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OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

BOARD OF EDUCATION 2010

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November 15, 2010

Board of Education
Honorable Gary Yee, President
Oakland Unified School District
1025 2nd Avenue, Suite 320
Oakland, CA 94606-2212

Dear President Yee and Members, Board of Education:

Re: Annual Report of the Internal Auditor and Audit Committee

The Board of Education requested the Internal Auditor, working in conjunction with the Audit Committee, to prepare an annual report summarizing the:

- Work performed during 2009-10, and the status of completion of the approved Internal Audit Work Plan
- Major Internal Control issues noted and recommended corrective action
- 2010-11 Work Plan reviewed and approved by the Audit Committee

The Board also asked the Internal Auditor to report on:

- Any restrictions on his independence, and
- Any audit scope limitations, such as limitations in obtaining documentation.

Attached is the Annual Report for 2009-10. It includes as attachments:

- 2010-11 Internal Audit Work Plan
- BP 3461, which governs the operations of the Audit Committee, and
- BP 3462, which describes the role of Internal Audit.

During 2009-10, the Internal Auditor emphasized reviews of the recording of attendance and cash handling at school sites, including Associated Student Body procedures. For attendance reporting, staff reviewed and reported on procedures at 34 sites, where Internal Control weaknesses were discussed with Principals, Office Managers and Attendance Clerks, who agreed to take corrective action.

Other areas reviewed during 2009-10 included Payroll, Leaves, Mandated Cost Recovery, time recording in Supplemental Educational Services and district compliance with prevailing wage statutes. The Audit Committee and Internal Auditor believe that, working cooperatively with the Superintendent, Deputy Superintendents and staff, the district will continue to identify and correct internal control weaknesses.

The district committed to provide assistance to the State Controller's Office (SCO) auditors in their review of OUSD's 2007-08 Federal & State compliance, plus follow-up prior audit findings. The Internal Auditor, as liaison between the SCO and district staff, provided approximately 600 hours' work on this assignment between June 1 and October 30, 2010. District staff provided excellent assistance in response to numerous SCO requests for documentation.

Working with OUSD's attorneys from Olson, Hagel & Fish burn, LLP, Internal Audit helped coordinate the district's preparation to challenge four SCO audit findings from 2006-07 before the Education Audit Appeals Panel (EAAP). Potential loss of apportionment revenues totaled almost \$2 million. On October 13, the SCO's attorney offered a confidential settlement for three of the four claims on terms favorable to the district. The remaining audit finding, the district's allegedly exceeding the permitted Administrator: Teacher ratio, is expected to be heard before the EAAP in January 2011. The Internal Auditor is most appreciative for the dedication of district staff in preparing for the EAAP appeal.

Internal Audit has recommended eight major areas for review during 2010-11. In terms of relative risk, he recommends most emphasis be given to payroll, leaves, attendance reporting and cash handling. Other recommended areas for review are after school tutoring programs, procurement and special education. The Audit Committee and Internal Auditor welcome input from Board members in recommending areas of district operations for possible audit.

We request your favorable consideration of this first Internal Audit Annual Report.

Respectfully yours,

Audit Committee
s/Alice Spearman, Chair
s/Ian Marsh
Internal Auditor



OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

Ian L. Marsh, CPA
Internal Auditor

November 3, 2010

Board of Education
Tony Smith – Superintendent
Vernon Hal – Deputy Superintendent

Internal Audit – Annual Report – FY 2009-10

November 3, 2010

Board of Education
Tony Smith – Superintendent
Deputy Superintendent – Vernon Hal

Re: Internal Audit – Annual Report – FY 2009-10

Introduction

I appreciate the opportunity to report to the Audit Committee of the Board, the Superintendent and Deputy Superintendent on the activities of Internal Audit during the past 12 months and to discuss Internal Control and other issues which may be of interest.

The majority of audits approved in Internal Audit's 2009-10 work plan were completed, and those which were not are included in the 2010-11 work plan. Audits were conducted in accordance with generally accepted government auditing standards.

