

FORREST 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 19, 2024

Limited Internal Control and Compliance Review Management Report

Forrest County School District
400 Forrest Street
Hattiesburg, MS 39403

Member of the Forrest County School Board:

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

1. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Policies and Incentive Programs;
2. Strengthen Internal Controls and Ensure Compliance with State Law Regarding Budget Approval;
3. Ensure Compliance with State Law Regarding Ethics;
4. Ensure Compliance with State Law Regarding the Purchase of Real Property;
5. Ensure Compliance with State Law Regarding Merchant-Specific Credit Card Approval and Usage;
6. Ensure Compliance with State Law Regarding Statements of Economic Interest;
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 **Forrest 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 **Forrest 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 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 and 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 – Forrest County School District

MDEAMSD – Mississippi Department of Education Accounting Manual for School Districts

Section – *Mississippi Code Annotated (1972)*

OTHER DEFICIENCIES AND INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 1: The District Should Strengthen Internal Controls and Ensure Compliance with State Law Regarding Policies and Incentive Programs.

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

Applicable Administrative Decisions and Guidance: *MS AG Op., Gaskin at *1 and *2 (October 11, 2022)*. States in part: "...Regarding incentive pay, Sections 66 and 96 of Article IV of the Mississippi Constitution prohibit a public entity from paying employees extra compensation for past services because it would constitute an unlawful donation. *MS AG Op., Eleuteris at *1 (Nov. 1, 2013)*. Payments in the form of bonuses are prohibited for this reason. *Id.* Employee incentive payments, however, that "are implemented prospectively and for which payment is made pursuant to conditions met in the future do not run afoul of [the] constitutional provisions."

*MS AG Op., Campbell at *1 (Apr. 12, 2010)*. Therefore, in order for the city to implement employee incentive pay, it must be “(1) contracted for between the parties or with the employee prior to the date when services are to be performed; (2) determined in accordance with objective standards of measurement; and (3) earned by personal services performed by the employees.” *MS AG Op., Chiles at *1 (Nov. 10, 2020)*. Whether the proposed ordinance meets these requirements is a determination that must be made by the Council. You may also wish to consult with the Mississippi Office of the State Auditor to determine whether American Rescue Plan Act's State and Local Fiscal Recovery Funds may be used for the proposed incentive payments.

***2** Additionally, while performance-based incentive pay for municipal employees may be authorized when the above-cited conditions are met, such payments are excluded from “earned compensation” as defined by Section 25-11-103(k) of the Mississippi Code and may not be reported to the state's Public Employees' Retirement System (PERS) for purposes of retirement. *Chiles at *2...*”

Finding Detail: During the review of the District’s contractual obligations and salary payments to employees, the auditor noted that the school adopted an “incentive pay” program to reward teachers and other employees (as applicable). The Mississippi Attorney General’s Office (AGO) has consistently opined that school boards have the authority to adopt such programs, as long as they meet the following criteria:

- 1.) The incentives are contracted for prior to the date when services are performed;
- 2.) The incentives are determined in accordance with objective standards of measurement; and
- 3.) The incentives are earned by personal services performed by the employees.

Further, the AGO has consistently opined that compliance with the above criteria are essential to ensure incentive payments do not constitute prohibited payments, such as bonuses or donations. The incentive program designed by the District does not appear to be in compliance with state law for the following reasons:

- The incentives were not contracted for prior to the date the services were performed. The pay was approved on October 10, 2022, but the teachers’ contracts began on July 1, 2022; and
- There was no Board approval for the incentive for District’s school resource officers nor was an addendum included in their personnel files.

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

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

District’s Response #1: During previous years the State Legislature provided School Recognition Incentive pay for employees in high achieving school. The employees of the Forrest County School District were not aware that the legislature would not fund the School Recognition Incentive Pay for the 2021-2022 school year. After the State did not fund the incentive pay, the Forrest County School District decided to provide an employee incentive to those schools whose achievement was above and beyond the average school. The Forrest County School District employees received this incentive payment based on the previous predetermined standards implemented by the State Legislature. The certified employees were required to sign a supplemental contract for this board approved/adopted incentive before the distribution of the payment.

