

# Key Audit Compliance Issues



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## What Are the Audits Saying?

- OSA state legal compliance reports – on-line under Reports at - [www.osa.state.ms.us](http://www.osa.state.ms.us)

Use search tool for your school district

The report is intended solely for the information and use of management, individuals charges 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.

- Look at your annual audits too - Findings are the last pages of the report

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## Audit Programs

- State Legal Compliance Audit Program – on-line under Resources – Schools at - [www-osa.state.ms.us](http://www-osa.state.ms.us)

- Section of state statutes are listed
- Perform a self audit annually
- Initiate steps to implement internal controls
- Is revision of policies needed?
- Policy cannot supersede state or federal law



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**SCHOOL DEPOSITORIES AND SECURITIES TO BE DEPOSITED**  
Section 37-7-333.

A. Determine that the school district has advertised for bids for all of its depositories.

**NOTE: The school board may advertise and accept bids for depositories once every three (3) years when the board determines that it can obtain a more favorable rate of interest and less administrative processing.**

B. Determine if a bank submitted a bid, which if accepted, would have resulted in a contract in which a member of the school board had a direct or indirect interest. If such a bid was received, the school board should have not opened or considered any bids received. The superintendent of schools should have submitted the matter to the State Treasurer, who has the authority to solicit bids, select a depository or depositories, make all decisions and take any action within the authority of the school board under this section relating to the selection of a depository or depositories.

C. Ensure that the funds of the district are not deposited in banking institutions not chosen in the bid selection process.

D. Sections 27-105-5, 27-105-305 and 27-105-315.

1. Determine that the selected depositories are covered by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings & Loan Insurance Corporation (FSLIC).
2. Ensure that the amount on the State Treasurer's report by banking institution is sufficient to collateralize the remaining school district's bank balances.
3. Determine that the school district personnel has reviewed the state treasurer's report summarizing the collateralization of district funds to ensure proper reporting of each bank balance on deposit for all of the school district accounts.

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## Reporting of OSA Compliance Audit Findings

- **Deficiency in Internal Controls**

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.

- **Significant Deficiency**

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.

- **Material Weaknesses**

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.

- **Other Deficiencies**

Deficiencies in controls that we noted under this heading.

- **Instances of Noncompliance with State Law**

Noncompliance with state law that require the attention of management.



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## Fiduciary Responsibility

- Make sure you understand all findings and weaknesses that may appear in the report.
- Superintendent to address and follow through with any recommendations.
- Hold district staff accountable.
- Ensure that necessary policies and control procedures are in place to prevent fraud, waste and misappropriation.



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## Surety Bonds

- Board Members \$50,000 \*
- Superintendent \$100,000 \*
- Principals \$50,000
- Purchasing Agent \$50,000 \* - Board policy designates
  - \* Individual Bonds Required
- Must timely file with the Chancery Clerk



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## Surety Bonds - Policies

- BBBB – Board Members
- CED & CEM – Superintendent
- DH – All Bonded Employees
- DJEA – Designated Purchasing Agents



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## Purchasing

- Purchases not over \$5,000
    - No bid requirements
  - Purchases \$5,000 to not over \$50,000
    - At least two competitive bids
  - Purchases \$50,000 and over
    - Reverse Auction or Formal competitive bids
- “Lowest and Best”    “Fair and Competitive”



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## Purchasing

As Superintendent –

- Recommend signing all purchase orders and vouchers (all payments)
- Ask to be present at bid openings
- Communicate with Business Official
- Question single source and emergency purchases
- Review & sign all contracts to assure compliance
- Review all items presented for board approval



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## Purchasing

Construction Projects –

- Performance bonds required if over \$25,000
- Engineer or architect required if over \$100,000 with certificate of responsibility
- Ask to attend construction meetings
- Request construction updates at board meetings



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## Purchasing - Policies

- DJ – Expenditure of Funds
  - Purchasing
  - Authority
  - Procedures
  - Bids & Quotations
  - Purchase Orders & Contracts
  - Vendor Relations



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## Financial Statements

- Important monthly monitoring instrument
- Code Section 37-9-18 mandates minimum required financial reports
- Timely reporting
- Agenda item at regular meeting with discussion and included in the official minutes – Ask questions!
- Policy DIB
  
- Year-end financials completed before October 15



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## Financial Statements

- Cash reconciliations (within 30 days of receipt)
- Statement of cash flow by month
- Statement of revenue and expenditures
- Current budget status
- Current fund equity balances or balance sheet statement
  
- Claim docket



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## School Depositories & Securities

- Advertise at least once every three years
- Bid form and qualified depositories are on the State Treasurer website
- Special requirements if board member has direct or indirect interest with a bidding institution
- Assure only those depositories approved are used
- Assure funds are collateralized – annual public depository report to State Treasurer filed by July 31 after year end
- Policy DG & DJAA



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## Education Enhancement Funds

### Buses & Buildings –

- Spend only on buses or building repairs or pledged to pay off debt

### Teacher Supplies –

- Distribute procurement card to non-federally funded teachers, librarians and counselors
- Meet all distribution requirements
- Policy DJE



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## Sixteenth Section Funds

### Principal Funds -

- Funds must be invested
- No expenditures
- Verify borrowing of funds are for allowable purposes and 4% interest charged for not over 10 (buildings) or 20 (buses) years
- Verify annual repayments are made
- Share revenue with shared townships