At the beginning of FY 2009-10, in consultation with the Superintendent, I identified three major challenges for Internal Audit, and the planned actions to successfully address them. I believe all have been accomplished:

Major Challenges Facing District	Planned Actions – Internal Audit
Parents, employees and the community at large should be aware the OUSD is a responsible steward of the funds entrusted to it.	To achieve the above and to reduce the number of reportable audit exceptions, Internal Audit should work with Fiscal Services, Information Technology, State & Federal Compliance, Payroll, HR and other departments to identify and correct errors and exceptions, where they exist, and strengthen Internal Controls District-wide.
Apportionment revenues from attendance are critical to the financial stability of the OUSD.	Working collaboratively with the Chief Services Officer, Information Technology, Fiscal Services and other departments to help protect its major revenue source, Internal Audit should take a leadership role to help reduce exceptions in the reporting of attendance by school sites.
Accurate and complete employee time certification records are critical to funding for categorical programs.	Working collaboratively with State and Federal Categorical Programs, Internal Audit should document procedures, review Internal Controls and help ensure time certification records for Federal and State compliance are accurate.

I would like to express my appreciation to the Audit Committee for its support and acknowledge the assistance of district staff in the performance of the Internal Audit's reviews of district operations.

I welcome the Board's review of Internal Audit's draft 2010-11 work plan, which was approved by the Audit Committee, and would be pleased to answer any questions about my work, the district's Internal Controls and other pertinent matters.

Respectfully submitted,

IAN L. MARSH, CPA
Internal Auditor

Summary of Major Findings and Recommended Actions

1. Attendance

Internal Audit reviewed procedures and prepared reports for 34 sites. Part of this work included CALPADS reporting, newly mandated by the California Department of Education. Where weaknesses were identified, these were discussed with attendance office staff and Principals, plus the recommended changes to strengthen procedures.

As you know, apportionment revenues are based on Average Daily Attendance. The district filed on time for the three major reporting periods, P-1, P-2 and P-Annual, for attendance through December 11, 2009; April 2, 2010; and June 17, 2010 respectively.

Given the importance of apportionment revenues, the OUSD should take seriously the accurate and prompt reporting of attendance. Weekly during most of 2009-10, a group including staff from Information Technology, Research & Assessment, Family & Community Office, Fiscal Services, Attend & Achieve, Internal Audit plus the Chief Services Officer met to discuss attendance data quality issues. On-going training and a certification program were offered for Attendance Office staff. A help desk answers technical questions from schools.

Internal Audit was a member of the Truancy Task Force, which included several district staff and community members. Special attention was given to reducing truancy and students with poor attendance. At the beginning of the 2009-10 school year, Principals were provided with names of returning students who had previous attendance problems. Precinct walks and home visits were made at various sites during 2008-09, although not during 2009-10. SART and SARB procedures were used at many sites, although some were inconsistent in their application of these procedures and the District Attorney's resources are limited.

Internal Control weaknesses noted by Internal Audit in attendance reporting and recommended actions previously reported to the Audit Committee follow:

- 1.1 **All-day code in AERIES not entered consistently.** At sites which report period attendance, specifically middle- and high schools, an absence code must be entered daily by the attendance clerk in what is called the all-day field, otherwise the AERIES system considers the student present and apportionment credit is claimed.

Recommended action: For recording period attendance, attendance office staff shall enter applicable AERIES codes daily in the all-day field.

- 1.2 **Unverified absences not always cleared promptly.** It is OUSD policy to clear Code A or "unverified" absences within 72 hours. During 2008-09, nearly 50 per cent of all absences were reported as "Code A." Attendance office staff frequently reports that they either cannot reach parents or guardians to determine the cause of absences, or they don't have the time to call. This weakness comes into focus especially for truant students.

Recommended action: Attendance office staff shall clear unverified absences in accordance with OUSD policy. Internal Audit shall continue to review AERIES to ensure this is done.

1.3 Teachers not signing weekly attendance reports. AERIES produces a weekly summary of attendance, which must be signed and dated by teachers, per Ed Code.

Recommended action: If teachers fail to sign and date weekly attendance reports as required by Ed Code, this shall be documented for disciplinary action.

1.4 Independent study contracts incomplete, non-compliant. Internal Audit noted that Independent Study contracts are frequently missing required signatures, dates and work samples.

Recommended action: Attendance Clerks and Principals shall be fully compliant with Independent Study documentation requirements.

