

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURES B AND J REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES**

for the year ended June 30, 2015

Nano Accountancy Corporation

**OAKLAND UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDITS OF
BOND MEASURES B AND J REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES
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Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting
Certified Public Accountants

Report of Independent Auditors on the Financial Audit

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

Report on the Financial Schedule

We have audited the accompanying Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2015, and the related notes (the “financial schedule”).

Management’s Responsibility for the Financial Schedule

Management is responsible for the preparation and fair presentation of this financial schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial schedule that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on this financial schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OUSD’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the combined Bond Measures B and J revenues, expenditures and changes in fund balances for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial schedule as a whole. The combined supplementary schedule of Bond Measures B and J expenditures by project is presented for purposes of additional analysis and is not a required part of the financial schedule. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial schedule. The information has been subjected to the auditing procedures applied in the audit of the financial schedule and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial schedule or to the financial schedule themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial schedule as a whole.

Relationship of Bond Measures B and J Revenues and Expenditures to Total OUSD Revenues and Expenditures

We draw attention to Note 2 of the financial schedule, which describes that the accompanying financial schedule presents only the revenues and expenditures of Bond Measures B and J activities and is not intended to present a complete presentation of the revenues and expenditures of the OUSD for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016 on our consideration of the OUSD's internal control over financial reporting pertaining to Bond Measures B and J, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters pertaining to Bond Measures B and J. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance pertaining to Bond Measures B and J. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance.



Oakland, California
April 25, 2016

**OAKLAND UNIFIED SCHOOL DISTRICT
 COMBINED SCHEDULE OF BOND MEASURES B AND J
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 for the year ended June 30, 2015**

| | <u>Measure B</u> | <u>Measure J</u> | <u>Total</u> |
|-------------------------------------------------|---------------------|----------------------|----------------------|
| Revenues: | | | |
| Interest earnings on unexpended proceeds | <u>199,274</u> | <u>159,040</u> | <u>358,314</u> |
| Expenditures: | | | |
| Project expenditures | 6,731,297 | 37,767,475 | 44,498,772 |
| District staff costs and program consultants | <u>410,026</u> | <u>9,064,792</u> | <u>9,474,818</u> |
| Total expenditures | <u>7,141,323</u> | <u>46,832,267</u> | <u>53,973,590</u> |
| Deficiency of expenditures over revenues | (6,942,049) | (46,673,227) | (53,615,276) |
| Fund balances | | | |
| Beginning of the year | <u>12,104,037</u> | <u>110,991,863</u> | <u>123,095,900</u> |
| End of the year | <u>\$ 5,161,988</u> | <u>\$ 64,318,636</u> | <u>\$ 69,480,624</u> |

See accompanying notes.

OAKLAND UNIFIED SCHOOL DISTRICT
NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
for the year ended June 30, 2015

1. Description of Reporting Entity

The voters of Oakland, California passed School Facilities Bond of 2006 and School Facilities Bond of 2013 (also known as “Measure B” and “Measure J”, respectively) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278. Measures B and J authorized the issuance of up to \$435,000,000 and \$475,000,000, respectively, of bonds. The following excerpts from Measures B and J summarize the purposes of the bonds:

Measure B

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

Measure J

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial schedule presents only the revenues and expenditures of Measure B and Measure J activities and is not intended to be a complete presentation of the revenues and expenditures of the Oakland Unified School District (“OUSD”).

Special revenue funds (governmental funds) are used by the OUSD to report Measure B and Measure J activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

OAKLAND UNIFIED SCHOOL DISTRICT
NOTES TO COMBINED SCHEDULE OF BOND MEASURES B AND J
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, Continued
for the year ended June 30, 2015

2. Summary of Significant Accounting Policies, Continued

Basis of Accounting

Measure B and Measure J activities are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when “susceptible to accrual” (i.e., when they become both measurable and available). “Measurable” means that the amount of the transaction can be determined and “available” means that revenues are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Expenditures for Capital Assets

Expenditures for capital assets are treated as current-year expenditures under modified accrual accounting.

Use of Estimates

The preparation of financial schedule requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

3. Contingencies

OUSD receives a number of claims from contractors for extra work, loss of efficiency, acceleration or work and delay. The OUSD intends to vigorously defend these claims. Even in the event of unfavorable outcomes, OUSD management believes that such unfavorable outcomes will not have a material impact on the financial schedule.