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## Sixteenth Section Funds

### Interest Funds -

- Verify revenue from allowable sources are deposited in a timely manner
- Terminate lease that have defaulted over 60 days
- Expenditures for legal purposes
- All transfers are board approved
- Share revenue with shared townships



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## Sixteenth Section Funds

Shared Townships with Other School Districts –

- Revenues per township you manage should be shared by % of students living within the township
- Reduce amount shared by expenditures
- Share student lists with other districts you don't manage by December 31
- Pay other districts within the fiscal year



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## Sixteenth Section Funds

**Forestry Escrow Funds –**

- 15% of timber sales deposited
- Expenditures are forestry related
- Transfers must be approved by the MS Forestry Commission

Annual Sixteenth Section School Trust Report filed by September 15 with the Secretary of State



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## Unemployment Compensation Fund

Annual test for minimum balance in Fund 2820 -

- 2% of FICA wages up to \$6,000  
Most districts use W-2's

- Funds deposited in fund 2820 by June 30



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### Limitation on Ad Valorem Taxes

- Annual calculation with documentation
- Official request or resolution of dollars to taxing authority by August 15 (board approved)
- Advertisement (Notice of tax increase) if annual request increases up to 4% without reverse referendum – up to 55 mill cap
- Discuss at board work session and public hearing
- Policy DFA



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### Limitation on Ad Valorem Taxes

Year end calculation –

- Escrow funds and reserve on financial statements if **over**
- Consider shortfall loan if **under**  
Promissory note approved by board  
Shortfall loan annual payments part of request  
Annual P & I payments over 3 years



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### Budgeting

State Law – 37-61-19 -

- Can be held personally liable
- Expenditures for purposes not budgeted are illegal expenditures
- Limit expenditures to available resources
- No negative fund balances



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## Budgeting

- Original budget adopted by August 15
- Amended budget by October 15 after year end  
(all expenditures should be budgeted)
- All approved budgets become part of the board minutes
- Public hearing required at least on week before adoption
- Policy BCAE & DC



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## Investments

All funds should be invested and in legal instruments -

- Direct obligation issued by or guaranteed in full by the USA including –
  - Interest bearing checking or savings account
  - Certificate of deposits
  - Verify other instruments for legality
- Interest earned over \$100 per fund to be allocated to investing fund (pooled accounts)
- Policies DFL



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## Revenue Anticipation Notes

Tax Anticipation Notes (TAN) might be needed to meet November, December and/or January payroll and claims in anticipation of ad valorem taxes –

- Board resolution
- Limit on amount to borrow
- Repaid within 14 months
- Interest rate not to exceed 11%



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## Appropriate Coding for Expenditures

Verify correct coding to functions –

- 1000 - Instruction
- 2100 - Support Services - Student
- 2200 - Support Services - Instructional Staff
- 2300 - Support Services - General Administration
- 2400 - Support Services - School Administration
- 2500 - Support Services - Business
- 2600 - Support Services - Operation & Maintenance of Plant Services
- 2700 - Support Services - Student Transportation
- 2800 - Support Services - Central
- 3000 - Non-instructional Services
- 4000 - Sixteenth Section
- 5000 - Facilities Acquisition & Construction



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## Public Employees' Retirement System

Re-employment of PERS Retiree –

- Employee vs independent contractor
- Payroll to inquire and file PERS Form 4-B within five days of employment
- Verify all retiree wages do not exceed those allowed by law (on Form 4- B)



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## Scholarship Funds

According to the MS Attorney General Opinion 1980 WL 28797, there is no authority whereby the school board can administer a scholarship fund. Therefore, the school district may not maintain a scholarship fund composed of nonpublic funds.



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## Fringe Benefits

- School District cannot allow the use of school owned residential housing rent-free or less than value.
- Must be board approved.
- Fair market value of housing is taxable – to be included on employees W-2.



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## Fringe Benefits

- Non-compliance would include:
- Fringes not being recorded at Fair Market Value
  - Fringes not included on W-2s
  - Providing cellphone allowances
  - Allowing fuelman cards and car allowances



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## Procurement (Credit) Cards

- Approved district policies and procedures regarding the procurement cards.
- List of district's approvers of cards
- Sign in and out ledger
- List of authorized users of cards
- Tax free purchases
- Evidence of independent review
- Supporting documentation



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## Other Tests

- Expenditures & Travel
- Activity Funds
- Payroll & Personnel
- Statement of Economic Interest
- Related Parties
- Numbering of Minutes
- Board Attendance
- Internet Content Filters



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## Trends

- Fund Balance
- Ad Valorem
- Assessed values
- MAEP
- Enrollment
- Debt
- Projections and forecasts

Ask for history and look at changes from year to year



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## Red Flags



- Expenditures exceed budget on monthly statements
- % of salaries spent are inconsistent with budget
- Payments to employees or related parties
- Bank reconciliations not timely
- Deadlines not met
- Large budget revisions
- Tax Anticipation Notes needed every Nov - Jan
- 16<sup>th</sup> Section (Fund 1840 & 7211) expenditures
- Audit findings not corrected

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## Assurance of Stable Finances

- Adhere to policies and procedures
- Set the tone – lead by example
- Adequate separation of duties & review
- Proper authorization of transactions and activities
- Maintain adequate documents and records
- Physical control over assets and records
- Independent checks on performance
- Trained competent personnel
- Take needed action sooner than later
- Communicate
- Document, Document, Document
- Ask questions



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## QUESTIONS



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