1.5 Not all teachers are using the AERIES Browser Interface (ABI).

Internal Audit noted that use of ABI by teachers is considered voluntary at some sites.

Recommended action: Principals should be reminded the use of ABI is mandatory, and continued use of “bubbling” and Scantrons results in duplication of work.

Willful non-compliance shall be documented for disciplinary action.

1.6 Each school site should have a trained attendance clerk. Given the importance of accurately recording attendance, there is funding for an attendance clerk at all sites for FY 2010-11. Previously, this was optional.

Recommended action: The hiring of at least one attendance clerk at each site should continue to be mandatory.

1.7 The position description for Attendance Clerk should be updated.

The current description does not accurately reflect all regular duties for these employees. For example, it does not include disciplinary responsibilities and documentation requirements. In addition, attendance clerks at some sites have not attended required AERIES training, and some lack the necessary technical skills. A few sites have attendance clerks responsible for multiple sites.

Recommended action: The Attendance Clerk position description should be updated. Attendance at training is mandatory, and failure to attend shall result in disciplinary action.

1.8 Lack of classroom resources for reporting attendance. Some sites report not every classroom has a working computer for teachers to record attendance on. At one site, I noted not every classroom had Internet access. These variables may all impact the accuracy of data reported.

Recommended action: Internal Audit shall work with Information Technology to ensure all teachers have a working computer on which to record attendance. Computers may be shared for this purpose.

1.9 **Limited resources** - Funding for Internal Audit assistant Ms. Wylie to visit school sites to review attendance ran out during 2009-10 and, because of other higher-priority work commitments, Internal Audit is currently unable to review attendance at school sites. Given the critical importance of accurately reporting attendance to Apportionment Revenues, reviews of attendance at school sites should have a high priority.

Recommended action: When funding permits, Internal Audit should be provided additional resources to review school site attendance and cash handling procedures.

1.10 **Independent Study** – Internal Audit noted frequent non-compliance with Independent Study’s Education Code requirements, including absence of required signatures and dates, and assigned work not being completed and samples kept on file.

Recommended action: Principals shall be reminded of the essential elements in documenting Independent Study to be fully compliant with the Education Code.

1.11 **Suspensions** – Not all suspensions are being documented in accordance with Education Code. At one Elementary School, Internal Audit observed an on-campus suspension with no documentation. Principals have reported pressure not to report suspensions.

Recommended actions: Principals shall be reminded that all suspensions be documented in accordance with Ed Code.

2. School Site Cash Handling

Cash handling at athletic events

In response to concerns that all athletic event ticket sale receipts at some high school sites were not being properly accounted for, Internal Audit and the OAL Commissioner developed documented procedures for cash handling at such events. These were implemented for high school basketball and football games during 2009-10.

Recommended actions: During 2010-11, Internal Audit shall visit high school sites to observe ticket sale and related cash handling procedures at basketball and football games and ensure documented procedures are being followed.

3. Associated Student Body procedures

Internal Audit reviewed cash handling procedures at Skyline High, Oakland Tech., Oakland High, Fremont Federation and MetWest. The following recurring weaknesses in Internal Controls at high schools were noted:

3.1 District funds (fees, fines, donations) and non-district (ASB) funds are being commingled.

Recommended action: District and non-district funds shall be accounted for separately.

3.1 Checks at some sites are being written using single signatures.

Recommended action: All checks shall require dual signatures.

3.2 In high schools, there are antiquated systems to record receipts and disbursements, such as “one write” systems, where carbons are used to prepare cash receipt and disbursement journals.

Recommended action: When resources permit, recording of receipts and expenditures shall be automated using Excel, QuickBooks, Blue Bear or similar software.

3.3 Trial balances, Income Statements and Balance Sheets are not being prepared at high schools.

Recommended action: Financial statements shall be prepared monthly, with copies sent to Internal Audit.

3.4 Bank reconciliations are not always prepared at high schools.

Recommended action: Bank reconciliations shall be prepared and independently approved monthly, with copies sent to Internal Audit.

3.5 Manual receipts or other acknowledgement of cash received are not always prepared at high schools.

Recommended action: There shall be a contemporaneous record for all cash receipts, such as manual receipts or acknowledgement letters.

