

OUSD Audit Committee Handbook

Revision table

Draft .01	9.29.22	Chair put together 1st draft
Draft .02	1.31.23	Caroline L. added content

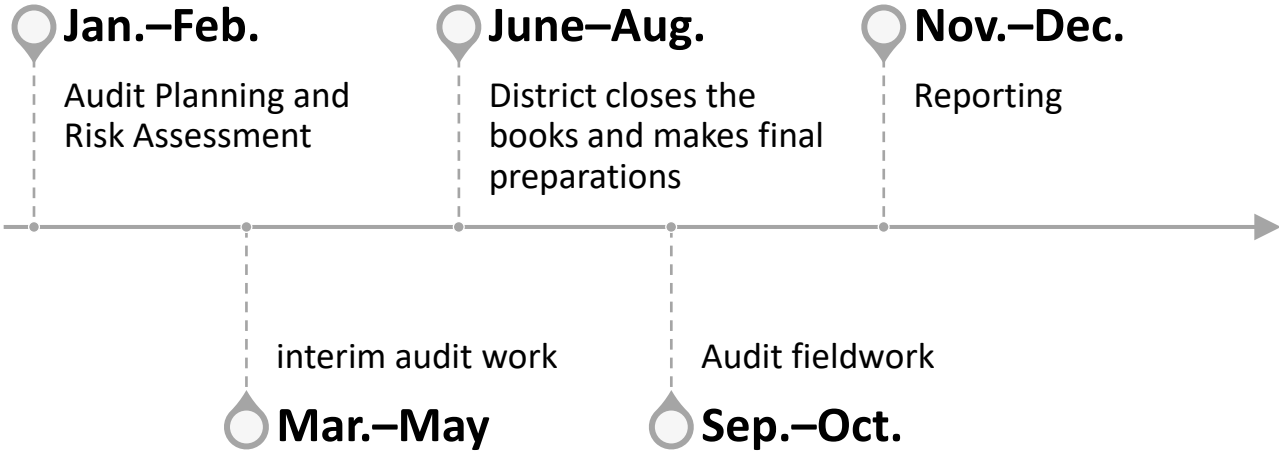
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Audit Committee basic Operations

- Meets monthly the first Monday of each month except July and August (unless rescheduled due to district holiday).
- Decisions are reached by a simple majority of those present.
- Quorum is a simple majority of total membership (i.e., 4).
- Committee is 7 members, 2 year terms, 6 year maximum.
- As a public committee it must comply with the Brown Act.
- Committee operates on a July to June fiscal year
- Expected time commitment approximately 30 hours annually.

Timing of Audit activities at OUSD



General Scope of 3rd party Audit:

- Audit of the District's financial statements
 - Do the financial statements comply with governmental accounting standards?
- Audit of Federal and State grant compliance
 - Are grant funds used for allowable activities?
- Reporting on identified internal control deficiencies, if any
 - *Government Auditing Standards* requires the auditor to report internal control deficiencies

Scope of Audit, roles and responsibilities:

3rd party Auditor's responsibilities

- Forming and expressing opinions based on the **results** of audit of the **financial statements**, and audit of **compliance**.

OUSD Management's responsibilities

- Completeness and accuracy of the financial statements, maintenance of internal control over financial reporting, and compliance with laws and regulations.

Sample Committee Agenda Timeline with relevant deadlines:

