as to the townships in which such children reside. Such lists shall be filed with the superintendent of the custodial school district on or before December 31 of each year and the lists shall be used in making the division of the available funds of each township during the ensuing calendar year as provided by *Section 29-3-119, Mississippi Code Annotated (1972).*"

Finding Detail: During the review of the District's educable child lists, the auditor noted an educable child list was not filed with Hancock County School District during fiscal year 2023.

Failure to file an educable child list with the custodial district could result in forfeiting funds that the District would otherwise be entitled to and resulted in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by making sure all lists are prepared and filed with the Superintendents of custodial district by December 31st of each year, as required by State Law.

District's Response: The District was not aware of any shared lands with Hancock County School District. We will send the educable child list to the in the future.

Repeat Finding: No.

Finding 9: The District Should Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees.

Applicable State Law: *Section 25-11-127(4)*, "...Notice shall be given in writing to the executive director, setting forth the facts upon which the employment is being made, and the notice shall be given within five (5) days from the date of employment and also from the date of termination of the employment."

PERS Mississippi Public Employment Retirement System (PERS) Board Regulation 34, Section 105, states, "The 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 \$300 penalty per occurrence payable by the employer."

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."

Applicable Administrative Guidance: *PERS Board Regulation 34, Section 105*, “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 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: During the review of the District’s PERS Form 4Bs, the auditor noted the following exceptions:

- One PERS Form 4B did not have evidence of the rehire date; therefore, OSA could not verify if the retiree was rehired 90 days after retirement; and
- One PERS Form 4B did not have evidence of being filed with PERS.

Failure to file Form 4Bs could result in overpayment of a retiree, the District being assessed penalties by PERS and result in noncompliance with State Law.

Recommendation: We recommend the District ensure compliance by implementing adequate internal controls to ensure rehired retirees PERS Form 4Bs are properly completed and submitted as required by State Law.

District’s Response: We will put procedures in place to ensure the completion of the form in its entirety and submission to PERS within 5 business days in the future.

Repeat Finding: No.

Finding 10: The District Should Ensure Compliance with State Law Regarding Surety Bonds.

Applicable State Law: *Section 25-1-12(1)*, “Notwithstanding any other provision of law to the contrary, any public officer or employee handling or 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), “A new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four (4) years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee.”

Section 37-6-15(1)(2), “Before entering upon the discharge of the duties of his office, each member of the school board shall give a surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety, to be payable conditioned and approved in the manner provided by law. The school board may execute a blanket bond for each school district official and employee (including school business managers and any other employee who receipts and/or disburses school district funds) in the penalty of Fifty Thousand Dollars (\$50,000), unless a different penalty is prescribed by statute, to be payable, conditioned and approved in the manner provided by law. The premium on said bond shall be paid out of the school district maintenance fund.”

Section 37-9-31, “All school principals and attendance center principals shall furnish good and sufficient surety bonds in like manner as required of superintendents. The amount of such bonds shall be not less than Fifty Thousand Dollars (\$50,000), with sufficient surety.”

Applicable Administrative Decisions and Guidance: *MS AG Op., Lamar, Jr. * 1 (February 26, 2016)* states in part: “...*1 It is the opinion of this office that there is no specific statutory requirement that a justice court deputy clerk maintain an individual bond and therefore the deputy clerk may be bonded through a county blanket bond in the amount of \$50,000.00

or more. *Section 9-11-29 (2)* simply provides that every deputy clerk of the justice court give bond in the amount of \$50,000.00. The blank 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...

...*2 It is the opinion of this office that there is no specific statutory requirement that a deputy circuit court clerk maintain an individual bond; and, therefore, the deputy clerk may be bonded through a county blanket bond at the discretion of the board of supervisors. *Section 9-7-123 (2)* simply provides that each deputy clerk of the circuit court give bond in the amount of not less than \$50,000.00 nor more than \$100,000.00. It should be noted that the blank bond will list each position covered under the bond, including the deputy circuit court clerks covered.”

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

- The Business Manager/CFO and one Principal were not bonded for fiscal year 2023;
- One Board Member was covered by a continuation certificate;
- The Superintendent’s bond was an indefinite bond; instead of an official bond with definite terms; and
- The blanket bond that covered the District’s gatekeepers and cashiers were for an indefinite term and did not include the employees’ names and positions.

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 and regulations

District’s Response: The District will put procedures in place to help prevent this finding in the future.

Repeat Finding: No.

End of Report