

# HARRISON COUNTY SCHOOL DISTRICT MISSISSIPPI

## COMPLIANCE REPORT

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### 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**

**October 4, 2024**

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

Harrison County School District  
11072 Hwy 49  
Gulfport, MS 39503

Dear Harrison County School Board:

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

1. Strengthen Internal Controls Regarding Activity/Athletic Fund Cash Receipts and Deposits;
2. Ensure Compliance with State Law Regarding Board Member Ethics;
3. Ensure Compliance with State Law Regarding Ethics Recommendation and Supervision of Relatives Within the First Degree;
4. Ensure Compliance with State Law Regarding Approval of Its Depositories;
5. Ensure Compliance with State Law Regarding Membership Club Card Approval, Justification, and Usage;
6. Ensure Compliance with State Law Regarding Statements of Economic Interest (SEIs);
7. Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees; and
8. 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 **Harrison 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 Division*  
Office of the State Auditor

The Office of the State Auditor has completed its limited internal control and compliance review of the **Harrison 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)*, 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 a certain deficiency in internal control that we consider to be a *significant deficiency* in internal control. This matter is noted under the heading **SIGNIFICANT DEFICIENCY**.

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:

AGO – Attorney General's Office

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

District – Harrison County School District

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

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

OSA – Office of the State Auditor

PERS – Public Employees' Retirement System of Mississippi

Section – *Mississippi Code Annotated (1972)*

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## **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.

**School Board Policy:** *Section D, Fiscal Management, Policy Code DK, Student Activities Fund Management, Receipts*, states "All activity funds received by a local school must be deposited into the activity fund bank account. The principal must maintain a permanent three-part receipt book in which to record all receipts. 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 prenumbered receipts must be accounted for. A copy of the deposit slip indicating the amounts of money deposited to the bank must also be attached to the transmittal report. The deposit slip should indicate the sequence of receipt numbers that particular deposit

covers.

The principal is responsible for all funds collected and disbursed in the school. For this reason, no collection of funds or purchases of any kind may be made without the prior knowledge and written approval of the principal.

Any teacher who has collected money during the school day shall turn the money and the appropriate receipt book into the office secretary at the close of the school day.

No principal shall leave money in a school overnight. Daily deposits are required.”

**Applicable Administrative Guidance:** *MDEAMSD, Section B, Miscellaneous Issues, Subject E, Receipt Files*, states, “All monies shall be receipted to the school district utilizing pre-numbered receipts (two/three parts) and be maintained in a bound book or ledger. Under no circumstance shall monies be deposited to any bank account without a proper receipting of such monies. Monies should be deposited to the bank timely (based on the district’s policy). Any documentation necessary to support the receipts shall be maintained on file. All receipts shall include date, received from, amount, account classification and signature of receiver, at a minimum. Electronic transfers of funds should also have receipts assigned for reporting purposes. Receipt files should be prepared and filed by month. These files should contain receipts filed in numerical order along with supporting documentation for each receipt.”

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

- Thirty-four game deposits were not made in a timely manner;
- Ten game ticket sale sheets had no beginning and/or ending ticket numbers noted; and
- There was a net overage of **\$476** between deposits and ticket sales for varsity football and basketball home games.

Failure to have adequate internal controls related to activity/athletic fund revenue collections and deposits 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 revenue from all activity/athletic funds are safeguarded, properly recognized, deposited and recorded.

**District’s Response #1:** Due to the volume of the home events (approximately 375 for the period in question), there have been times when game deposits were outside of the expected time frame due to a high volume of events occurring in a short time frame.

**District’s Response #2:** Often times there are people that do not take their change for a ticket purchase and tell the gate worker to just donate it to the program in question causing an overage.

**District’s Response #3:** We do have internal controls in place where ticket numbers are accounted for and recorded for each event. Ticket stubs are also collected and verified with sales to minimize the possibility of discrepancies occurring.

**Repeat Finding:** No.

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## INSTANCES OF NONCOMPLIANCE WITH STATE LAW

**Finding 2:** The District Should Ensure Compliance with State Law Regarding Board Member Ethics.

**Applicable State Law:** *Section 25-4-105(1)* 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.”

**Applicable Administrative Decisions and Guidance:** *Mississippi Ethics Opinion 07-059-E*, requires that a trustee must recuse himself or herself from any action which would result in a pecuniary benefit to the daughter-in-law to comply with *Section 25-4-105(1), Miss. Code of 1972*.

*Mississippi Ethics Opinion 10-014-E*, 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, the auditor noted the following exceptions:

- One Board member voted on the original budget, amended budget, and salary schedule for fiscal year 2023 which included the local supplement that directly benefited their daughter (certified teacher); and
- One Board member voted on the amended budget which included the local supplement for fiscal year 2023 that directly benefited their sister (non-certified teacher). Additionally, the Board member voted on their sister's rehire for fiscal year 2024.

