

File ID Number	11-2903
Introduction Date	10-26-11
Enactment Number	11-2248
Enactment Date	10-26-11 82



OAKLAND UNIFIED
SCHOOL DISTRICT

Community Schools, Thriving Students

OFFICE OF THE GENERAL COUNSEL

Memo

To Board of Education

From Jacqueline Minor, General Counsel

Board Meeting Date October 26, 2011

Subject **AGREEMENT WITH THE STATE CONTROLLER'S OFFICE FOR 2010-11 FISCAL YEAR ANNUAL AUDIT OF THE DISTRICT**

Action Requested APPROVAL OF AGREEMENT WITH THE STATE CONTROLLER'S OFFICE FOR 2010-11 Fiscal Year ANNUAL AUDIT OF THE DISTRICT

Background SB 39, with authorized the emergency State loan for the District, also provides that for the fiscal year in which proceeds from an emergency apportionment are disbursed and each year thereafter, "the State Controller, or his or her designee" shall cause an audit to be conducted of the books and accounts.

Discussion After discussions with Directors Kakishiba and Yee, as well as with the District Trustee and District Staff, the SCO has agreed to perform a financial and compliance audit of the District for the 2010-11 fiscal year. This will be the first full audit of the District since at least 2003. The objectives of the audit are to allow the SCO to express an opinion as to whether the District's financial statements are fairly presented in all material respects and in conformity with generally accepted accounting principles. In addition the audit will include reporting on

- Internal controls related to the financial statements and compliance with laws, regulations, that could have a direct and material effect on the financial statements;
- Internal controls related to major programs that could have a direct and material effect on program compliance with state and federal laws.

The audit will commence on Monday, November 7, 2011. Assuming no unanticipated delays or other contingencies, SCO anticipates that the final audit report will be completed no later than July, 29, 2012. The cost of the audit is \$400,000.

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Recommendation

Approval by the Board of Education of the AGREEMENT WITH THE STATE CONTROLLER'S OFFICE FOR The 2010-11 Fiscal Year ANNUAL AUDIT OF THE DISTRICT

Fiscal Impact

\$400,000

Attachments

AGREEMENT WITH THE STATE CONTROLLER'S OFFICE FOR The 2010-11 ANNUAL AUDIT OF THE DISTRICT

CONTRACT FOR SERVICES

ANNUAL AUDIT OF SCHOOL DISTRICT (2010-11 Fiscal Year)

This contract is entered into by and between the State Controller's Office (SCO), Division of Audits, and the Oakland Unified School District (the District) and sets forth the nature and scope of the services the SCO will provide. The District's required involvement and assistance in support of the SCO services, the related fee arrangements, and other terms and conditions, are designed to ensure that SCO professional services achieve the mutually agreed-upon objectives of the SCO and the District.

The SCO agrees to provide auditing services in accordance with Education Code section 41320.1(d) for fiscal year 2010-11 for the District.

The SCO will perform a financial and compliance audit of Oakland Unified for the 2010-11 fiscal year, the objective of which is an expression of opinion as to whether the basic financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles and to report on the fairness of the supplementary information in relation to the financial statements as a whole. The objective also includes reporting on

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a direct and material effect on the financial statements in accordance with Government Auditing Standards
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*
- Compliance with state laws and regulations in accordance with Title 5, California Code of Regulations, Division 1.5, Chapter 3, *Standards and Procedures for Audits of California K-12 Local Educational Agencies*

The SCO agrees that if its opinion is other than qualified, it will fully discuss the reasons therefor with the District prior to the release of the final audit report. The SCO agrees to discuss the final report with the Superintendent prior to its issuance, if the Superintendent is available within two weeks of the SCO's request for the meeting. In addition, if requested, the SCO agrees to personally present the final audit report to the Board of Trustees, after the report is issued, in order that the audit might be fully understood and questions answered.

The period to be audited pursuant to this contract shall be the fiscal year beginning July 1, 2010 and ending June 30, 2011.

The audit will be performed in accordance with U.S. generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. The audit will include all procedures that the SCO considers necessary to determine compliance with the applicable laws and regulations for participation in federal and state programs.

The form and content of the audit report shall be in conformity, to the extent practicable, with such form and content as may be prescribed by the SCO under Education Code sections 14500 and 41020, and as detailed in *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

The audit is not specifically designed to disclose fraud or defalcation; however, as part of the audit, the SCO will obtain information needed to identify risks of material misstatement due to fraud, and will assess and address the identified risks.

The SCO may issue a letter to those charged with governance that points out internal control weaknesses, comments on areas of possible improvements in procedures and management practices of the District, and identify areas of possible violations of regulatory provisions.

The SCO may meet with the State Trustee, Superintendent or his designee, or management representatives throughout the course of the audit fieldwork to discuss and resolve audit issues, possible findings, and significant deficiencies.

TIME IS OF essence in this agreement. SCO will begin audit fieldwork on November 7, 2011. Provided there are no unforeseen circumstances or delays caused by the District in providing complete and accurate financial statements and notes to the basic financial statements, complete and accurate attendance records, ancillary reconciliations, and supporting schedules;

responses to record requests; responses to noted deficiencies and audit findings, the SCO will complete its fieldwork, conduct an exit conference, and provide a draft report by no later than June 30, 2012. The audit shall be completed and the final audit report shall be delivered in the manner and to the parties as hereinafter set forth, not later than July, 29, 2012.