4. Subsequent Events

All subsequent events have been evaluated through April 25, 2016, the date that the financial schedule was available to be published.

**OAKLAND UNIFIED SCHOOL DISTRICT
COMBINED SUPPLEMENTARY SCHEDULE OF BOND
MEASURES B AND J EXPENDITURES BY PROJECT
for the year ended June 30, 2015**

| Site | Project | Expenditures | | |
|-----------------------------------------------|--------------------------------------|--------------|------------|------------|
| | | Measure B | Measure J | Total |
| Project expenditures: | | | | |
| Projects in pre-design: | | | | |
| Fremont High School | Replacement | - | 75,569 | 75,569 |
| Hillcrest Elementary | Finishing Kitchen Upgrade | - | 92,245 | 92,245 |
| Kaiser Elementary | Finishing Kitchen Upgrade | - | 88,503 | 88,503 |
| Laurel Elementary | Finishing Kitchen Upgrade | - | 98,255 | 98,255 |
| Manzanita | Kindergarten Play Area Improvement | - | 6,600 | 6,600 |
| Piedmont Elementary | Finishing Kitchen Upgrade | - | 78,197 | 78,197 |
| Total projects in pre-design | | - | 439,369 | 439,369 |
| Projects in design: | | | | |
| Allendale | Allendale Fire Alarm Replacement | 57,826 | - | 57,826 |
| Burbank Preschool Center | Paving | - | 86,013 | 86,013 |
| Central Commissary | Central Commissary @ Foster E.S. | - | - | - |
| Edna Brewer | Fire Alarm Design | 33,200 | - | 33,200 |
| Far West High School | Fire and Intrusion Alarm Replacement | 29,595 | - | 29,595 |
| Fruitvale Elementary | Restroom Renovation | - | - | 59,506 |
| Fruitvale Elementary | Paving | - | - | 132,933 |
| Glenview | Renovation/Replacement | - | 989,224 | 989,224 |
| Grass Valley | CDC Fire Alarm Replacement | 9,876 | - | 9,876 |
| Joaquin Miller | Fire Alarm Replacement | 34,580 | - | 34,580 |
| Laurel Elementary | Intrusion Alarm | 11,988 | - | 11,988 |
| Madison Middle School | Expansion | - | 654,119 | 654,119 |
| Parker Elementary | Turf Field Replacement | - | 29,635 | 29,635 |
| The Center | Central Commissary @ Foster E.S. | - | 3,813,535 | 3,813,535 |
| Washington Elementary | Expansion | - | 36,356 | 36,356 |
| Webster & Lockwood | Student Restroom Renovation | - | 96,710 | 96,710 |
| Total projects in design | | 205,587 | 5,898,031 | 6,103,618 |
| Projects under construction: | | | | |
| 955 High Street | 955 High Street Paving | - | 881,920 | 881,920 |
| Allendale, Garfield, Maxwell | Restroom | - | 60,943 | 60,943 |
| Bella Vista | Fire Alarm Replacement | 116,957 | - | 116,957 |
| California Solar Initiative | California Solar Initiative | - | 18,061,414 | 18,061,414 |
| Elmhurst Elementary | Paving | - | 1,295,490 | 1,295,490 |
| Elmhurst Middle | Restroom Renovation | - | 132,751 | 132,751 |
| Page subtotal for projects under construction | | 116,957 | 20,432,518 | 20,549,475 |