Failure of the Board members' recusals in matters that directly benefit 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 #1:** The Board member did recuse himself from the hiring of his daughter, as noted in the April 3, 2023 Board minutes. While the minutes reflect this recusal, moving forward, the minutes will be more explicit, detailing the Board's member departure from the Board room during the discussions about hiring his daughter, with the vote of being taken by other Board members. This adjustment will ensure compliance with statutory law and "minutes rule" under which the Board operates.

**Auditor's Note #1:** There was no exception noted pertaining in the hiring of the Board member's daughter. The finding refers to a Board member's sister.

**District's Response #2:** Regarding the vote on the budget, the two Board members participated in the vote on the budget that included the local supplement for the 2023-2024 school year. But the motion to approve the 2022-2023 and 2023-2024 budgets was a single, unified motion, not separated into non-discretionary salary and benefits, and the discretionary local supplement for employees. Going forward, the school district will divide the budget approval process into two motions: one for the non-discretionary salary and benefits and the discretionary local supplement for employees. This will allow for any necessary recusals from Board members who have relatives who could benefit from the approval. Specifically, Board members will not vote on local salary or supplemental benefits that may impact their relatives.

**District's Response #3:** The Board members' daughter and sister are financially independent from them. The Board member's sister was initially hired on December 5, 2022, as a non-certified employee, before the Board member joined the Board. The Board member's first meeting occurred on January 23, 2023. During this meeting, the Board member did vote to approve a change in his sister's position, though this did not result in her becoming a certified employee.

**Auditor's Note #3:** Although the Board member's sister is not certified, he should not vote on a relative within the first degree to be rehired. Also, the Board member should not vote on a budget that includes the local supplement and their relative's salary.

**District's Response #4:** Going forward, the District will ensure the Board member recuses himself from any discussion concerning his sister. The minutes will clearly document leaving the room during such discussions and votes.

**Repeat Finding:** No.

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**Finding 3:** The District Should Ensure Compliance with State Law Regarding Ethics Recommendation and Supervision of Relatives Within the First Degree.

**Applicable State Law:** *Section 25-4-105(1)* 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)* 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."

**Applicable Administrative Decisions and Guidance:** *Mississippi Ethics Opinion 10-077-E*, states "A school superintendent's spouse may be employed in a position at a particular school under the supervision of a school principal if the school board designates someone other than the superintendent to make the employment recommendation. However, the superintendent's spouse may not be employed under the authority of the school district central office, pursuant to Section 25-4-105(1) and Section 37-9-17, Miss. Code of 1972."

*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 District's related party questionnaires, the auditor noted one principal recommended their sister to the superintendent for rehire and has direct supervision over their sister.

Failure to ensure the principal did not recommend nor supervise their relative 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:** The Board member's daughter-in-law is no longer employed by the school district. The Harrison County School District has implemented a separate designee under the "side-step" provision of *Miss. Code 37-9-17*,

ensuring that a principal is not able to recommend a relative, as defined under *Miss. Code Ann. 25-4-103(q)*, for employment in the district.

**Repeat Finding:** No.

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**Finding 4:** The District Should Ensure Compliance with State Law Regarding the Approval of Depositories.

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

**Finding Detail:** During the review of the District's depositories, the auditor noted that on July 1, 2022, the Board approved BancorpSouth Bank as one of its depositories but did not approve the depository, Peoples Bank.

Failure to ensure that the all of the District's depositories were Board approved resulted in noncompliance with state law.

**Recommendation:** We recommend the District ensure compliance by assuring the Board approves all of its depositories by July 1<sup>st</sup> every three years, as required by state law.

**District's Response:** The District closed the inactive Peoples Bank account in June 2024.

**Repeat Finding:** No.

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**Finding 5:** The District Should Ensure Compliance with State Law Regarding Membership Club Card Approval, Justification, and Usage.

**Applicable Administrative Guidance:** *State of Mississippi, Office of Purchasing, Travel and Fleet Management, Travel Card Guidelines, Policy & Procedure Manual, Section 113, Taxes* states, "Per *Section 27-65-105(a)* of the Mississippi Code of 1972 Annotated, state agencies are exempt from state sales tax. This section provides that sales of tangible personal property or services made to the United State Government, the State of Mississippi and its departments, institutions, counties and municipalities or departments or school districts of said counties and municipalities are exempt from sales taxes..."

*Mississippi Procurement Manual, Chapter 10, Special Procedures, 10.112.05, Membership Club Cards* states, "Membership club card fee's, such as Sam's club cards, are allowed but should be justified by the agency or governing authority to show that the anticipated savings from using the card would exceed the cost of the card fee. This justification should be maintained on file with the government entity. Each subsequent year, the government entity shall document actual savings for the previous year which substantiate the cost of the card. This would not mean documenting savings on each and every purchase but enough documentation to substantiate adequate savings to justify the expense of the card. State agencies desiring to obtain a membership club card shall submit to the Office of Purchasing, Travel and Fleet Management for approval with written justification for the need of a membership club card."

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

- One vendor credit card purchase included sales taxes; and
- The Board did not approve nor have on file the justification of the use of its membership club card (Sam's Club) until June 26, 2023, which is the end of the fiscal year.