3.6 Treasurers or Office Managers at high schools are not being provided training in cash handling procedures.

Recommended action: Training in cash handling and Associated Student Body procedures should be provided at least annually.

4. Procurement

Internal Audit did not review these procedures in detail, but plans to do so during FY 2010-11.

5. Accounts Payable

Internal Audit did not review these procedures in detail, but plans to do so during FY 2010-11.

6. Liaison with Outside Auditors

State Controllers' Office (SCO) 2007-08 Audit - Internal Audit's work during 2009-10 included being the liaison between the State Controller's Office auditors and district staff for their review of the district's books and records for FY 2007-

08. This work, which has continued during 2010-11, is intended to:

- Reduce SCO audit time
- Reduce current and future audit findings
- Assist staff in the resolution of audit findings
- Assist in the correction of Internal Control weaknesses, and
- Expedite OUSD responses to audit findings.

The audit relationship with the SCO has been challenging. As long as the OUSD remains obligated to repay its loan from the State, the SCO has the right to audit the district.

By mutual agreement, the scope of the 2007-08 audit was limited to a review of:

- Federal and State compliance, plus
- The status of prior audit findings.

Because of the limited scope of the audit, the SCO will disclaim an opinion on the district's financial statements. The SCO originally estimated this work would take 6,000 hours and cost \$450,000. After agreement with the district to have Internal Audit be the liaison to OUSD staff, the SCO agreed to reduce the estimated fee to \$400,000.

In Internal Audit's opinion, because of the restricted audit scope and the passage of time, the SCO's current review has limited value. Several of the Internal Control and other exceptions noted for 2007-08 are expected to repeat. While no agreement has been reached on who will perform the 2008-09 audit, the OUSD intends to hire its own independent accountants for a full-scope review of its 2009-10 books and records. Tentative issues identified by the SCO for 2007-08 include:

State Compliance

1. Attendance – The SCO reviewed records from 10 schools. The most common exceptions were missing absence notes, attendance over-reported and teachers not being appropriately credentialed. Credentialing has been an on-going problem. The potential financial penalties for the above exceptions are presently unknown.
2. Independent Study – At Laurel, work samples were deficient. At MetWest and Sojourner Truth, certain Master Agreements and work samples were deficient.
3. Instructional Time – The district has an on-going disagreement with the SCO re calculation of instructional time. There will be an audit finding that the bell schedule at Dewey for 2007-08 did not match the instructional time in AERIES. The potential financial penalty is unknown.
4. Gann Limit – The district's submission was not revised to reflect a revision in P-2 ADA at Charter Schools.
5. Ratio of Administrators to Teachers – While the SCO has concluded the district is non-complaint with Ed Code requirements, with an estimated penalty of approximately \$4.7 million, the district disagrees with the SCO's methodology. The CDE agrees with the OUSD's approach.

Federal Compliance

1. Equipment – In 2007-08, the district did not have auditable fixed asset records. A physical inventory is being performed to correct this exception.
2. Special Education – During 2007-08, the district was not always performing annual assessments/ evaluations of students as required. Further, the OUSD was not providing parents and students sufficient opportunity to attend IEP team meetings.
3. Multiple Programs – The SCO concluded the district was non-compliant with Schoolwide Plans, Time Certifications, Indirect Costs, Cash Management, Comparability, and Participation of Private School Children.

On completion of the current audit, Internal Audit will assist staff in responding to the SCO's tentative findings.

FCMAT - Internal Audit assisted in the follow-up of FCMAT's prior audit findings.

Education Audit Appeals Panel

Between 2002-03 and 2006-07, FCMAT and State Controller's Office auditors documented 308 audit findings, with questioned costs totaling approximately \$5.5 million. Nevertheless, the California Department of Education stated it will not pursue any Federal program findings prior to 2005-06. While district staff has done an excellent job of clearing prior audit findings, the district appealed four major SCO audit findings from 2006-07 which it had been unable to resolve. In summary, they are:

Finding No.	Description	Amount
07-24	Teachers' credential requirements – non-compliance	\$165,988
07-26	Independent Study – noncompliance with program requirements	\$337,564
07-27	Independent Study – exceeded ratio of students to teachers	\$141,782
07-34	Administrator to teacher ratio – penalty for exceeding statutory requirement	\$1,336,296
Total		\$1,981,630

Internal Audit worked with former CBO, Leon Glaster, and attorneys from Olson, Hagel and Fishburn, LLP to gather documents, interview staff to and help prepare a defense to the above findings. On October 13, 2010, the SCO's attorney offered to settle three of the four open items on terms favorable to the district. The district continues to disagree with the SCO's calculation of the penalty applicable to the Administrator: Teacher ratio. If it is unable to resolve this issue with the SCO, the district intends to appeal it before the EAAP in January 2011.