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2015**

| Site | Project | Expenditures | | |
|-------------------------------------------------------|--------------------------------------|--------------|---------------|---------------|
| | | Measure B | Measure J | Total |
| Project expenditures, continued: | | | | |
| Projects under construction sub-total balance forward | | \$ 116,957 | \$ 20,432,518 | \$ 20,549,475 |
| Fruitvale Elementary | Bleachers/Restroom | - | 376,484 | 376,484 |
| Joaquin Miller Elementary | Play Structure Surface Replacement | - | 80,917 | 80,917 |
| Lafayette | Fire Alarm Replacement | 229,632 | - | 229,632 |
| Oak International High | Turf Replacement | - | 374,130 | 374,130 |
| Oak Tech/Far West/- | Restroom | - | 127,141 | 127,141 |
| Roosvelt/Piedmont | | - | - | - |
| Proposition 39 | Energy Planning Service w/Retrofit | - | 368,925 | 368,925 |
| Skyline High School | Turf Field Replacement | - | 238,532 | 238,532 |
| Sobrante Park Elementary | Restroom Renovation | - | 38,350 | 38,350 |
| Piedmont Avenue Elementary | Fire and Intrusion Alarm Replacement | 265,809 | - | 265,809 |
| Technology Services | Common Core | - | 2,495,705 | 2,495,705 |
| Technology Services | E-Rate Facilities | - | 1,917,965 | 1,917,965 |
| Whitter | Modernization | - | 3,445,215 | 3,445,215 |
| Various Sites | Portables Demolition | - | 880,599 | 880,599 |
| Total projects under construction | | 612,398 | 30,776,481 | 31,388,879 |
| Projects completed: | | | | |
| Arroyo Viejo | CDC Replacement | 24,331 | - | 24,331 |
| Aspire | Roof & Gutter Replacement | 12,225 | - | 12,225 |
| Calvin Simmons | Improvements and Career Tech Lab | 415,944 | - | 415,944 |
| Cox Elementary | Additional Classroom | 201 | - | 201 |
| Downtown Educational Complex | New Educational Complex | 2,102,450 | - | 2,102,450 |
| Emerson Elementary | Modernization | 12,933 | - | 12,933 |
| Havenscourt Middle | New Classroom and Cafeteria | 31,321 | - | 31,321 |
| Highland | Portable Replacement | 14,744 | - | 14,744 |
| King Estates | Seismic | 13,459 | - | 13,459 |
| Lowell Middle | Modernization | 60,719 | - | 60,719 |
| Madison Middle | Interim Housing Portables | 120,740 | - | 120,740 |
| Madison Middle | Interim Housing Portables | - | - | - |
| | Phase II | 339,995 | - | 339,995 |
| McClymonds | Intrusion Alarm | 1,710,485 | - | 1,710,485 |
| McClymonds | Small Schools | 17,668 | - | 17,668 |
| Melrose Middle School | Roofing | - | 169,593 | 169,593 |
| Page subtotal for projects completed | | 4,877,215 | 169,593 | 5,046,808 |

**OAKLAND UNIFIED SCHOOL DISTRICT
SUPPLEMENTARY SCHEDULE OF BOND MEASURE B
EXPENDITURES BY PROJECT, Continued
for the year ended June 30, 2015**

| <u>Site</u> | <u>Project</u> | <u>Expenditures</u> | | |
|----------------------------------|----------------------------------------------|---------------------|------------------|---------------|
| | | <u>Measure B</u> | <u>Measure J</u> | <u>Total</u> |
| Project expenditures, continued: | | | | |
| | Projects completed sub-total balance forward | \$ 4,877,215 | \$ 169,593 | \$ 5,046,808 |
| Montclair | New Classroom | 496,536 | - | 496,536 |
| Montera | Modernization | 6,683 | - | 6,683 |
| Montera | Gym Retrofit | 3,489 | - | 3,489 |
| Oakland Tech | Retrofit | 2,984 | - | 2,984 |
| Oakland Tech | Scaffolding | 37,178 | - | 37,178 |
| Piedmont | Library and Science Room | | | |
| | Modernization | 1,600 | - | 1,600 |
| Prescott Small Schools | Small Schools (PLACE) | 1,736 | - | 1,736 |
| Ralph Bunche | Portable install | | | |
| Rusdale | Rusdale HS Roofing | - | 213,142 | 213,142 |
| Thornhill | Roofing | - | 270,859 | 270,859 |
| Washington | Interim Housing | 9,882 | - | 9,882 |
| Washington | Interim Housing Phase II | 237,066 | - | 237,066 |
| Washington | Samll Schools | 50,174 | - | 50,174 |
| Whittier | Interim Housing Portable | 12,190 | - | 12,190 |
| Whittier | Portable Installation Phase II | | | |
| | | 162,767 | - | 162,767 |
| | Total projects completed | 5,913,312 | 653,594 | 6,566,906 |
| | Total project expenditures | 6,731,297 | 37,767,475 | 44,498,772 |
| Other Measure B expenditures: | | | | |
| | District staff | 53,530 | 2,339,447 | 2,392,977 |
| | Consultants and professional services | 356,496 | 6,725,345 | 7,081,841 |
| | Total other expenditures | 410,026 | 9,064,792 | 9,474,818 |
| | Total expenditures | \$ 7,141,323 | \$ 46,832,267 | \$ 53,973,590 |