September	<ul style="list-style-type: none"> • Update on county and state response to Corrective Action Plan (CAP) • Review annual timeline with district staff
October	<ul style="list-style-type: none"> • Q&A on Unaudited Actuals (due to Board 9/15) <p>Committee members should watch Board and/or Budget and Finance Com meetings for presentation of Unaudited Actuals</p>
November	<ul style="list-style-type: none"> • Preliminary presentation by auditor • Begin draft Audit Com report to Board
December	<ul style="list-style-type: none"> • Final audit presentation (filing deadline with state is 12/15) • Finalize Audit Com report to Board <p>Notes: 1) report to board is only 'delivered' when it is included in Board's agenda and presented by Audit Com Chair to Board. Audit should be presented by auditor to Board no later than 1/31 and audit com report to Board should coincide</p> <p>2) Budget and Finance Committee members can be invited to Audit presentation and/or joint meeting can be scheduled.</p>
January	<ul style="list-style-type: none"> • Review audit process, timeline and scope for following year with the auditor • Review with the auditor the cooperation received from district • District staff update of audit findings tracker
February	<ul style="list-style-type: none"> • Review with the district's managers their perception of the independent auditors, any significant matters of concern arising from the audit, and the extent to which recommendations made by the independent auditors have been implemented
March	<ul style="list-style-type: none"> • Review draft CAP • Update audit findings tracker/potential presentation on a corrective action area
April	<ul style="list-style-type: none"> • Draft 2nd annual letter to Board
May	<ul style="list-style-type: none"> • Review final CAP (due in May) • Finalize 2nd annual letter to Board
June	<ul style="list-style-type: none"> • Committee elections

The Audit Committee's Authority:

The Audit Committee and its duties are established through a series of Administrative Regulations, Board Policies and Board Bylaws. Excerpts as follows but full documents can be found on OUSD website under "Board of Ed" and then "Board Policies"
<https://boepublic.ousd.org/Policies.aspx>)

AR 3460 [AR=Administrative Regulation]

The Superintendent or designee shall establish a timetable for the completion and review of the annual audit within the deadlines established by law.

The Superintendent or designee shall provide the necessary financial records and cooperate with the auditor selected by the Governing Board to ensure that the audit report contains all information required by law and the Governmental Accounting Standards Board (GASB).

The audit shall include an audit of income and expenditures by source of funds for all funds of the district, including the student body and cafeteria funds and accounts, state and federal grant funds, and any other funds under the control or jurisdiction of the district, as well as an audit of student attendance procedures. The audit shall also include a determination of whether LCFF funds were expended in accordance with the district's local control and accountability plan or an approved annual update of the plan. (Education Code 41020)

BP3460 (BP=Board Policy)

By April 1 of each year, the Board shall provide for an annual audit of the district's books and accounts. (Education Code 41020)

To conduct the audit, the Board shall select a certified public accountant or public accountant licensed by the State Board of Accountancy from among those deemed qualified by the State Controller. (Education Code 41020, 41020.5)

The Board shall not select any public accounting firm to provide audit services if the lead or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for the district in each of the **six previous fiscal years**. (Education Code 41020)

No later than December 15, the report of the audit for the preceding fiscal year shall be filed with the County Superintendent, the CDE, and the State Controller. (Education Code 41020)

Prior to December 15 whenever possible, but in no case later than January 31, the Board shall review, at an open meeting, the annual district audit for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor, and any description of correction or plans to correct any exceptions or any issue raised in a management letter. (Education Code 41020.3)

The Board shall have an opportunity at the meeting to ask questions of the auditor and request further information about the audit findings.

Audit Committee

The Board may appoint an audit committee composed of staff knowledgeable about fiscal matters, other staff, and representatives of the community.

(cf. 1220 - Citizen Advisory Committees)

(cf. 9130 - Board Committees)

(cf. 9140 - Board Representatives)

The committee shall serve in an advisory capacity and may:

1. Make recommendations regarding the selection of the external independent auditor in accordance with Education Code 41020 and 41020.5
2. Review the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit
3. Review the results of the audit and participate with the independent auditor and management in preparing final recommendations and responses
4. Participate with the independent auditor in presenting the audit report to the Board
5. Review Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting
6. Provide input on the effectiveness of the independent auditor
7. Periodically report to the Board regarding the status of previous audit recommendations for improving the accounting and internal control systems

BB9131 (BB=Board Bylaw)

Unless otherwise specified, the attendance requirement for each body shall provide that if a member misses two consecutive meetings without a valid excuse, as determined by the body, the member shall be considered to have resigned.