7. Payroll; Leaves

Payroll

There have been on-going Internal Control issues in Payroll and employee leaves. Internal Control and other weaknesses include the following:

- 7.1 Payroll checks have been issued in error to employees in excess of authorized amounts, sometimes without prompt detection.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit, to help prevent errors in paycheck amounts. ACL software should also be used to help provide assurance that gross pay, withholdings and net pay fall within expected ranges.

- 7.2 Payments of taxes and payroll liabilities have not always matched amounts withheld and accrued.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

- 7.3 IRS penalties and late payment fees have been incurred for late and incorrect payments of taxes withheld.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

7.4 Access to payroll modules by Payroll Services employees in IFAS is not limited to those who require access.

Recommended action: Access to IFAS should be limited to those who require access to specific modules

7.5 A Payroll Services employee to posted negative PERS withholdings in IFAS without prompt detection, resulting in net check amounts exceeding gross checks.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

7.6 Certain employees have received both regular pay and disability pay in excess of amounts they are entitled to.

Recommended action: A quality control function should be established to work within Payroll Services but report independently, either to Fiscal Services or Internal Audit.

Leaves

7.7 Various employees have accumulated large accrued leave balances without limitation, resulting in significant future district liabilities.

Recommended action: There should be an accrual cap established for leaves, beyond which employees may no longer accrue balances. Annually, employees should be asked to confirm accrued leave balances in writing. Employees should be requested by supervisors to schedule vacations and use current balances which exceed the cap within a reasonable period, say two years. For represented employees, these recommended changes may need to be negotiated.

7.8 Internal Audit noted a Payroll Services employee who showed accumulated negative leave and sick leave balances in IFAS.

Recommended action: Employees should not be allowed to use leave and sick leave in excess of their entitlement.

7.9 Responsibility for the recording of leaves and sick leaves is fragmented, with poor communication between departments. Various employees received both disability pay and regular pay for extended periods.

Recommended action: Internal Audit recommends management of leaves be consolidated, and staff communication be improved.

7.10 Internal Audit documented instances where, after employment with the OUSD ended, the district continued to accrue benefits for certain former employees.

Recommended action: On separation of employment, HR and Payroll Services should document that accrued vacation and leave balances in IFAS, if accurate, have been paid. Residual accrued balances of leaves and sick leaves of former employees should be deleted.

8. Special Education

This was not reviewed following retirement of the Director. In its 2010-11 work plan, Internal Audit plans to examine this area, including statutory and regulatory compliance and transportation during 2010-11.

9. Mandated Cost Recovery

Notice of Truancy Letters

An audit finding by the State Controller's Office Audit following a review of 2006-07 "Notice of Truancy" (NOT) letters sent to parents and guardians claimed that the district included only six of the eight required elements. The allegation, if proven, could have resulted in the loss of approximately \$700,000 in apportionment revenues. There was no loss to the district.

Recommended action: The FCO should ensure all future NOT letters meet Education Code requirements.

10. Categoricals – Federal & State Compliance

The SCO had significant audit findings for FY 2005-06 and 2006-07 relating to deficiencies in the recording of time by staff for categorical programs. These findings were subsequently waived. Internal Audit documented and reviewed time recording procedures with the assistance of the Acting Director. Internal Controls are appropriate.

11. Staff Training

Following reviews of cash handling and attendance reporting at school sites, Internal Audit met with Attendance Clerks, Office Managers and Principals to discuss weaknesses in Internal Controls and ensure corrective action is taken. During 2008-09, I assisted in organizing training for Treasurers, Office Managers, Principals and others in Associated Student Body procedures by FCMAT's consultant Michele Plumbtree. If funding is available, Internal Audit recommends such training be provided during 2010-11. The availability of FCMAT's ASB Guide on-line at no charge is also made known to office staff.

