

# DRAFT

Re: Board Bylaw 9131, section 3, Report of Audit Committee to Board of Trustees

Dear Members of the Board of Education,

The audit 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 2018-19 Audited Financial Statements in detail with the external auditor, Eide Bailly, and with the CBO, Lisa Grant Dawson. It is very disconcerting that most of the thirteen audit findings are repeat findings (attachment 1) related to insufficient internal controls. Lack of internal controls in some instances is a significant deficiency that could result in material misstatement and financial risk. We recommend that the district authorize budget for an accounting expert to establish adequate internal controls. Generally, after the controls and processes are established an internal audit function would then be staffed to audit those controls, processes and procedures. Absent budget allocation sufficient to hire additional personnel we recommend that the district present a written plan with a timeline for eliminating the audit findings. We also would 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 ASB accounts. School sites need ways to manage cash from candy grams, school dances, yearbooks etc. and many school use ASB accounts with a DBA for this. 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.

We would also like to make sure the trustees are aware that audit finding 2019-004 and 2019-005 relate to issues with contracts some of which must be approved by the board of trustees. Audit finding 2019-004 relates to properly documenting whether a worker is a contractor or employee. Audit finding 2019-005 relates to providing documentation to show that vendors were selected according to district policy. The trustees are required to approve certain contracts and could ensure that contracts and vendors that they approve are adequately documented as part of the approval process.

The due date of the 2019-20 audit has been postponed by the state to March 31, 2021 due to the pandemic so the committee has yet to review the 2019-20 audited financials. However, the Audit Committee has reviewed the unaudited actuals and, although it is outside of the purview of the audit committee and the audit is not complete, 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. It 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 recommendation is to exceed the state requirement.

For 2021, in addition to the standard review of the audited financial statements, the committee intends to update its duties as articulated in the board bylaw and review the audit engagement. The bylaw is 15 years old and some of the tasks may be impossible (e.g., the committee can not meet with the internal auditor if there is no internal auditor) or irrelevant. And, the audit contract is up for renewal and so the committee will review the RFP. Also, in accordance with the bylaw the committee hereby requests written guidance from the trustee on recommended focus areas for 2021.

And, finally, we appreciate the CBO, Lisa Grant Dawson's, patience with a mostly new committee. We appreciate that she has been able to educate the committee on the challenges the district faces, her consistent attendance at our meetings, her willingness to answer questions and her succinct and relevant reporting to our committee. It's a refreshing/welcome change. We also appreciate the value of her time and will work 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.

Respectfully the audit committee

Audit Year				Audit Finding
2016	2017	2018	2019	
x	x	x	2019-001	ASB Accounts auditable summary lacking
x				Fiduciary Funds not timely reconciled
		x	2019-002	Documentation to support Payroll Reported to Pension providers lacking
	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
		x	2019-003	Vacation Reserves - documentation to verify vacation usage lacking
		x	2019-004	Worker classifications documentation establishing ee v contractor lacking
x		x	2019-005	Documentation to support vendor selection is pursuant to District policy lacking
		x	2019-006	HBGB formula lacks clarity and differing interpretations result in substantially different outcomes
	xx	x		Students incorrectly identified as qualifying for free or reduced price meals
			2019-007	Health and Welfare benefits were incorrectly charged resulting in an audit adjustment
x	x	x	2019-008	Documentation required to support ee time allocation for Fed programs is insufficient
		x	2019-009	Title 1 student/teacher ratio failed at one school (2018) and six schools (2019).
x	x	x		Program attendance for afterschool 21st Century grant not accurate (2018). 2017 afterschool attendance poorly maintained
	x			Time and effort documentation lacking
x	x			No plan for spending 3.5M from CDE for educator effectiveness
	x	x	2019-010	ADA overstated
x		x	2019-011	School accountability report card - failure to adequately track/publish complaints
		x	2019-012	Minimal Instructional minute requirement not met for one or more schools in one or more grades
x	x	x	2019-013	Unduplicated LCFF pupil count audit sample incorrectly classified an ELL (2019) and Free or reduced price meal (2018)
9	12	14	13	