Unless otherwise specified, **the term of a member, shall be for a two-year period.** Fifty percent of the members are to be appointed each year. In instances where all committee members are appointed simultaneously, the minority of members shall be appointed to one- year terms, and the majority of members shall be appointed to two-year terms.

Terms of members shall be limited to a total of six years or three full terms. Members are eligible for re-appointment after one year off the committee or commission.

All committees and commissions, unless otherwise specified, shall use the July-to-June fiscal years. All committees and commissions shall be in recess during the month of July.

Each committee and commission shall elect a chairperson, vice-chairperson, and secretary.

Written minutes shall be kept of all meetings held and shall record attendance and recommendations made. Copies of un-adopted minutes shall be forwarded to the Board and to the Superintendent within ten days after each meeting. Adopted minutes shall be made available to the public by posting on the OUSD website.

Copies of all recommendations shall be forwarded by separate letter to the Board and to the Superintendent within ten days after the meeting at which the recommendations were adopted by the committee.

The **quorum for each meeting shall be fifty percent plus one** of the membership. There shall be no proxy votes.

All committees and commissions shall comply with the provisions of the Brown Act (Government Code 54950-54961).

Audit Committee Responsibilities:

Date created: December 13, 2006; Board Policy 3461 and revised ???2021? and approved by board.

Purpose: The responsibilities of the Audit Committee shall include but not be limited to the following:

- (1) Recommend to the Board for approval the independent auditors.
- (2) Review the independent audit engagement including the fee, scope, and timing of the audit, and any other services to be rendered, including non-audit services.
- (3) Review with the independent auditor's district policies and procedures regarding internal auditing and internal accounting and financial controls.
- (4) Upon completion of their audit, review with the independent auditors the cooperation they received from district personnel during the audit, the extent to which district resources could be used to minimize the time spent on the audit, and any significant matters of concern arising from the audit.
- (5) Review with the independent auditors any significant transactions which are not a normal part of the district's business, any changes in accounting principles and practices, all significant proposed audit adjustments, and any recommendations that they may have for improving internal controls, choice of accounting principles or management systems.
- (6) Review with the district's financial and accounting policies regarding internal accounting and financial controls.
- (7) Review and recommend district policies to the Board to prohibit unethical, questionable, or illegal activities by district employees.
- (8) Review with the internal auditor the organization and independence of the internal audit function; the goals and plans of internal audit including the nature and extent of work; problems and experiences in completing internal audits; and findings, conclusions, and recommendations as a result of internal audits.
- (9) Upon completion of the independent audit, review with the district's financial and accounting managers their perception of the independent auditors, any significant matters of concern arising from the audit, and the extent to which recommendations made by the independent auditors have been implemented.
- (10) Prepare semi-annual written reports to the Board relating the results of committee activities.

The Board of Education may provide written guidance to the Committee on an annual basis regarding those areas on which the Audit Committee should focus.

Number of Members: Seven (7). Effective July 1, 2022, the number of members of the Committee shall increase from five (5) to (7). At least three members shall possess expertise in internal and/or external audits, and/or management of a public school system.

Brown Act highlights for Audit Committee

A more thorough summary can be found here: <https://firstamendmentcoalition.org/facs-brown-act-primer/>

The following are an extremely brief list of Brown Act requirements that impact the Audit Committee. Audit committee members should familiarize themselves with the Act.

1. Meeting agenda must be posted 72 hours in advance (there are some very specific and limited exceptions which are not likely to apply).
2. All meetings of the Audit Committee must be open and public.
3. A meeting is any gathering of a majority of the members. A majority of the Audit Committee (currently 7 members) is 4 members.
4. A conversation between 2 members is not a meeting, but if it is forwarded to other members it becomes a serial meeting which is by definition a meeting. E.g., an email exchange between two members forwarded to a third is a meeting.
5. Meetings must allow for both general public comments and public comments specific to each agenda item.
6. The committee can not discuss or take action on any item that is not posted on the agenda. Exceptions: a member may briefly reply to a public comment (as long as it is brief and it can not become a dialogue), a member or staff can report briefly on their own activities, a member can ask staff to report on a topic on a subsequent meeting.
7. Any written material provided to a majority of the members must be provided to the public without delay.
8. Closed sessions (sessions closed to the public) can only be for extremely limited circumstances none of which apply to the audit committee given the current scope of duties prescribed by the Board of Education.