For Internal Audit's professional development, my principal goal was to successfully complete Part I of the CBO training program sponsored by CASBO and FCMAT. I am continuing with Parts 2 and 3, and will complete this study in February 2011. The Internal Auditor's total Professional Development hours for 2009-10 exceeded 100.

12. Special Projects

12.1 Data Analysis – Audit Command Language (ACL)

Limitations in the district's IFAS software and errors by staff in recording data have, on occasion, contributed to the posting of dollar values which fall outside expected ranges. Internal Audit believes enhanced data analysis would help detect such anomalous items.

Internal Audit has identified several areas for analysis using ACL, including possible duplicate payments in Accounts Payable, paychecks which fall outside expected dollar amounts, purchases where "ship to" addresses are different from billing addresses or the same as employee addresses, and unusual leave and sick leave balances. Nevertheless, this work is on hold because no IT staff is currently available to obtain data files for analysis.

12.2 NBC General Contractors

In response to an article in the East Bay "Express" which alleged that the OUSD knew, or should have known, that it did not pay prevailing wages on district construction projects to workers for NBC General Contractors, Internal Audit reviewed oversight procedures in the Facilities Development and discussed the allegations with a representative of the Alameda Labor Council. The district uses Project Labor Agreements, which helps ensure prevailing wages are paid.

Conclusion: Internal Audit could find no objective evidence to support the article's allegations against the OUSD. Internal Controls are appropriate.

12.3 Legal Services

Internal Audit worked with Legal Services to address various matters in payroll, contracting and questionable reporting of attendance in an after school tutoring program.

One issue examined was whether an employee can also be an independent contractor for the district. Internal Audit noted at one site, custodians received checks with no withholding from student body funds in addition to their regular pay, which is paid through Payroll Services.

Conclusion/ recommended action: Established Administrative Regulations pertaining to this should be followed at school sites. District custodians cannot perform additional services, such as clean-up after athletic events, and be considered independent contractors. Compensation for additional services performed by district employees must be paid through Payroll Services.

12.4 Title 1, Supplemental Educational Services (SES)

Various contractors through the Title I, SES program, provide after school tutoring to disadvantaged OUSD students. Internal Audit documented weak time recording procedures by one major contractor, resulting in students who were marked absent all day in the regular day program being marked "present" in the after school program. The vendor has been asked to repay the amount overpaid. Classroom observation of the students showed, for the same vendor, the majority of time which was supposed to be for tutoring was spent by students doing regular classroom homework, after which they went out to play. This appears inconsistent with the claim it is primarily an academic program.

Child Nutrition also documented that for several after school programs, attendance reported was altered to equal meal counts.

Conclusion/ recommended actions: Staff for an after school tutoring program improperly recorded students as being present who had been marked as absent all day in the regular day program.

The OUSD should not renew its contract with this contractor responsible for the exceptions noted. Internal Audit should review all major after school programs for compliance.

12.5 Documented Procedures

Internal Audit was asked by the Audit Committee to prepare documented procedures for recording of attendance and cash handling at school sites. These drafts were reviewed by the Audit Committee, and will be forwarded to the Board of Education with a recommendation for adoption.

12.6 – Other Internal Audit Projects

- Search for school site bank accounts by district tax-ID number, plus unauthorized debit cards.
- Research AB 1290 Redevelopment Income payments to OUSD.
- Implement Fraud Alert Hotline.
- Examine gifts to after-school program by community member.
- Prepare background material for employee arbitration matter.
- Study and report on Ed Code and Board Policy references to cash advances for district travel.
- Examine undocumented disbursements from school checking account.
- Study data accuracy in reporting of suspensions in AERIES.
- Evaluate request by high school to purchase ATM machine.
- Evaluate process for attendance reporting for TAP center.
- Evaluate positive pay proposal for check disbursements.
- Evaluate high school compliance in athletic program with Civic Center Act.
- Evaluate personal property taxes charged by Alameda County on district equipment leases.
- Evaluate sales tax not charged on out-of-state purchases of athletic gear at school sites.
- Investigate payroll check returned but deposited before being cancelled.
- Investigate employee allegation (false) re theft of district assets.
- Identify local CPA firms qualified to perform Measure E parcel tax audit, seek and evaluate bids, develop and award contract.
- Identify and report on local CPA firms interested in audits of OUSD.
- Examine and discuss cash handling concern with Principal re accounting for booster cash at high school.
- Evaluate truancy reporting software from School Innovations & Advocacy.
- Coordinate district presentation on Redevelopment Income by Dante Gumucio, Public Economics, Inc.
- Evaluate ACL software to help improve data analysis, identify areas for analysis, attend training in use of software.
- Evaluate proposal re Payroll Card, Advanced Earned Income Credit.
- Review OUSD employees paid as Independent Contractors with no withholding, from ASB funds.
- Examine non-compliant food sales at one high school, meet with staff and coordinate resolution with Child Nutrition Director.

