

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Bossier Parish School Board
Benton, Louisiana

Caddo Parish School Board
Shreveport, Louisiana

March 29, 2000



Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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BOSSIER PARISH SCHOOL BOARD
Benton, Louisiana

CADDO PARISH SCHOOL BOARD
Shreveport, Louisiana

Dated February 18, 2000

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the offices of the parish clerks of court.

March 29, 2000

Bossier Parish School Board
Benton, Louisiana

Caddo Parish School Board
Shreveport, Louisiana

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DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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February 18, 2000

**MR. KENNETH KRUIHOF, ACTING
SUPERINTENDENT, AND SCHOOL BOARD MEMBERS
BOSSIER PARISH SCHOOL BOARD**
Benton, Louisiana

**MR. ROBERT SCHILLER, SUPERINTENDENT,
AND SCHOOL BOARD MEMBERS
CADDO PARISH SCHOOL BOARD**
Shreveport, Louisiana

We have performed a limited examination of the Bossier Educational Excellence Fund and Caddo Educational Excellence Fund. Our examinations were conducted in accordance with Title 24 of the Louisiana Revised Statutes and were performed to determine the propriety of the administration of the funds.

The accompanying report presents our findings and recommendations as well as responses from management of the Bossier Parish School Board and the Caddo Parish School Board. Copies of this report have been delivered to appropriate authorities as required by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ESS:GLM:GCA:lnl

CONCLUSIONS

BOSSIER EDUCATIONAL EXCELLENCE FUND (BEEF)

The following summarizes the findings that resulted from our visit to the Bossier Parish School Board on February 17, 2000, to determine the propriety of the administration of the Bossier Educational Excellence Fund.

The Findings and Recommendations section of this report provides details for these findings. Management's responses are included in Attachment I.

1. The school board violated state law by expending monies from the principal portion of the BEEF.
2. The school board invested the BEEF principal in certain securities in violation of state law.
3. Detailed information relating to the collection, investment, and individual schools' specific expenditures made are not adequately reported.

CADDO EDUCATIONAL EXCELLENCE FUND (CEEF)

The following summarizes the findings that resulted from our visit to the Caddo Parish School Board on February 18, 2000, to determine the propriety of the administration of the Caddo Educational Excellence Fund.

The Findings and Recommendations section of this report provides details for these findings. Management's responses are included in Attachment II.

1. The school board's transfer of CEEF earnings to the individual schools may violate state laws.
2. Certain Caddo Parish schools disbursed CEEF monies in violation of state law.
3. Detailed information relating to the collection, investment, and individual schools' specific expenditures made are not adequately reported.

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BACKGROUND

BOSSIER EDUCATIONAL EXCELLENCE FUND

The Bossier Educational Excellence Fund was initially set up in 1985, and represented revenue from the horse racing facility in Bossier Parish to be used exclusively for educational enhancements. In 1995, amendments were made to state law to earmark and set aside earnings on fees received from riverboat gaming conducted in Bossier Parish to also be used exclusively for educational enhancements. The Bossier Educational Excellence Fund is reported as a special revenue fund of the Bossier Parish School Board.

The school board receives a monthly check from the City of Bossier, Louisiana, representing its allocation of gaming fees from the Horseshoe Entertainment, Isle of Capri, and Casino Magic riverboats. The school board also receives periodic checks from Louisiana Downs, Inc., representing its allocation of horse racing facility revenues. At December 31, 1999, the Bossier Educational Excellence Fund totals \$3,918,697.

The Bossier Educational Excellence Fund committee receives input on the needs of the parish's students and schools and formulates recommendations to the school board for disbursement of the fund's investment earnings. The investment earnings for 1999 totaled \$255,138, and \$159,986, or 63%, will be allocated to the individual schools in 2000, based on a per-pupil allocation formula with a minimum dollar amount allocated per school. The remaining funds are designated for other specific school funding requests.

During the year, schools send requests for purchases and/or requests for reimbursements with invoices and supporting documentation to the Bossier Educational Excellence Fund committee chairman for his review and approval. The chairman monitors the spending and makes the final determination of whether the proposed expenditures are in compliance with state law. The chairman provides the school board's chief accountant a memorandum with supporting invoice(s) and documentation instructing the school board to disburse funds. All accounting records and supporting documentation is maintained at the school board office.