Example letter to Board of Education from April 5, 2021

Board of Trustees
Oakland Unified School District
1000 Broadway, Ste 300
Oakland, CA 94607

Re: Board Bylaw 9131, Section 3, Report of Audit Committee to the Oakland Unified School District Board of Trustees (Trustees)

Dear Trustees,

The Audit Committee (Committee) is pleased to present its findings, recommendations and the results of its activities for the calendar year 2020. We are pleased to report that we have 2 new members and that all Committee positions are filled. We meet the first Monday of every month except holidays and during the summer.

We have reviewed the June 30, 2020 Annual Financial Report in detail with the external auditor, Eide Bailly, and with the chief business officer (CBO), Lisa Grant Dawson. It is disconcerting that most of the fifteen audit findings are repeat findings (attachment 1) related to insufficient internal controls. Lack of internal controls is, in some instances, a material weakness that could result in material misstatement of financial reports and financial risk. The Committee appreciates the candid discussions with the CBO during the year regarding challenges faced by the district in addressing the audit findings and the timing for correcting those findings. The Committee is cautiously optimistic that progress is being made on clearing some of the findings as indicated in corrective action plans included in the Annual Financial Report as well as the hiring of Directors of Payroll and Budget and Finance. Some of the corrective action plans included in the 2020 Annual Financial Report are appreciably more detailed than prior years and include updates to processes and policies. The committee recommends that a written plan with a timeline for resolving the audit findings be presented and updated as a standing agenda item in its monthly meetings to facilitate the monitoring of the district management's actions taken to resolve findings.

However, the number of repeat audit findings related to insufficient oversight and/or lack of enforcement of an existing policy where the planned corrective action by the district was and continues to be to revise and/or implement procedures and yet the finding has existed for several years continues to raise concern about the ultimate resolution of the findings. Resolution of some findings may involve cooperation across multiple sites and functions, systems updates, policy updates, Trustee policy revisions, negotiations with third parties. The focus of the Committee is to become aligned on the prioritization, track progress on the steps required to

resolve the finding and hold the district accountable for the progress made towards its objectives. The Committee would like to emphasize that accountability must start with the Trustees, the Committee and all levels of management.

We would also like to make sure the Trustees are aware that audit finding 2019-004 and 2019-008 relate to issues with vendor selection and documentation of adherence to either Board of Trustees or federal policy. The Trustees are required to approve certain contracts and the committee recommends that as part of that approval process the Trustees confirm that vendors were selected in accordance with district and/or federal policy. Again, the Board of Trustees must hold the district accountable.

The Committee commends the district on maintaining a healthy unrestricted reserve above 3%. An adequate reserve has been an historical issue and it's something the Committee uses as a barometer of the financial health of the district. This reserve amount speaks to the strength of the budgeting, reporting and financial planning process. The Trustees resolved (1819-0144) to maintain a 3% reserve, refund anything in excess of that to school sites in 2019-20, and use conservative revenue projections. The committee recommends that the Trustees continue to make public resolutions with recommended reserve targets particularly if the Trustee's recommendation is to exceed the state requirement. The general fund reserves at June 30, 2020 were 4.34%.

We would also note that the only finding that results in a qualified opinion of the actual presentation of the financials is the lack of accounting for the associated student body (ASB) accounts. School sites need ways to manage cash from candy grams, school dances, yearbooks etc. and many sites use an OUSD 'doing business as' (DBA) account for this purpose. The district is to be commended for implementing a new system to manage these accounts and the audit committee appreciates that ASB accounts typically result in audit findings across multiple districts and will continue to be an audit finding until all schools have adopted this system for a full year.