Auditor’s Note #1: As noted in the criteria above, this incentive pay was for the 2021-2022 school year, but supplemental contracts were not signed until November 16, 2022, which was within the 2022-2023 school year. Therefore, there were no contracts in place before the performance of services. In the future, this type of incentive contract should be signed at the beginning of the school year in which the service is to be performed.

District's Response #2: The Forrest County School Board approved a Premium Pay Resolution for SROs on November 14, 2022, acknowledging and understanding *Mississippi House Bill 1427* and *Mississippi House Bill 1542*. The Mississippi Legislature required that the board approve the funding before payment was submitted to the district from the State for each SRO incentive. The Forrest County School District will strengthen controls and ensure compliance over incentive payments by requiring that incentives are contracted for prior to the date services are performed. The district will consult with the board attorney and the Mississippi Department of Education to ensure compliance with the law.

Auditor's Note #2: Although this was approved by the Board on November 14, 2022, there was no supplemental contract, agreements with personnel, nor at-will contracts within the school resource officer's personnel files for premium pay.

Repeat Finding: No.

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 37-61-9(1-3)*, "(1) On or before the fifteenth day of August of each year, the local school board of each school district, with the assistance of the superintendent of schools, shall prepare and file with the levying authority for the school district, as defined in Section 37-57-1, at least two (2) copies of a budget of estimated expenditures for the support, maintenance and operation of the public schools of the school district for the fiscal year commencing on July 1 of such year. Such budget shall be prepared on forms prescribed and provided by the State Auditor and shall contain such information as the State Auditor may require. (2) In addition, on or before the fifteenth day of August of each year, the local school board of each school district, with the assistance of the superintendent of schools, shall prepare and file with the State Department of Education such budgetary information as the State Board of Education may require. The State Board of Education shall prescribe and provide forms to each school district for this purpose. (3) Prior to the adoption of a budget pursuant to this section, the school board of each school district shall hold at least one (1) public hearing to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. The public hearing shall be held at least one (1) week prior to the adoption of the budget with advance notice. After final adoption of the budget, a synopsis of such budget in a form prescribed by the State Department of Audit shall be published in a newspaper having general circulation in the school district on a date different from the date on which the county or any municipality therein may publish its budget."

Section 37-61-19, "It shall be the duty of the superintendents of school and the school board 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 from a fund in excess of the resources available within that fund."

Applicable Administrative Guidance: *MDEAMSD, Section E, Budgeting, Budget Formats* states, "The budget formats which follow are to be prepared by each school district in formalizing its annual budget. These formats are prescribed by the Mississippi Department of Education. A separate budget is required for each individual fund within each generic fund type, except Trust Funds. As required by Section 37-61-9, Miss. Code Ann. (1972), the approved combined budget and combining budgets for each fund type are to be reflected in the board minutes or an addendum to the board minutes. The original and amended budgets shall be signed and dated by the board president and secretary. Signed copies of all approved budgets must be filed for safekeeping and audit review."

Finding Detail: During the review of District's budget expenditures for fiscal year 2023, the auditor noted the following exceptions:

- The original 2022-2023 budget included a fund reflecting a negative fund balance at year-end:
 - Fund 2619 (Special Ed, PL 94-142) – **(\$1,000)**;

- The District's actual expenditures for the following funds exceeded the budgeted expenditures in the combined amount of **\$217,870**:
 - Fund 1844 (16 Sect Int, T3N, R13W, 400LS) - **\$1,817**;
 - Fund 3021 (Building Project) - **\$216,053**;
- The following 17 funds were not budgeted for in fiscal year 2023 in the combined amount totaling **\$3,460,627**:
 - Fund 1120 (School Budget) – **\$206,770**;
 - Fund 1123 (Technology Replacement) - **\$49,182**;
 - Fund 1124 (Textbook) - **\$80,440**;
 - Fund 1126 (Special Maintenance) - **\$420,475**;
 - Fund 1131 (Special Education Project) - **\$153,868**;
 - Fund 2220 (Title I-A Basic FY 20) - **\$56**;
 - Fund 2221 (Title I-A Basic FY 21) - **\$34,650**;
 - Fund 2222 (Title I-A Basic FY 22) - **\$220,247**;
 - Fund 2223 (Title I-A Basic FY 23) - **\$989,242**;
 - Fund 2522 (Title II-A, IMP Teachers FY 22) - **\$2,546**;
 - Fund 2523 (Title II-A, IMP Teachers FY23) - **\$149,993**;
 - Fund 2563 (Title III - English Learners) - **\$12,804**;
 - Fund 2611 (Special Ed, PL 94-142, FY 21) - **\$18,872**;
 - Fund 2612 (Special Ed, PL 94-142, FY 22) - **\$193,193**;
 - Fund 2613 (Special Ed, PL 94-142, FY 23) - **\$649,888**;
 - Fund 2812 (Title IV – FY 22) - **\$74,853**;
 - Fund 2813 (Title IV - FY 23) - **\$38,155**; and
 - Fund 3462 (Capital Project NF Voc. Buildings) - **\$165,393**.