CADDO EDUCATIONAL EXCELLENCE FUND

The Caddo Educational Excellence Fund was created in 1995, as a permanent trust fund in which Caddo schools' share of riverboat gaming fees are deposited, invested, and earnings are set aside to be used exclusively for instructional enhancement. The Caddo Parish Educational Excellence Fund is reported as a nonexpendable trust fund of the Caddo Parish School Board.

The school board receives monthly checks from Harrah's Casino and Casino Magic representing their allocation of riverboat gaming fees. At December 31, 1999, the Caddo Educational Excellence Fund totals \$4,587,212.

The Caddo Educational Excellence Fund committee receives input on the needs of the parish's students and schools and formulates recommendations on disbursement of the fund's investment earnings. In 1999, 100% of the 1998 earnings (\$158,946) were distributed directly to the individual schools based upon the school's student population.

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Bossier/Caddo Parish School Boards

Shreveport, Louisiana
Background (Concluded)

The school board instructs the schools to spend the funds in accordance with state law and maintain the supporting documentation. Annually, the school board monitors expenditures by requiring each school principal to certify and return a form that reports total fund expenditures by category. However, detailed explanations and copies of supporting documentation are not submitted for review by the school board. Also, the school board's internal auditors perform a review of expenditures in connection with their school audits.

The 1999 investment earnings (\$207,658) were transferred on January 31, 2000, from the Caddo Educational Excellence Fund to the school board's general fund account. We were informed that the committee has not formulated its recommendation for the expenditure of these funds in 2000; therefore, the school board has not disbursed funds to the individual schools.

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METHODOLOGY

We visited the Bossier Parish School Board and Caddo Parish School Board on February 17, 2000, and February 18, 2000, respectively, to determine the propriety of the administration of the funds.

Our procedures consisted of the following: (1) examining selected school board records; (2) examining selected school records; (3) interviewing certain employees of the school board; (4) interviewing certain school employees; (5) reviewing applicable Louisiana laws and Attorney General opinions; and (6) making inquiries of other persons to the extent we considered necessary to achieve our purpose.

LEGISLATIVE AUDITOR

BOSSIER PARISH SCHOOL BOARD
Benton, Louisiana

FINDINGS AND RECOMMENDATIONS

BEEF Principal Expended

The school board violated state law by expending monies from the principal portion of the BEEF. Louisiana Revised Statute (R.S.) 17:408.2(C) prohibits the principal from being appropriated. In addition, the law requires principal to be only used for investment purposes.

The school board transferred \$2,050,000 of principal from the BEEF to the school board's general fund. These transfers were done as follows:

1. \$1,000,000 on November 19, 1999
2. \$1,000,000 on December 17, 1999
3. \$50,000 on December 20, 1999

The transfers are documented by two unsigned general fund promissory notes (\$1,000,000 and \$1,050,000) and three "fund transfer" requests issued to the bank and signed by the school board's director of finance. The director of finance informed us that the Bossier Parish School Board did not approve or take any official action relating to these principal transfers.

We were informed that these monies were used to pay for costs relating to the construction of Haughton Middle School. The BEEF principal amount of \$2,050,000, including interest of \$11,953, was repaid from the school board's general fund on January 14, 2000.

The school board should strictly comply with provisions of state law and not use the BEEF principal.

**Investments Do Not
Comply With State Law**

The school board invested the BEEF principal in certain securities in violation of state law. R.S. 17:408.2(B)(1) requires the school board to invest the fund principal only in direct obligations of the United States government and in time certificates of deposit of certain state and national banks.

Direct obligations include Treasury Bills, Treasury Notes, and Treasury Bonds in which the principal and interest are fully guaranteed by the government of the United States. At December 31, 1999, BEEF principal is invested in securities that are not direct obligations of the United States government as follows:

LEGISLATIVE AUDITOR

Bossier Parish School Board

Benton, Louisiana

Findings and Recommendations (Concluded)

1. \$2,000,000 in Federal National Mortgage Association Medium Term Note (FNMA)
2. \$1,471,406 in Federal Home Loan Mortgage Corporation Discount Note (FHLMC)

The school board should invest the BEEF principal only in direct obligations of the United States government and in time certificates of deposit of certain state and national banks.

Detailed Information for BEEF Not Adequately Reported

Detailed information relating to the collection, investment, and individual schools' specific expenditures made are not adequately reported. R.S 17:408.2 provides for the collection, investment, and disbursement of BEEF monies by the school board. Therefore, the school board has a fiduciary responsibility to properly report specifically how the funds are being administered.

