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September 27, 2000

Daisy F. Slan, Ed.D
Superintendent of Schools
East Feliciana Parish School Board
Post Office Box 397
Clinton, Louisiana 70722

Dear Dr. Slan:

We have reviewed the application of sales taxes and ad valorem taxes dedicated for salaries for East Feliciana Parish School Board employees. Our review was for the period beginning July 1, 1987, through June 30, 2000. Although the dedicated sales taxes originated in 1967, we selected 1987 as the starting point for our review because that was the first school year in which dedicated ad valorem taxes for salaries were also received.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The school board receives a one percent sales tax which, at a minimum of one-half of the proceeds, must be used to pay teachers' salaries. This sales tax was last renewed for ten years effective July 1, 1997. The school board also receives a 17 mill ad valorem tax for the purpose of paying salaries of teachers and all other employees of the school district. This ad valorem tax was last renewed for ten years, beginning in 1997. Because there are different issues involved with these two taxes, we will address them separately in this letter.

Sales Taxes

We reviewed the schedule prepared by your staff for the period beginning July 1, 1991, and ending June 30, 2000. The schedule reports that sales taxes amounting to \$159,745 were collected in excess of the amount paid as salaries to teachers. Our calculations for the same period revealed that sales taxes amounting to \$16,461 were collected in excess of the amount paid as salaries to teachers. The difference of \$143,284 from the school board's schedule follows:

- The school board's schedule did not include \$45,000 each year for a \$1,200 annual increase for supervisors, coordinators, and administrators that was funded by sales taxes. This increase was effective for July 1, 1996, and accounts for \$180,000 of the difference.

- The remaining difference of (\$36,716) results from the school board using a rate for employee benefits that differed from the rate we used. For July 1, 1991, through June 30, 1995, the school board used 20% for employee benefits, whereas we used 17%-19%. The school board rate was estimated, whereas we used actual employer retirement contribution rates and actual workers' compensation rates. For July 1, 1996, through June 30, 2000, the school board used 17.3%-18.6%, whereas we used 16%-17%. The school board included costs for hospitalization insurance that do not increase as salaries increase.

We also reviewed sales taxes for the period July 1, 1987, through June 30, 1991. For this period, we determined that \$165,499 was paid to teachers in excess of sales tax collections. For the entire period of July 1, 1987, through June 30, 2000, we determined that \$149,038 was paid to teachers in excess of sales tax collections.

Ad Valorem Taxes

School board staff prepared a schedule of ad valorem tax collections and salaries paid from those collections for the period beginning July 1, 1987, through June 30, 2000. That schedule reports \$2,177,441 of undistributed ad valorem taxes. The school board's financial consultant updated that schedule to include teacher salary increases of \$700 for 1992-93, 1993-94, and 1995-96, that were purported to be paid from the dedicated ad valorem taxes. By including these salary increases on the schedule, the amount paid for salaries exceeded the ad valorem tax collections by \$986,909.

We reviewed the schedule prepared by your staff and found it to be accurate. However, the update prepared by the financial consultant raises a question as to whether the teacher salary increases of \$700 for 1992-93, 1993-94, and 1995-96 were paid from the dedicated ad valorem tax collections or state funds. In determining the answer to this question, we considered the following:

- The minutes from the salary committee for each proposed salary increase provide that the proposed salary increase was possible because the Minimum Foundation Program (MFP) funds increased from the previous year. The amounts of the increase in MFP funds stated in the minutes were \$340,328 for 1992-93; \$265,034 for 1993-94; and \$307,046 for 1995-96.

The September 30, 1993, salary committee meeting minutes state that Superintendent Spears checked with the Louisiana Department of Education who assured him that these funds (MFP) would be recurring on an annual basis unless the Louisiana Legislature made changes.

The July 17, 1995, salary committee meeting minutes state that the proposed salary increases would be approximately \$225,000 and Superintendent Spears said that \$225,000 in raises is as close as the school board should come to the MFP increase as there is always a possibility of a reduction in MFP funds.

There is no mention in the salary committee minutes about using sales tax or ad valorem tax monies to fund these salary increases.

- For two of the \$700 salary increases, the school board adopted the salary committee recommendations. For the other \$700 salary increase, the school board approved the recommendations of the salary committee in accordance with the Teachers' Salary Schedule.
- School board staff for each school year prepares salary schedules by updating the previous year's salary schedule for any changes in salaries that were approved by the school board. Salary schedules for these three school years included the \$700 salary increases; however, the source of funding as stated at the top of each salary schedule was from local funds.

Because salary schedules are prepared each year by updating the previous year's salary schedule, if a mistake is made it could be repeated each year. For example, teacher salary increases that were funded with MFP funds from 1996-97 through 1998-99 were reported erroneously on the salary schedules as being funded with local funds. This was subsequently corrected on the 2000-2001 salary schedules.

- The school board adopts the salary schedules and copies of the salary schedules are included in the minutes.
- The annual contract for teachers and other certified personnel states, "Salaries will be determined by highest degree held, number of years of creditable teaching experience, and the salary schedule in effect for the school year listed above."
- The dedicated ad valorem tax revenues were never analyzed as the basis of a salary increase, except for the first year of the tax (1987-88). Based on that analysis, it was determined that salaries paid exceeded the dedicated ad valorem tax revenue and salaries were reduced from 10% to 6.8% of the base salary of the 1988-89 salary schedule.

As one can see from the previous information, there are inconsistencies by the board in how the salary increases should be funded. The salary committee minutes indicate the salary increases are funded by state (MFP) funds and the salary schedules disclose that the salary increases are funded by local funds. To complicate matters, for two of the \$700 salary increases, the school board adopted the salary committee recommendations in one meeting and in another meeting approved the salary schedule. For the other \$700 salary increase, the school board approved the recommendations of the salary committee in accordance with the Teachers' Salary Schedule. Those same school board minutes even show more inconsistencies when the superintendent made comments that the overall rationale for the money (MFP) was to improve teachers' salaries.

We attempted to listen to the audiotapes of the board meetings relating to the teacher salary increases of \$700 for 1992-93, 1993-94, and 1995-96. However, those audiotapes were not available. We discussed the issues with the current school board superintendent, the current school board president, the school board's financial consultant, and the school board's independent auditor.

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We could find no compelling fact that would clearly determine if local or state funds were used for the salary increases. Because of the inconsistencies in both the school board minutes and documents, we are unable to determine the intent of the board as to whether local or state funds were used for the salary increases.

We suggest that future school board action be more definitive. Board actions should be clearly presented, accurately recorded in the minutes, and be consistent with the documents resulting from those board actions. All future salary increases should clearly identify the funding source. An accounting of all dedicated revenues for salaries should be presented to the board at least annually. Also, dedicated revenues should be analyzed to determine if funds are available before salary increases are proposed to the salary committee and to the school board for approval.

Copies of this letter have been delivered to the board members of the East Feliciana Parish School Board.

Sincerely,

A handwritten signature in black ink that reads "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK:GLM:lnl

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