Earlier in 2020, in compliance with Board Policy 3461, the committee reviewed and made comments on the audit Request for Proposal (RFP). Whether its officially part of the documented audit engagement or not the Trustees and the District should understand that the Audit Committee needs unfettered access to the external auditor.

For 2021, in addition to the standard review of the audited financial statements, the committee intends to review and recommend possible updates to its duties as articulated in BB9131/BP3461, a list created approximately 15 years ago. Also, in accordance with the policy the committee hereby requests written guidance from the Trustees on recommended focus areas for 2021.

Additionally, we appreciate CBO, Lisa Grant Dawson's patience with a mostly new committee and her assistance in informing the Committee on the challenges the district faces, her regular attendance at our meetings, her willingness to answer questions, and her succinct and relevant reporting to our committee. It is a welcome change. We also appreciate the value of her time and will work whenever possible to condense our meetings or combine them with the Trustee's

finance meetings and/or attend budget and finance presentations to the Board of Trustees so that she does not have to duplicate her efforts.

Finally, the Committee wishes to recognize and commend Director Williams for his enthusiastic support of the Committee and his consistent participation in our meetings. Through his leadership and commitment, this will indeed be the year when the Audit Committee and the Board of Education establish a strong and very beneficial working relationship for the well-being of the students, teachers, and citizens of the Oakland Unified School District.

Respectfully, the Audit Committee

Example of tracking Audit findings for monthly follow up with OUSD Management

	Audit Year					Audit Finding Description	Views of Responsible Officials Planned Corrective Action Summary 2020	Targeted Resolution status update
	2016	2017	2018	2019	2020			
	x	x	x	x	x	2020-001 Associated Student Body (ASB) Accounts auditable summary lacking and therefore ASB accounts are not included in the financial accounts. Material weakness in internal control.	ASB Works, an ASB accounting system, is being rolled out and training scheduled for February 2021.	2022
	x					Fiduciary Funds not timely reconciled		
			x	x	x	2020-002 Documentation to support payroll reported to pension providers lacking in 67 out of total sample of 89. Significant deficiency in internal control.	A designated area of focus by district management. Resolution requires both systems changes and procedural changes followed by training.	Change implementation started in Sept 2020.
		x				Cafeteria cash receipts lack internal controls		
		x				Cash disbursements/accounts payable lack internal controls		
	x	x				CDE form for highly qualified teachers not used		
						2020-003 Vacation Reserves - documentation to verify vacation usage lacking which impacts accrued vacation on separation which could lead to eventual payouts in excess of what was earned. Material weakness in internal control.	Leadership team is revising procedures.	
			x	x		Worker classification documentation establishing employee vs contractor status lacking.		
			x	x		2020-004 Documentation to support vendor selection is pursuant to District policy lacking. Significant deficiency in internal control.	District is developing new procedures which may result in recommendation to board for revised purchasing policies.	
	x		x	x	x	2020-005 Health Benefits Governance Board (HBGB) formula used to calculate the District's obligation to fund health and welfare benefits lacks clarity and differing interpretations result in substantially different outcomes. Material weakness in internal control.	HBGB negotiations in progress.	
			x	x	x	2020-006, 2019-007 Audit adjustments. 2019 Health and Welfare benefits were incorrectly charged resulting in an audit adjustment. 2020 Building Fund expense charged to current year due to late receipt of invoice should have been recorded in prior year in accordance with generally accepted accounting principals (GAAP). Significant deficiency in internal control.	Accounting controls and procedures will be part of training.	
				x	x	2020-007 Documentation required to support employee time allocation for federal programs is insufficient. Material weakness in internal control.	Procedure implementation began January 2021.	2022
	x	x	x	x	x	2020-008 Evidence that vendors for child nutrition and food service programs were selected according to Uniform Guidance is lacking. Material weakness in internal control.	Procedures being centralized under Director of Transportation and Purchasing.	
					x	2020-009 Students incorrectly identified as qualifying for free or reduced price meals. Material weakness in internal control.	Technology staff to work with child nutrition staff to ensure documentation is complete, reviewed and reconciled.	
		x	x		x	Title 1 student/teacher ratio failed at one school (2018) and six schools (2019).		
			x	x		2020-010 Program attendance for afterschool 21st Century grant insignificantly overstated (2020), not accurate (2018), poorly maintained (2017). Significant deficiency in internal control.	Federal and State compliance department to develop procedures.	
	x	x	x		x	2020-011 Funds spent on early intervention services for special education should be tracked separately from other special education services. Material weakness in internal control.	TBD	
		x				Time and effort documentation lacking.		
	x	x				No plan for spending 3.5M from CDE for educator effectiveness.		
						2020-012 Average daily attendance (ADA) would have been overstated but for an audit adjustment. There is a known glitch in the attendance system that requires a technology fix. There are policies in place to manually correct these errors, but processes and policies to ensure that the corrections are made at secondary sites need to be enforced.	Policies and procedures will be revised as identified.	
		x	x	x	x	2020-013 School accountability report card - failure to adequately track/publish complaints.	Central office staff are developing procedures.	
					x	2020-014 School accountability report card - failure to provide an adequate facility inspection tool or equivalent to document conditions reported in facilities for 11 out of 18 sites sampled.	Identified by district as a gap in assignment and will take corrective action.	
			x	x		Minimal Instructional minute requirement not met for one or more schools in one or more grades		
						2020-015 Unduplicated local control funding formula (LCFF) pupil count audit sample incorrectly classified one English learner (EL) and two free or reduced price meal (FRPM), one EL (2019) and FRPM (2018). Internal control process has inadequate monitoring.	District to review assignments and data validation procedures.	
Total Findings	9	12	14	13	15			