Conclusions

Internal Audit appreciates the support of the Audit Committee and the opportunities to assist the district strengthen its Internal Controls.

To help ensure Internal Audit's independence, the time spent performing operational and non-audit duties should be limited. The work of Internal Audit assisting the State Controllers' Office auditors, while important, limits the time available to review the district's operations.

When funding improves, to help ensure adequate audit coverage, Internal Audit recommends the provision of additional resources to perform reviews of cash handling and attendance reporting at school sites.

Attachments

- Schedule 1 - Internal Audit work plan 2009-10, approved by the Audit Committee and Superintendent in September 2009.
- Schedule 2 - Draft Internal Audit work plan 2010-11.
- Schedule 3 - BP 3461, "Audit Committee."
- Schedule 4 - BP 3462, "Internal Audit."

Schedule 1

Oakland Unified School District Internal Audit Approved Work Plan 2009-10

- 1. Attendance**
 - CALPADS
 - Data accuracy
 - Absences, truancy, independent study, suspensions
- 2. School Site Cash Handling**
 - Athletic events, ticket sales, fees, fines, donations
 - Authority to open bank accounts
 - Revolving cash, bank cards
 - Child Nutrition
- 3. Associated Student Body**
 - Cash receipts – fund raising, sports activities, snack shacks
 - Disbursements – documentation, approvals, role of Student Council
 - Compliance – statutory, Board policies, FCMAT
 - Bank reconciliations
- 4. Procurement**
 - Competitive bidding, statutory compliance, purchasing cards
 - Consultants – hiring procedures, oversight, results assessment
- 5. Accounts Payable**
 - Document procedures
 - Utilities – electricity, gas, water, trash, telephones, cell phones
- 6. Liaison with Outside Auditors**
 - SCO – document procedures, follow-up on open audit items
- 7. Payroll, benefits**
 - Document procedures
 - Evaluate internal controls
- 8. Special Education**
 - Compliance with policy, statute, regulation
 - Contracting procedures - NPSs, NPAs, transportation
- 9. Mandated Cost Recovery**
- 10. Categoricals**
 - Documentation of staff time
- 11. Staff Training**
 - Associated Student Body, school site cash handling
- 12. Special Projects**
 - Data Analysis – ACL

Schedule 2

Oakland Unified School District Internal Audit Work Plan 2010-11

1. Payroll, leaves

- Document procedures
- Evaluate Internal Controls

2. Attendance

- Data accuracy
- Absences, truancy, independent study, suspensions
- CALPADS

3. School Site Cash Handling, ASB

- Athletic events, ticket sales, fees, fines, donations
- Authority to open bank accounts
- Child Nutrition
- Cash receipts – fund raising, sports activities, snack shacks
- Disbursements – documentation, approvals, role of Student Council
- Bank reconciliations

4. After School Tutoring Programs

- Time recording
- Billings
- Compliance with Federal reporting requirements

5. Procurement

- Competitive bidding, statutory compliance, purchasing cards
- Consultants – hiring procedures, oversight, results assessment

6. Special Education

- Statutory and regulatory compliance
- Transportation

7. Liaison with Outside Auditors

8. Special Projects

Schedule 3

Board Policies

OAKLAND UNIFIED SCHOOL DISTRICT

Board Policy

BP 3461

Business and Noninstructional Operations

Audit Committee

It is the policy of the Governing Board to establish a district audit committee as a means of enhancing the audit functions, of devoting sufficient attention to audits and financial reporting, and of demonstrating a commitment to the exercise of due care in reviewing audits and financial statements which will be used for management purposes and/or released to the public.