Although the BEEF is reported as a special revenue fund in the school board's Comprehensive Annual Financial Report (CAFR), there is inadequate disclosure as to the individual schools' specific expenditures made (e.g., Benton High School – three Dell Computers \$3,125, etc.). Also, disclosures do not include specific information relating to the collection of the gaming fees (e.g., Isle of Capri - \$300,000, etc.). In addition, disclosures do not include specific information relating to the investment of the BEEF principal (e.g., \$3,000,000 United States Treasury Notes, etc.).

The school board should provide detailed information relating to the collection, investment, and individual schools' specific expenditures made. This can be accomplished by expanding the note disclosure in the notes to the financial statements (CAFR), or including the information in a supplemental schedule in the CAFR, or by issuing a separate report.

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CADDO PARISH SCHOOL BOARD
Shreveport, Louisiana

FINDINGS AND RECOMMENDATIONS

**CEEF Earnings Transferred
to Individual Schools**

The school board's transfer of CEEF earnings to the individual schools may violate state laws. R.S. 17:414.3(A) provides that money received from the state, city, or parish school system for support of the regular instructional program should not be included in the individual schools' funds. In addition, R.S. 17:408.1(C) requires all money withdrawn from the CEEF to be expended by the Caddo Parish School Board.

Annually, the school board transfers the CEEF investment earnings to the individual schools. The individual schools deposit the monies into their school fund account, disburse the monies, and maintain the supporting documentation.

The school board's current method of transferring CEEF earnings to individual schools for disbursement appears to contradict state laws. Therefore, the school board should consider either requesting a legal opinion from the Louisiana Attorney General or centralizing the CEEF disbursement function at the school board level.

Fund Expenditures

Certain Caddo Parish schools disbursed CEEF monies in violation of state law. R.S. 17:408.1(C) requires earnings from the fund to be disbursed only for the purposes of instructional enhancement. The law provides that such enhancement includes (1) materials and supplies, including computers and technological upgrades; (2) training for students, faculty, and administrators on the use of materials; (3) professional development of teachers; and (4) establishment of exemplary programs of instruction. In addition, the law prohibits costs for additional administrators, increases in salaries or benefits of employees, or maintenance or custodial costs.

We reviewed supporting documentation for CEEF expenditures made by eight of the 74 (10%) Caddo Parish schools for the period July 1, 1998, through December 31, 1999. We found that five of the schools expended CEEF monies in violation of state law. The following provides details of those expenditures violating state law:

LEGISLATIVE AUDITOR

Caddo Parish School Board
 Shreveport, Louisiana
 Findings and Recommendations (Continued)

<u>School</u>	<u>Payment Date</u>	<u>Payee</u>	<u>Amount</u>	<u>Purpose</u>
Vivian Elementary	May 26, 1999	Automated Business Concepts, Inc.	\$254.70	Copier rental/maintenance
	May 26, 1999	Danka	\$730.91	Copier Maintenance
	Aug. 17, 1999	Ricoh Corporation	\$521.99	Copier rental/Maintenance
	Sept. 9, 1999	Ricoh Corporation	\$178.00	Copier rental
	Sept. 14, 1999	Ricoh Corporation	\$306.62	Copier Maintenance
Caddo Middle Magnet	April 13, 1999	C.F. Briggs Company	\$2,568.31	Copier purchased
Northside Elementary	April 22, 1999	Minolta Business System	\$2,328.22	Copier purchased
Linwood Middle	April 19, 1999	Caddo Parish School Board	\$110.80	Overhead projection bulbs
Werner Park Elementary	Sept. 14, 1998	Sam's Club	\$1,019.98	Security system purchased
	Oct. 28, 1998	Exxis Security	\$227.68	Cable for security system
	March 2, 1999	Caddo Parish School Board	\$127.08	Installation of security system

Expenditures for (1) copier rental/maintenance costs; (2) the purchase of copiers; (3) overhead projection bulbs; and (4) security system equipment and installation costs are not for the purposes of instructional enhancement.

LEGISLATIVE AUDITOR

Caddo Parish School Board
Shreveport, Louisiana
Findings and Recommendations (Concluded)

The expenditures made in violation of law, by individual schools, emphasize the need for stronger controls over CEEF monies. The school board should implement stronger controls over CEEF monies by centralizing the disbursement functions at the school board level, as mentioned in the previous finding.

**Detailed Information for CEEF
Not Adequately Reported**

Detailed information relating to the collection, investment, and individual schools' specific expenditures made are not adequately reported. R.S 17:408.1 provides for the collection, investment, and disbursement of CEEF monies by the school board. Therefore, the school board has a fiduciary responsibility to properly report specifically how the funds are being administered.