Failure to approve the justification for its use of its membership club card and to ensure sales taxes were not paid resulted in noncompliance with state regulations

**Recommendation:** We recommend the District ensure compliance with state regulations in regards to obtaining, maintaining, and the usage of membership club cards.

**District's Response:** The District credit card policy stresses that no sales tax should be charged. Receipts are reviewed and in most instances a credit is received. All credit card users will be reminded of the rule. The District internally had a justification of the Sam's membership savings; however, due to an oversight, the Board approval was not done until June 26, 2023.

**Repeat Finding:** No.

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

**Applicable State Law:** *Section 25-4-25(a)(b)* states, "Each of the following individuals shall file a statement of economic interest with the commission in accordance with the provisions of this chapter: (a) Persons elected by popular vote ... (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)* states, "(1) Required statements hereunder shall be filed as follows: (a) Every incumbent public official required by paragraphs (a), (b), (d) and (e) of Section 25-4-25 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)* states, "(2) Any person who fails to file a statement of economic interest within thirty (30) days of the date the statement is due shall be deemed delinquent by the commission. The commission shall give written notice of the delinquency to the person by United States mail or by personal service of process. If within fifteen (15) days of receiving written notice of delinquency the delinquent filer has not filed the statement of economic interest, 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..."

**Finding Detail:** During the review of the District's SEIs, the auditor noted five Board members failed to file a SEI by the May 1<sup>st</sup> deadline for fiscal year 2023.

**Recommendation:** We recommend the District ensure compliance by assuring all Board members file a SEI annually, no later than May 1<sup>st</sup> of each year that such official holds office, regardless of the duration, as required by state law.

**District's Response:** The District notified the School Board members of the auditor's findings. In the future, each Board member will be required to provide a confirmation of filing their Statement of Economic Interest Form. The District will keep a copy in their personnel file.

**Repeat Finding:** No.

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**Finding 7:** The District Should Ensure Compliance with State Law Regarding Reemployment of Retired Public Employees.



**Applicable State Law:** *Section 25-11-127(4)(b)* states, "...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."

**Applicable Administrative Guidance:** *Mississippi Public Employees' Retirement System (PERS), Board Regulations, Chapter 34, Reemployment after Retirement, Section 105, Notification Requirement and Failure to Comply with Regulation* states, "To lawfully employ a PERS service retiree under Section 103, the employer must notify PERS in writing of the terms of the eligible employment within five 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 13 PERS Form 4Bs did not have evidence of being submitted to PERS within five days of rehire.

Failure to file the Form 4B, as required by PERS, and comply with *Section 25-11-127(4)* could result in overpayment of retiree and the District being assessed penalties by PERS.

**Recommendation:** We recommend the District ensure compliance by assuring PERS Form 4Bs are submitted to PERS within five days of reemployment, as required by state law and regulations.

**District's Response:** The instances of the PERS Form 4B were due to clerical errors. Once the payroll staff realized the forms were submitted without all the information, the revision were sent but this was after the time deadline. Form 4B will now be reviewed by a second person prior to submission.

**Repeat Finding:** No.

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**Finding 8:** The District Should Ensure Compliance with State Law Regarding Surety Bonds.

**Applicable State Law:** *Section 25-1-12(1)* 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 25-1-19(1)* states, "...The bond of all other county officers and employees, or officers and employees for any district, subdivision, board or commission of a county, including public school districts, shall be approved by the board of supervisors of such county. All the bonds shall be filed and recorded in the chancery court of the county..."

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

- The following 16 bonds were not filed at the Chancery Clerk's office:
  - Four Board members;
  - Business manager;
  - Nine principals; and
  - Two directors.
- The following employees who collect or record public funds were not bonded:
  - Thirty-eight bookkeepers;
  - Twenty-one gatekeepers;
  - Twenty-three cafeteria managers;

- Seventy-four cafeteria cashiers; and
  - One assistant business manager.
- Also, the District did not make a finding upon its minutes that the collection of public funds was incidental to employment; does not require bonds; would be an occasional, not regularly occurring, handling of funds; and would handle random, infrequent, or an immaterial amounts of money.

Failure to ensure bonds were filed in the Chancery Clerk's office resulted in noncompliance with state law. 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 sufficiently bonded, as required by state law. Additionally, the District should ensure all bonds for employees and officials are filed in the Chancery Clerk's office.

**District's Response #1:** The District maintains individual bonds for all specified positions. The original bonds are filed with the Chancery Clerk's office. Until recently, the surety bonds were continuous bonds. Now, a new bond is issued for each renewal and those will be filed with the Chancery Clerk's office.

**Auditor's Note #1:** The District is responsible for ensuring continuous bonds and original bonds are filed with the Chancery Clerks' office.

**District's Response #2:** The District has a crime and fidelity blanket policy which covers all employees that handle cash. A copy of the policy was uploaded in the share file, on June 21, 2023.

**Auditor's Note #2:** The District's blanket bond must be an official bond. A government crime and fidelity blanket policy would not be sufficient with state law.

**Repeat Finding:** No.

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**End of Report**