Nano Accountancy Corporation

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Schedule Performed in Accordance with *Government Auditing Standards*

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances (the “financial schedule”), funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2015, and have issued our report thereon dated April 25, 2016, which included an explanatory paragraph describing the basis of accounting and the presentation of the financial schedule. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OUSD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions ^{in 31} on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OUSD’s internal control. Accordingly, we do not express an opinion on the effectiveness of OUSD’s internal control.

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, 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 *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and other matters, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OUSD's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Yano Accountancy Corporation

Oakland, California
April 25, 2016

Nano Accountancy Corporation

Litigation and Financial Consulting • Forensic Accounting
Certified Public Accountants

Report of Independent Auditors on the Performance Audit

Honorable Members of the Board of Education
and Members of the Measure “B” and “J” Independent
Citizens’ School Facilities Bond Oversight Committee
Oakland Unified School District
Oakland, California

We have audited the Combined Schedule of Bond Measures B and J Revenues, Expenditures and Changes in Fund Balances, funds of the Oakland Unified School District (“OUSD”), for the year ended June 30, 2015, and have issued our report thereon dated April 25, 2016, which included explanatory paragraphs on supplementary information and the basis of accounting and the presentation of the financial schedule. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016 on our consideration of the OUSD’s internal control over financial reporting as it pertains to OUSD and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

We also have performed a performance audit of the expenditures of bond proceeds from Measures B and J for the year ended June 30, 2015. OUSD management is responsible for ensuring that bond proceeds from Bond Measures B and J, including related earnings on unexpended bond proceeds, are accounted for and expended only in accordance with the proposition approved by the voters. OUSD management is also responsible for establishing and maintaining adequate internal controls over Measure B bond proceeds and expenditures to ensure that bond proceeds are accounted for and expended only in accordance with the proposition approved by the voters. Our responsibility is to perform an audit to evaluate the OUSD’s: 1) compliance with Measure B to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background, and Scope, Objectives and Methodology

Measure B legislation requires "...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed in..." Exhibit A. Measure J legislation requires "...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List."

The Appendix includes relevant background information, and the scope, objectives and methodology to achieve the performance audit requirements of the Measure B and Measure J legislation.

Performance Audit Findings

We had no findings this year that required responses from OUSD management.

Conclusion

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We have evaluated the OUSD's: 1) compliance to ensure that Measure B bond proceeds have been expended only on the school facilities projects specified in the Measure B and Measure J legislation; and 2) internal controls over compliance with these relevant laws, regulations and contractual provisions.

Purpose of this Report

The purpose of this performance audit report is solely to ensure that bond proceeds have been expended only on the school facilities projects approved by Measures B and J legislation, and the results of that testing, and not to provide an opinion on the effectiveness of the OUSD's internal control over ensuring compliance with Measures B and J expenditure limitations. Accordingly, this performance audit report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Yano Accountancy Corporation". The signature is written in a cursive, flowing style.

Oakland, California
April 25, 2016

**OAKLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF PERFORMANCE AUDIT FINDINGS
June 30, 2015**

FINDINGS IN WHICH VIEWS OF THE OUSD MANAGEMENT WERE REQUESTED

We had no findings this year in which the views of OUSD management were requested.

FINDINGS THAT DO NOT REQUIRE THE VIEWS OF THE OUSD MANAGEMENT

The evaluation of the OUSD's procurement policies and procedures during the performance audit for the year ended June 30, 2010 by other auditors included a determination that such policies and procedures complied with state laws. Accordingly, our procedures focused on the OUSD's compliance with its policies and procedures, and internal controls to facilitate continued compliance.

Our procedures in the following areas did not identify any noncompliance, and no deficiencies in internal control, that we consider significant in the context of our audit objectives. Because we tested less than 100% of transactions, we may not detect all instances of noncompliance or deficiencies in internal control that are significant to the audit objectives.