Failure for the District to ensure there are resources for all expenditures could result in deficit fund balances. Also, 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 ensure compliance by assuring all funds have available resources before expenditures are approved. Also, the District should implement sound budgeting practices that will prevent projected negative fund balances from being presented to the Board. A thorough review of such budgets should be made prior to presentation to the Board for approval.

District's Response: The **\$1,000** showing in 2619 is an entry error. This fund closed out in FY21; There were no expenditures in FY 22 or 23. This error was found and amended to zero on 11/02/2022. The other six funds were budgeting to actual expenditures on October 12, 2023. The report sent to the school board is showing the reporting accounts for those funds as listed below:

Fund 2220 is amended under its reporting account of 2211 on page 13.
Fund 2523 is amended under its reporting account of 2511 on page 15.
Fund 2563 is amended under its reporting account of 2560 on page 15.
Fund 2611 is amended under its reporting account of 2610 on page 21.
Fund 2813 is amended under its reporting account of 2811 on page 23.
Fund 3462 is amended under the same account number on page 27.

Repeat Finding: No.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Finding 3: The District Should Ensure Compliance with State Law Regarding 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... Furthermore, the minutes of the meeting should state the superintendent left the room before the matter came before the school board and did not return until after the vote.”

Section 37-9-17(1), “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 17-004-E*, provides that the superintendent may not recommend relatives within the first degree. Additionally, during the recommendation or rehire of relatives within the first degree, the Superintendent must recuse themselves from the meeting and this action must be spread upon the Board minutes.

Mississippi Ethics Opinion 21-033-E states, “While *Section 37-9-17, Miss. Code of 1972*, provides a “step-aside” provision allowing the school board’s designee to recommend the principal’s relatives, a violation of *Section 25-4-105(1)* is virtually inevitable when one relative directly supervises another relative and creates an appearance of impropriety in conflict with *Section 25-4-101*.”

Finding Detail: During the review of the District’s related party questionnaires and Board minutes, the auditor noted the following exceptions:

- The Superintendent’s son (certified teacher) was recommended for hire on April 11, 2022 and July 18, 2022; however, the Board minutes do not reflect who recommended him to the Board nor the recusal of the Superintendent during the recommendations; and
- One Principal has direct supervision over their daughter-in-law (certified teacher).

Failure to ensure the Board minutes reflect the recusal of the Superintendent during the recommendation of relatives within the first degree and the designee making the recommendation resulted in noncompliance with state law and regulations. Also, failure to ensure the principals do not supervise relatives within the first degree resulted in noncompliance.

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

District’s Response #1: The Superintendent will recuse himself for any votes regarding his son's employment. The minutes will reflect this in future.

District’s Response #2: The District will ensure that no Principal has direct supervision of his/her relative in the future.

Repeat Finding: No.

Finding 4: The District Should Ensure Compliance with State Law Regarding the Purchase of Real Property.

Applicable State Law: *Section 43-37-3(b)*, “Real property shall be appraised before the initiation of negotiations, except that the acquiring person, agency or other entity may adopt a procedure in compliance with federal regulations to waive the appraisal in cases involving the acquisition by sale or donation of property with a low fair market value. For the purposes

of this chapter, property with a low fair market value is property with a fair market value of Ten Thousand Dollars (\$10,000.00) or less. The owner or his designated representative shall be given an opportunity to accompany the appraiser during his inspection of the property.”