An Audit Committee shall be appointed by the Board and shall be responsible directly to the Board. Its purpose shall be to assure that the highest level of internal controls are maintained in order to assure that the work of the district is carried out in an efficient and economical manner.

The audit committee shall be comprised of seven members as follows:

1. Three members of the Board, appointed by the president of the Board.
2. Four members of the community whose skills are deemed sufficient by the Board to enable them to carry out their duties effectively. Appointment by the Board shall be pursuant by nomination and election by the Board. Board members of the audit committee shall be appointed for one-year terms at the meeting following the annual organizational meeting of the Board. Community members of the audit committee shall be appointed by the Board for four-year terms with a staggered rotation.

Meetings of the Audit Committee shall be called and conducted by an audit committee chairperson or a majority of the membership of the Committee. The chairperson shall be elected by the Audit Committee and shall be a Board-member appointee to the committee. The chairperson will be elected annually. The audit committee shall carry out its work by monitoring the work of the district's internal and external auditors, by serving as liaison between the district and its internal and external auditors, and by presenting an annual report to the Board on the status and substance of the auditor's work. Members shall have no more than two consecutive, unexcused absences.

The audit committee shall recommend to the Board for their action, the external auditor and the scope of each annual audit.

The audit committee is involved in the selection and replacement, and the regularly scheduled annual session for evaluation of the internal auditor.

The Superintendent shall serve as the Executive Officer to the audit committee and the internal auditor will report administratively to the Superintendent and/or designee and functionally to the Audit Committee of the Board. The Superintendent and/or designee shall evaluate the internal auditor, with input from the Audit Committee through the Chairperson and one community member of the Audit Committee.

The Superintendent shall make available to the Audit Committee such other district staff as shall be needed to carry out the committee's work. The internal auditor shall be expected to work closely, in a staff capacity, with the committee.

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 nonaudit 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 staff district 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 quarterly written reports to the Board relating the results of committee activities.

Schedule 4

OAKLAND UNIFIED SCHOOL DISTRICT Board Policy

BP 3462 Business and Noninstructional Operations

Internal Audit

It is the policy of the Governing Board to provide an internal auditing activity as a means of supplying management personnel at all levels with information to control the operations of which they are responsible.

Internal auditing is an independent appraisal activity established within the district to examine and evaluate its activities. The objectives of internal auditing are to assist members of the district in the effective discharge of their responsibilities by furnishing them with appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at a reasonable cost.

The Internal Audit Department is established by the Board, and its responsibilities are defined by the audit committee of the Board. The internal auditor will report administratively to the Superintendent and/or designee and functionally to the audit committee of the Board.

Authorization is granted for full and complete access to any of the district's records, physical properties, and personnel relevant to a review. Documents and information given to the internal auditor during a review will be handled in the same prudent manner as by those employees normally accountable for them.

The Internal Auditor has no direct responsibility or any authority over any of the activities or operations reviewed. The internal auditor should not develop and install procedures, prepare records, or engage in activities which would normally be reviewed by internal auditors. The internal auditor may monitor the development of new procedures and provide recommendations when necessary.

Recommendations on standards of control to apply to a specific activity may be included in the written report of audit findings and opinions which is given to the Superintendent and operating management for review and implementation.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the district's system of internal control and the quality of performance in carrying out assigned responsibilities. It includes:

1. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
2. Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports on whether the organization is in compliance.

3. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

4. Reviewing and appraising the economy and efficiency with which resources are employed.

5. Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations are being carried out as planned.

A written report will be prepared and issued following the conclusion of each audit, or earlier if and when significant internal control weaknesses are identified, and will be distributed as appropriate. A copy of the draft report will be forwarded to the Superintendent, and/or designee and all members of the audit committee. The final audit report will be distributed to the Board, the audit committee, the Superintendent, and/or designee, the auditee and immediate supervisor. In addition, a status report that outlines audit activities and significant audit issues will be provided to the audit committee on a quarterly basis.

The individual responsible for the activity or department receiving the internal audit report will respond in 30 days. The response is to be addressed to the Superintendent and/or designee. This response will indicate what actions were taken in regards to the specific findings and recommendations in the internal audit report.

12/13/06