Purpose of tracking sheet: drive accountability while providing public with context on resolution timelines and OUSD actions.

Audit committee works with Business and Operation Management within OUSD to track progress. OUSD representative has access to and is prepared to report any new progress or updates at monthly meetings.

Key Terms and Abbreviations

Terms of Audit report and ratings:

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a **material weakness**, yet important enough to merit attention by those charged with governance.

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 **material weakness** is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

Terms of District Financials:

(ADA), Average Daily Attendance

ADA vs Enrollment: Average Daily Attendance (ADA) is the result of a formula that considers student enrollment at different periods during the school year. Enrollment is the number of students that are actually in attendance on any given day, month or other period. ADA is always lower than student enrollment and is the primary factor utilized in determining the revenue limit calculation.

Restricted funds come from other state and federal sources and are available for use only within the programs and purposes for which they are granted.

Restricted vs. Unrestricted Funds: Unrestricted funds are generated primarily by the Base Revenue Limit calculation and are available for the general and discretionary needs of the district. Restricted funds come from other state and federal sources and are available for use only within the programs and purposes for which they are granted, for example textbook funds. Restricted and unrestricted funds together make up the total general fund, but the flexibility afforded by the two different types of funding is very different.

General Fund: The General Fund is typically the largest and most active of the funds. The General Fund includes both a restricted and unrestricted portion. We often refer to the General Fund unrestricted as the "fund of last resort" because it is where most of the district's discretionary

dollars reside. The majority of all salaries and benefits, on average approximately 84% of the district's expenditures, reside in the General Fund.

Ongoing vs. One-Time Money: Ongoing dollars are those that continue over time such as revenue limit dollars. One-time money can only be received and spent once such as block grants, income from an insurance settlement, etc. Fund balances are an example of one-time money.

Reserves: Reserves are one-time only funds held by a school district. They can have many different components, including the legally required reserve for economic uncertainty or a board designated reserve – funds set-aside by a Board for a specific purpose.

CalPERS: California Public Employees' Retirement System

CalSTRS: California State Teachers' Retirement System