Section 37-7-301(aa), “To acquire in its own name by purchase all real property which shall be necessary and desirable in connection with the construction, renovation or improvement of any public school building or structure. Whenever the purchase price for such real property is greater than Fifty Thousand Dollars (\$50,000.00), the school board shall not purchase the property for an amount exceeding the fair market value of such property as determined by the average of at least two (2) independent appraisals by certified general appraisers licensed by the State of Mississippi....”

Finding Detail: During the review of the District’s expenditures, the auditor noted the District purchased real property totaling **\$21,033**; however, there was no appraisal obtained. Due to this, OSA could not determine if the property’s fair market value was in excess of **\$50,000**.

Failure to obtain an appraisal of the real property resulted in noncompliance with state law.

Recommendation: We recommend the District ensure compliance by assuring an appraisal is obtained of real property before the initiation of negotiations on the purchase of real property, as required by state law.

District’s Response: All future purchases of real property will follow *MS 43-37-3*.

Repeat Finding: No.

Finding 5: The District Should Ensure Compliance with State Law Regarding Merchant - Specific Credit Card Approval and Usage.

Applicable Administrative Guidance: *Mississippi Procurement Manual, Chapter 10, 10.112.03, Merchant-Specific Credit Cards* states, “Governing authorities desiring to obtain a merchant specific credit card shall submit to their governing board for approval, written justification for the need of a merchant specific credit card. Approval of such action shall be placed on the minutes of the board of the governing authority.”

Mississippi Office of Purchasing and Travel, State Procurement Card Guidelines, Section IX, Sign-In/Sign-Out Information states, “A Sign-In/Sign-Out form is used when you have a department card in your agency that is checked out periodically by several users. Each agency with this type of card should develop procedures for handling of such card.”

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

- The District did not approve nor have on file justification for its merchant - specific credit cards (Walmart and Lowes) for fiscal year 2023; and
- The District did not have a sign-in/sign-out sheet for the Walmart credit cards located at each school and within central office.

Failure to approve and maintain on file the justification for the use of merchant - specific credit cards resulted in noncompliance with state law and regulations.

Recommendation: We recommend the District ensure compliance by strengthening internal controls in obtaining, maintaining, and the usage of credit cards, as required by state law and regulations.

District’s Response: Based on your recommendation, the district has already developed and implemented a sign in/sign out sheet for our Walmart cards at all schools and the central office. Also, the district will obtain board approval for these accounts at our January or February Board meeting.

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*, “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(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. The commission shall enroll such assessment as a civil judgment with the circuit clerk in the delinquent filer’s county of residence. The commission may enforce the judgment for the benefit of the State General Fund for the support of the Mississippi Adequate Education Program in the same manner as is prescribed for other civil judgments.”

Finding Detail: During the review of the District’s SEIs, the auditor noted one Board Member had not filed a SEI by May 1st.

Failure to file a SEI 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 Board Members file their SEIs annually, no later than May 1st of each year that such official holds office, regardless of the duration, as required by state law.

District’s Response: The District will provide yearly training to ensure compliance with State Law as well as the technology necessary to complete the SEI. And will continue to send reminders and calendar updates for necessary deadlines.

Repeat Finding: No.

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

Applicable State Law: *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.”

Section 25-11-127(4)(a)(b), “The provisions of this section shall not be construed to prohibit any retiree, regardless of age, from being employed and drawing a retirement allowance either: (a) For a period of time not to exceed one-half ($\frac{1}{2}$) of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half ($\frac{1}{2}$) of the salary in effect for the position at the time of employment, or (b) For a period of time in any fiscal year sufficient in length to permit a retiree to earn not in excess of twenty-five percent (25%) of retiree's average compensation...”

Finding Detail: During the review of the District's Public Employees' Retirement System (PERS) Form 4Bs, the auditor noted the following exceptions:

- One retiree was paid more than the allowed salary by PERS, totaling **\$9,515**; and
- Five amended PERS Form 4Bs which included salary changes were not submitted to PERS .

Failure to have adequate internal controls regarding 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 amended Form 4Bs are submitted to PERS , as required by state law.

District's Response #1: As previously indicated, the district will adhere to PERS guidelines for completing reemployment paperwork.