- Our non-labor testing included all new construction contracts of \geq \$15,000. Our evaluation of the bids disclosed no instances of noncompliance with the OUSD policies, and found that all contracts were awarded to the lowest responsible and responsive bidder. In addition, we found that the Board approved all contracts and change orders.
- Our testing of non-labor expenditures included ten different non-construction contracts. We found no instances of non-compliance with the OUSD procurement policies and procedures.

**OAKLAND UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINANCIAL
AND PERFORMANCE AUDIT RECOMMENDATIONS**

As part of our financial and performance audit performed in accordance with generally accepted government auditing standards, we followed up on recommendations included the performance and fiscal audit for the year ended June 30, 2014.

Recommendation 2014-01 OUSD management should ensure that prior- and current-year interest income on unexpended bond proceeds is properly credited to Measures A and C, Measure B and Measure J, as appropriate. OUSD also should ensure that all future interest income is allocated on a timely basis (i.e., promptly after receiving the interest income from the County).

Views of OUSD Management We agree with the finding, and have recorded the required adjustments to the financial statements and underlying books and records.

Current Status OUSD has implemented all corrective actions to ensure that interest income is credited to the applicable unexpended bond proceeds.

Auditor Comment We proposed no adjustments to recorded interest income by bond measure for the year ended June 30, 2015.

Recommendation 2014-02 OUSD should continue to monitor its compliance with AR 3314.

Views of OUSD Management We agree with the finding. The auditors have noted that all 19 construction invoices tested after December 31, 2013 were paid within 30 days as required by AR 3314. We believe we now are in full compliance.

Current Status As noted above, the auditors have noted that all 19 construction invoices tested after December 31, 2013 were paid within 30 days as required by AR 3314. We believe we now are in full compliance.

Auditor Comment We observed no late payments of invoices tested during the year ended June 30, 2015.

OAKLAND UNIFIED SCHOOL DISTRICT
MEASURES B AND J PERFORMANCE AUDIT
BACKGROUND, AND OBJECTIVES, SCOPE AND METHODOLOGY

Appendix

BACKGROUND

The voters of Oakland, California passed School Facilities Bond of 2006 (also known as “Measure B”) and School Facilities Bond of 2012 (also known as “Measure J”) pursuant to Articles XIII-A(b)(3) and XVI(b) of the California Constitution and Education Code Section 15278, authorizing the issuance of up to \$435,000,000 of Measure B bonds and \$475,000,000 of Measure J bonds for school renovation, modernization and new construction. The following excerpts from Measures B and J summarize the purposes of the bonds:

Measure B

“...To repair and modernize elementary, middle and high schools and pre-schools, including renovating classrooms, restrooms and other facilities to meet current safety standards, and repairing electrical, plumbing and other building systems; and to build libraries, classrooms, and science and computer labs ...”

Measure J

“...To improve the quality of Oakland schools and school facilities to better prepare students for college and jobs, to upgrade science labs, classrooms, computers and technology, improve student safety and security, repair bathrooms, electrical systems, plumbing and sewer lines, improve energy efficiency and earthquake safety...”

Performance Audit Requirements

Measure B legislation requires “...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed in...” Exhibit A.” Measure J legislation requires “...an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List.”

We performed our performance audit for the year ended June 30, 2015 to comply with the Measure B and Measure J performance audit requirements in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Role of the Independent Citizens’ Oversight committee

Measures B and J require establishment of an independent Citizens’ Oversight committee (“Oversight Committee”) “...to ensure bond proceeds are spent only for the school facilities projects listed...” Our performance and fiscal audit report assists the Oversight Committee in accomplishing its mandated responsibilities.

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Use of Bond Proceeds

Measure B Bond proceeds have been expended on 133 different school renovation, modernization and new construction projects. Of the 133 projects, 4 are in pre-design, 22 are in design, 3 are in construction and 104 projects are complete.

Measure J Bond proceeds have been expended on 39 different school renovation, modernization and new construction projects. Of the 39 projects, 10 are in pre-design, 9 are in design, 16 are in construction and 4 projects are complete.