Although the CEEF is reported as a nonexpendable trust fund in the school board's Comprehensive Annual Financial Report (CAFR), there is inadequate disclosure as to the individual schools' specific expenditures made (e.g., Fair Park High School – three Dell Computers \$3,125, etc.). Also, disclosures do not include specific information relating to the collection of the gaming fees (e.g., Harrah's - \$800,000, etc.). In addition, disclosures do not include specific information relating to the investment of the CEEF principal (e.g., \$3,000,000 Federal Home Loan Bank, etc.).

The school board should provide detailed information relating to the collection, investment, and individual schools' specific expenditures made. This can be accomplished by expanding the note disclosure in the notes to the financial statements (CAFR), or including the information in a supplemental schedule in the CAFR, or by issuing a separate report.

Attachment I

Management's Responses - Bossier Parish School Board



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BOSSIER PARISH SCHOOL BOARD

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Acting Superintendent

Julian Darby
President

March 17, 2000

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Vice President
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Elm Grove, LA 71051
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Dr. Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, LA 70804-9397

Mike Knotts
101 Woodcrest Drive
Haughton, LA 71037
District 2

Dear Dr. Kyle:

George C. Finck
167 Beaver Lane
Benton, LA 71006
District 3

Please consider this letter as our formal response to the Bossier Educational Excellence Fund (BEEF) limited examination findings and recommendations:

Vassie M. Richardson
P.O. Box 231
Plain Dealing, LA 71064
District 4

BEEF PRINCIPAL EXPENDED

Elizabeth S. Cassibry
2202 Landau Lane
Bossier City, LA 71111
District 5

The borrowed funds from the BEEF account were quickly repaid in full with interest within 56 days. At the time of the loan, property tax revenues, which would be used to make repayment, were anticipated for January collection. These revenues were received and repaid the BEEF fund with interest. A promissory note was drafted and interest was calculated using the Wall Street Journal Treasury bill rates for the date of the note. BEEF funds will not be transferred for any reason in the future.

John LeGrand, Jr.
2518 Benton Road
Bossier City, LA 71111
District 6

INVESTMENT DO NOT COMPLY WITH STATE LAW

J.W. Slack
2424 Douglas Drive
Bossier City, LA 71111
District 7

Jerry Osborne, Bonding Attorney for the Board, had advised the School Board that Federal National Mortgage Association and Federal Home Loan Mortgage Corporation investments were in compliance with the law. As per advice from the Legislative Auditor's office, we will only invest BEEF monies in Treasury Bills, Treasury Notes, and Treasury Bonds and time certificates of deposit of approved state and national banks.

Kenneth M. Wiggins
700 Shaver Street
Bossier City, LA 71111
District 8

DETAILED INFORMATION NOT ADEQUATELY REPORTED

Gloria Simison
316 Oliver Street
Bossier City, LA 71112
District 9

The information requested will be reported annually in the notes of the School Board's Comprehensive Annual Financial Report. This information will include details of revenue collected by source and amount, investment sources and earnings, and individual schools' specific expenditures.

Julian Darby
President
1130 Beverly Street
Bossier City, LA 71112
District 10

If we can provide additional information please let us know.

Gary Dowden
4003 Stuart Avenue
Bossier City, LA 71112
District 11

Sincerely,

Mack Knotts
5007 Kenilworth Drive
Bossier City, LA 71112
District 12


Kenneth N. Krulthof
Acting Superintendent

Attachment II

Management's Responses - Caddo Parish School Board



POST OFFICE BOX 32000
1961 MIDWAY STREET

ROBERT E. SCHILLER, Ed. D.
SUPERINTENDENT

CADDO PARISH SCHOOL BOARD

SHREVEPORT, LOUISIANA 71130 - 2000

March 10, 2000

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841 Wilton Place
Shreveport, LA 71107
District 2

Daniel G. Kyle, Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

The Caddo Parish School Board cannot provide a management response to the CEEF report until such time that the Attorney General, as requested by the Legislative Auditor, provides a definitive opinion regarding:

- Whether CEEF funds may be distributed to individual schools.
- A clear definition of "instructional enhancement."
- The level of detail required for reporting to the public of specific expenditures and investments.

I appreciate your attention to this matter.

Sincerely,

Robert E. Schiller, Ed.D.
Superintendent

RES:mt
48-00