The total amount payable under this agreement shall be \$400,000. However, the contract may exceed \$400,000 due to delays caused by the District and/or providing incomplete or inaccurate information.

To contain costs and to facilitate the successful completion of the audit, the District agrees as follows:

1. To assign one person as a contact who is responsible for responding to SCO document requests timely and ensuring that the documents provided to us are appropriate, accurate, complete and support the District's reports. The District is assigning a primary point of contact for the 2010-11 audit.
2. To work collaboratively with SCO to establish reasonable timeframes for the completion of tasks and provide all documents, requests for information and audit findings responses to be published in the final audit report.
3. To provide complete and accurate:
 - Financial Statements, including required supplementary information and supplementary information
 - Schedule of Expenditures of Federal Awards
 - Notes to the basic financial statements, required supplementary information, supplementary information and schedule of expenditures of federal awards, as needed
 - Status of Prior Findings
 - Organization Structure
 - Schedule of Charter Schools
 - Management's Discussion and Analysis, and
 - Management Representation Letter
4. To make records available at a central location, and to provide a secure work space for SCO staff (exclusive of equipment, supplies, or services).
5. To a one-time audit of the supporting documentation provided; and

6. To reimburse the SCO for any additional expenses that may be incurred because of a finding or an appeal, if SCO has to audit additional documents that the District may provide.

In addition, to allow the SCO to begin planning the audit, the District agrees to provide the following information, no later than October 21, 2011:

State Compliance

- List of schools for 2010-11
- P-2 and Annual reports of attendance and summary schedules by site.
- Instructional minutes summary calculations spreadsheet prepared by the District for 2010-11.
- Evidence of instructional materials hearings held in accordance with Education Code section 60119.
- List of approved state and local instructional material adoptions.
- Administrators to Teachers ratio calculation and supporting documentation.
- Documentation in support of the classroom teachers' salary calculation.
- Independent study student to teacher ratio calculation and supporting documentation.
- Gann limit calculation (Form GANN) and supporting documentation.
- Evidence of public hearing by governing board held in accordance with Education Code section 42605.
- Class size reduction claim (J7 CSR) and supporting documentation.

Federal Compliance

- Schedule of Expenditures of Federal Awards
- Form CAT
- Budget summary report for major federal programs
- Budget Allocation reports
- Consolidated Application

In order to perform the audit, the District agrees to provide the following to SCO by November 7, 2011 (beginning of audit fieldwork):

State Compliance

- For schools selected for testing
 - Scantrons/teachers registers
 - Absence notes
 - Independent study agreements, work samples
 - List of kindergarten pupils for years 2009-10 and 2010-11
 - Bell schedules
 - School Accountability Report Cards (SARC) for schools selected for testing)
 - Interim evaluation instruments (for selected schools for SARC testing).
- For schools selected for ASES testing:
 - Sign-in and sign-out sheets.
 - A reconciliation of the weekly sign-in sheets to the monthly attendance reports.
 - Monthly attendance reports supported by attendance totals entered on weekly sign-in sheets.
 - Attendance totals entered on the weekly sign-in sheets supported by the number of signatures on the weekly sign-in sheets.

Internal Controls

- Accounting procedures manuals
- Payroll procedures manual
- Other audit reports (Results of any external or internal audits, examinations or reviews conducted of the district related to accounting or financial matters, and state and federal compliance)

Internal Auditor

- Access to internal auditor's working papers

The District further agrees to provide the following to SCO no later than January 15, 2012:

Financial

- Unaudited actuals (in an electronic format), including all ancillary reconciliations, supporting schedules, adjustments, conversion entries, and SACS report forms.
- Unaudited financial statements - including required supplementary information and supplementary information and schedules
- Notes to the basic financial statements, required supplementary information, and schedule of expenditures of federal awards
- Accounting records that support the year-end balances for accounts receivables, payables, cash, revolving cash, student body accounts, investments, capital assets, long-term debt., expenditures, etc...

Additional information and supporting documents will be requested by SCO as the audit progresses.

The District agrees to pay for the auditing services based on monthly invoices provided by the SCO for services rendered.

It is understood that, pursuant to Education Code section 14505(a), 10% of the audit fees will be withheld until the State Controller certifies that the audit report conforms to the reporting provisions of *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

In accordance with federal indirect cost proposal guidelines (Office of Management and Budget Circular A-87), current-year costs will be billed based on the approval provisional indirect cost rate.

Copies of each audit report herein required shall be prepared and substantially bound by the SCO for filing with the California Department of Education, the Alameda County Office of Education, and the Federal Audit Clearinghouse. In addition, 20 copies of the bound audit report shall be provided to the District.

This agreement shall be effective when approved by the Board of Education of the District and may be amended or extended upon mutual agreement by both parties.

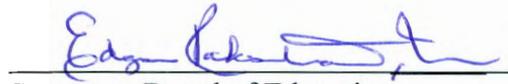
Oakland Unified School District

JOHN CHIANG
State Controller



10/27/11
President, Board of Education
Oakland Unified School District

Tom Yowell, Chief
Administration and Disbursements
Division
State Controller's Office



10/27/11
Secretary, Board of Education
Oakland Unified School District

Approved as to Form



Jacqueline Minor, General Counsel
Oakland Unified School District

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