In addition to amounts expended on specific projects, Measure B and Measure J bond proceeds have been expended on District staff and consultants whose activities directly support the renovation, modernization and construction efforts.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objectives and scope of our performance audit of the Bond Measures B and J renovation, modernization, and building program were to: 1) obtain reasonable assurance on whether proceeds, including interest on unexpended proceeds, from Measures B and J were expended only for purposes described in the bond measures; 2) assess the OUSD's Measures B and J procurement policies and procedures for compliance with California law; 3) assess the adequacy of internal controls over Measures B and J procurement, change orders and invoice review and approval processes; 4) assess that adequate controls are in place for timely payment of bond program obligations; and 5) identify alternatives that could achieve Bond Program goals and objectives more effectively and efficiently. Our performance audit only addressed matters relating to the OUSD's Measures B and J expenditures for the fiscal year ended June 30, 2015 and does not extend to any financial or performance audit reports pertaining to other the OUSD funds or programs, or to the OUSD taken as a whole.

The following methodology was used to accomplish our performance audit objectives:

1. Met with the OUSD Measures B and J Program officials to obtain an understanding of the Measures B and J renovation, modernization and construction program, including policies and procedures for project management, procurement, change orders, prevailing wage compliance monitoring, and invoice processing.
2. Evaluated the OUSD's policies, procedures for Measures B and J projects procurement, change orders and invoice processing, and related internal controls, to determine whether policies and procedures were consistent with applicable California laws and Measure B provisions.
3. Evaluated internal controls over Measures B and J procurement, change orders and invoice processing to assess their ability to provide reasonable assurance of compliance with the applicable California laws and Measures B and J provisions.
4. Evaluated high-dollar expenditures, plus a random sample of all other expenditures for the year ended June 30, 2015 to obtain reasonable assurance on whether those expenditures were made only for purposes described in the bond, for valid obligations, and in accordance with contract provisions.

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5. Verified that the OUSD had a program to monitor contractor compliance with State prevailing wage requirements.

In addition, we conducted a financial audit of the Combined Schedule of Measures B and J Revenues and Expenditures for the year ended June 30, 2015. We conducted this financial audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In accordance with generally accepted government auditing standards, we considered the results of previously issued reports, including follow-up on prior year performance and fiscal audit recommendations.

Selection of Expenditures for Testing

OUSD management provided us with a database of expenditures, which we reconciled to total reported Measures B and J expenditures of \$5,976,031 and \$46,832,267, respectively. We analyzed the database of expenditures to achieve a testing strategy that would test 100% of the high-dollar expenditures (either individually or cumulatively) and test a representative sample of all other expenditures.

Non-Labor

All non-labor was treated as one pool for testing purposes, since substantially all expenditures could be funded by either Measure B or Measure J proceeds. The following summarizes the non-labor pool:

| | Number of Items | Total Dollar Amount |
|----------------------------------------|--------------------|------------------------|
| High-dollar expenditures | 32 | \$ 30,511,654 |
| Items subject to random sampling | 1,228 | 21,053,811 |
| Low dollar items excluded from testing | 215 | 15,148 |
| Net zero items | 61 | - |
| Grand total | 1,536 | \$ 51,580,613 |

Expenditures on 33 line items totaled 30,511,654, or 59% of total non-labor expenditures charged to Measures B and J. We tested 100% of these items. We used computer-based monetary unit sampling (“MUS”), a type of random sampling frequently used in both financial and performance audits, to select 30 additional non-labor items for testing.

We excluded the following from non-labor testing: 1) 61 line items with net dollar amount of zero; 2) 215 line items which totaled \$15,149.

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Labor

All labor was treated as one pool for testing purposes. The following summarizes labor expenditures by employee group, and includes total benefits:

| | Number of Employees | Total Dollar Amount |
|------------------------------------------------|------------------------|------------------------|
| Full-time | 20 | \$1,534,028 |
| Budget office (partial allocation) | 2 | 64,374 |
| Others with occassional charges | 79 | 71,347 |
| Total labor | 101 | 1,669,749 |
| Benefits | | 723,228 |
| Total labor and benefits | 101 | \$ 2,392,977 |
| Benefits as a percentage of total labor | | 43.31% |

We confirmed that the 20 full-time employees were actually resident at the High Street facilities location. We also confirmed three employees' job classifications and monthly salaries to the School Board-approved salary schedule.

We analyzed benefits by type (for example, pension contribution, payroll taxes, etc.) as a percentage of labor (for all but health and welfare) and by headcount (for health and welfare, as these expenses are more dependent on the employees' existence as OUSD employees instead of their salaries).