District's Response #2: The salary increases for the 5 retirees were board approved as follows: 2 of the retirees received increases due to the MS Law Enforcement Premium Pay Program which was approved on November 14, 2022; 3 of the retirees received increases based on them meeting the qualifications for our Bus Driver Incentive Pay Plan which was approved on August 8, 2022. 1 retiree received an increase based upon her meeting the qualifications for our District Paid School Recognition program which was approved on November 14, 2022. Electronic copies of all minutes for 2022-23 were previously sent to you by Renee Jones. If you need the minutes for August 2, 2022 and November 14, 2022 to be sent again, please let me know.

Auditor's Note #2: PERS requires that all governing authorities have the responsibility to notify PERS of salary adjustments within five days. However, the District submitted its revised PERS Form 4Bs after year-end.

District's Response #3: The one retiree who received more than the amount allowed was notified by the District office and PERS numerous times. The District will continue to notify any employees who get close to their maximum salary allowed.

Repeat Finding: No.

Finding 8: 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), "(1) 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 (\$50,000.00), with sufficient surety, to be payable, conditioned and approved in the manner provided by law. (2) The school board may execute a blanket surety 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 (\$50,000.00), 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 37-9-27, “The superintendent of any school district, before entering upon the duties of his office, shall furnish a good and sufficient surety bond in the penal sum of One Hundred Thousand Dollars (\$100,000.00), ...”

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.”

Section 37-39-21, “The purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety.”

Applicable Administrative Decisions and Guidance: *MS AG Op., Lamar, Jr., at *1 and *2 (February 26, 2016)*. States in part: “...*1 Section 25-1-15 of the Mississippi Code provides for individual bonds or blanket bonds to be required by public officers. It does not specify which officers are required to obtain an individual bond as opposed to a blanket bond...
... *2 It should be noted that the blanket bond will list each position covered under the bond...”

School Board Policy: *Section D, Fiscal Management, Policy Code DJEA, Purchasing Authority*, provides the following:

““Purchasing agent” shall mean superintendent. Pursuant to the authority granted by Section 37-39-15, Mississippi Code 1972 as amended, this school board hereby designates other individuals as "purchasing agents" subject to the limitations set forth below.

In addition to the superintendent the school board hereby designates the financial assistant/purchasing agent and assistant business manager as "purchasing agents" with general authority to negotiate for and purchase the commodities and services necessary for the operation of the school district, within the limits of budget categories and purchasing law.

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

- The following individuals were covered by continuation certificates instead of official surety bonds:
 - Two Board Members;
 - One Purchasing Agent;
 - Superintendent;
 - Business Manager;
- Six principals were not bonded for fiscal year 2023;
- The District did not make a finding upon its Board minutes that the following employees jobs handling of cash is incidental to his or her employment, would be an occasional, not regularly occurring, handling of funds and do not require bonds:
 - Finance assistant;
 - Two administrative positions at Central Office;
 - Assistant to the Superintendent;
 - Payroll personnel;
 - Personnel/finance assistant;
 - Six bookkeepers;
 - 26 cafeteria managers/cafeteria cashiers;
 - 163 certified teachers; and
- The District's purchasing authority policy designates the superintendent as a purchasing agent; however, the Superintendent is not bonded as such.

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

Recommendation: We recommend the District ensure compliance by assuring all employees are sufficiently bonded, as required by state law and regulations.

District's Response: The district believes that the blanket bond we have in place adequately covers cafeteria managers, cafeteria cashiers and bookkeepers. The District believes that *Mississippi Code 25-1-12* eliminates the requirement for teachers to be bonded as gatekeepers. We find no requirement that this determination must be spread across the minutes. The crime policy on our principals has been cancelled and individual bonds have been issued. A Purchasing Agent bond has been issued for our Superintendent. The District will no longer use continuation bonds and will purchase new bonds as required every year.

Auditor Note: The District does have a blanket bond; however, this bond only lists the titles of the positions within the District. As noted in the *MS AG Op.*, a blanket bond must list the position and the individual the bond covers. Additionally, *OSA Circular No. 16 (effective July 1, 2021)* provides, "The governing authority should document the reasons, in its minutes, why the handling or having custody of public funds is considered to be incidental to the employment or job duties of the position."

Repeat Finding: No.

End of Report